

Domestic Outsourcing and Technological Change

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Abstract.

Domestic outsourcing has grown substantially in developed countries over the past two decades. While some studies document its implications for earnings inequality, very little is known regarding the drivers of this phenomenon. This paper addresses this question by studying the impact of the staggered diffusion of broadband internet on job outsourcing by French firms. We adopt an event study design and rely on employer-employee data. Our results confirm that broadband technology is skill biased since it increases firm productivity and the relative demand for high-skill workers. Further, we show that broadband internet led firms to outsource some non-core occupations to service contractors, both in the low and high-skill segments. In both cases, we find that employment related to these occupations became increasingly concentrated in firms specialising in these activities, and was less likely to be performed in-house within firms specialised in other activities. Moreover, after the arrival of broadband internet, establishments become increasingly homogeneous in their occupational composition, signalling that this technology fosters skill segregation. Finally, we provide suggestive evidence that high-skill workers experience salary gains from being outsourced, while low-skill workers lose out.