

Abstract

This paper quantifies the consequences of domestic outsourcing on workers and firms. Italian administrative data provide direct information on outsourcing events between 2005-2019. This permits the identification of at least 700% more outsourcing events than current practices which identify these events using employment-to-employment transitions from regular firms into specific business service firms. Using matched difference-in-differences evidence, we find that outsourced workers suffer long-lasting consequences. Five years following the outsourcing decision, workers earn about 10% less, all of which is explained by effects along the extensive margin. Following the outsourcing event, a significant fraction of outsourced workers appears to be employed in the new firm for a brief period (typically less than a year) and then become non-employed. Thus, this suggests that several firms may use outsourcing as a loophole to fire workers without incurring firing costs. This hypothesis is supported by the firm-level analysis which shows that outsourcing firms tend to face high rigidities in their payroll structure while experiencing declining revenues prior to outsourcing.