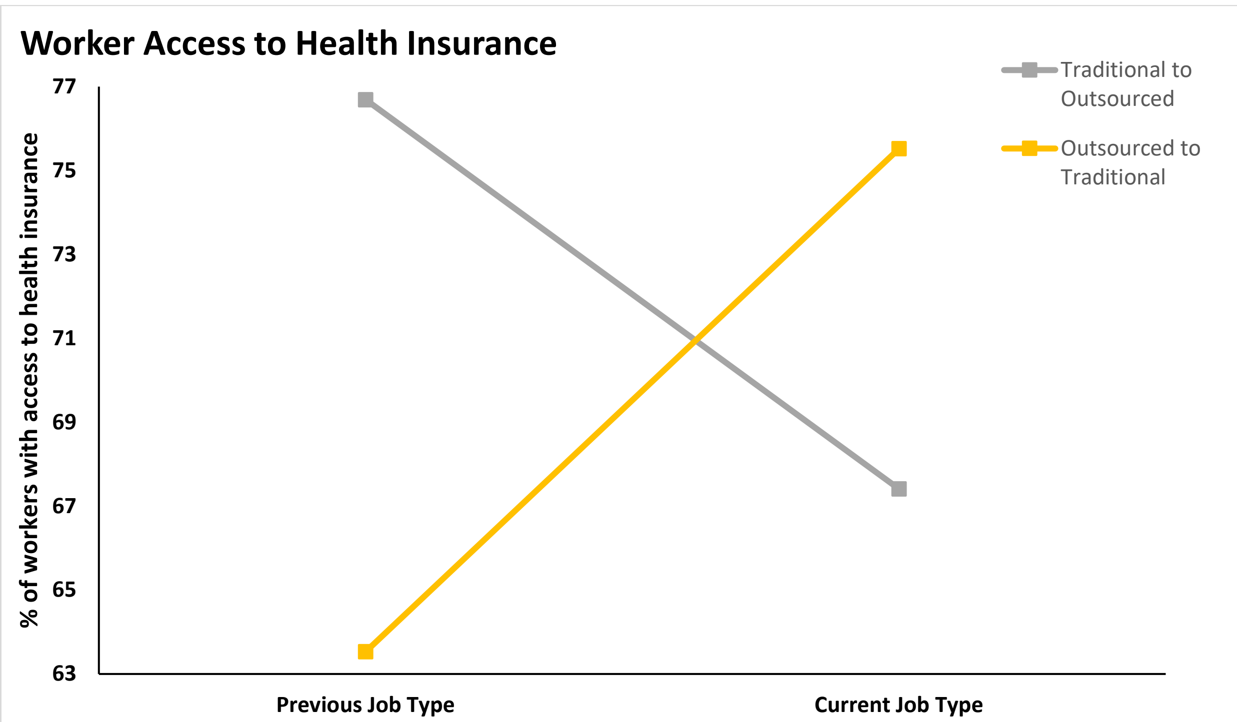
The Equilibrium Effects of Domestic Outsourcing
By Scott Spitze

Contracting out (firms purchasing workers' labor from outside contractors) is a strategy that firms use to access workers without hiring them directly. Contract workers, who are in occupations ranging from security guards to management analysts, work at and take orders from the firm but are paid by the contractor. One reason firms may contract out is to avoid providing health insurance benefits. The figure below compares workers who switch between a traditional job, where the worker is hired directly by the firm, and a contract job. Workers report whether their employer offers them health insurance. Workers who start out in traditional jobs have access to health insurance 77% of the time, but this number drops to 67% when they move to contract jobs, a 10-percentage point drop. Workers who move from contract jobs to traditional jobs see a similarly-sized increase in their access to health insurance. This suggests that workers in contract jobs are less likely to receive health insurance.



In my paper, I study how contracting out affects workers. I show the negative effects of contract jobs are not limited to health insurance. Contract workers are also significantly less likely to have access to other benefits, such as retirement plans, and the negative effects are similar for workers of all education levels. Education is important, however, when it comes to the effect on wages: Workers without a bachelor's degree earn significantly less in contract jobs but workers with a postgraduate degree earn significantly more. Despite the lower job quality, there is evidence that contracting out increases the number of jobs available because firms increase their demand for workers. I build a model to study the trade-off between job quality and job availability of contract and traditional jobs. My results suggest this trade-off is worthwhile for workers with a bachelor's degree but not worthwhile for workers without one.