**Annex 1- The Project**

**Project:** The Welfare and Distributional Effects of Domestic Outsourcing: Evidence from Italian Administrative Data

Domestic outsourcing represents a landmark in contemporaneous labor markets. By outsourcing jobs to outside business service providers, firms are potentially more able to focus more on their core business. This change to a firm's boundary might ultimately result in an increase in efficiency. At the same time, however, domestic outsourcing can have profound consequences on both *incumbent* workers (i.e. individuals that remain with the main firm following the outsourcing event) and *outsourced* workers (i.e. individuals that are forced to leave the main firm following the outsourcing event). Outsourcing can, therefore, generate significant changes in the wage structure.

This project plans to empirically quantify how outsourcing ultimately impacts firms and workers. This empirical evidence will then be used to answer the research question of whether outsourcing should be viewed as a managerial strategy that effectively allows firms to become more productive as opposed to a tool in the hands of firms only meant to lower labor costs with the effect of creating very unequal wage effects on both outsourced and incumbent workers.

The project will be conducted under the supervision of a team of researchers with complementary skills: Professor Giovanni Gallipoli (UBC), Professor Giuseppe Pignataro (Bologna), and Professor Raffaele Saggio (UBC). Professor Gallipoli is an expert on structural change (Gallipoli and Makridis, 2018) and labor mobility (Cortes and Gallipoli, 2016). Prof. Pignataro has developed expertise in the area of firms’ strategic decisions (e.g. Lambertini and Pignataro, 2018) and on the topic of inequalities (Palestini and Pignataro, 2016) and health inequalities more specifically (Li Donni, Peragine and Pignataro, 2014); all areas intimately related to outsourcing. Professor Saggio has expertise in the econometrics that will be used to draw inferences from these data (Kline, Solvsten and Saggio, forthcoming), and has already worked on employment protection reform in this context (Di Addario, Daruich and Saggio, 2020).

This project utilizes a unique feature of Italian Social Security Data. Since 2005, the Italian social security agency (INPS - henceforth) has recorded the exact reason behind a separation that occurred between an employer and an employee (e.g. mass-layoff, end of a temporary contract, etc). Domestic outsourcing represents one of these potential reasons. This represents a unique feature of Italian social security records. Using these data, one can potentially reconstruct all the outsourcing events that occurred in the Italian economy from 2005 to 2018. Accessing this data will be key to the successful implementation of this project, and the hiring of an RA who can travel to the INPS in Rome is a central component of the project. Professor Pignataro will have an important role in directly supervising such a candidate’s work on the project from Bologna in consultation with his colleagues from UBC.

The availability of administrative data on outsourcing events combined with information on virtually the universe of income statements of Italian incorporated firms and social security records of private-sector employees make the INPS database an ideal source to measure the effects of domestic outsourcing on both workers and firms.

We also plan to use these data, in conjunction with alternative data sources, for other measurement projects. Such incremental work would be related to the distribution of income and its determinants, both in the cross-section and over time.

**Estimated budget expenses**:

The budget will be almost entirely devoted to a RA Studenship for one year (borsa Unibo, about 20.000). The other 3000 euros will be related to potential reimbursements for traveling to Rome and the potential aircraft expenses from Bologna to Vancouver of the RA (visiting period in UBC expected in 2021 due to the joint collaboration).

**Estimated Timing:**

1. Upfront transfer from UBC – June 2020
2. Public selection of an RA for the realization of the project (Studenship Unibo for one year) – July 2020
3. Research output (report or wp) – December 2021