



Regular Article

Competition and the racial wage gap: Evidence from Brazil[☆]Guilherme Hirata^a, Rodrigo R. Soares^{b,c,*}^a *Idados, Brazil*^b *Inspier, Brazil*^c *Columbia University, USA*

ARTICLE INFO

JEL classification:

J31

J71

J78

F66

Keywords:

Discrimination

Racial wage gap

Competition

Labor market

Trade reform

Brazil

ABSTRACT

We look at the natural experiment represented by the Brazilian trade liberalization from the early 1990s to study the effect of increased competition in the market for final goods on the racial wage gap. We focus on local labor markets as the unit of analysis and use the initial structure of employment to calculate the relevant tariff reduction from the perspective of each local labor market. We show that the conditional racial wage gap fell more between 1991 and 2000 in regions associated with larger reductions in tariffs, or, in other words, in regions that experienced larger increases in exposure to international competition. A reduction in tariffs equivalent to the average observed in the sample was associated with a reduction in the racial wage gap of 18%. Our results are broadly consistent with theories of employer discrimination that predict that reductions in pure economic rents should lead to reductions in labor market discrimination.

1. Introduction

This paper uses the Brazilian trade liberalization episode from the early 1990s to test whether increased competition in the market for final goods is associated with reduced wage differentials between blacks and whites in the labor market. Brazil implemented a major unilateral reduction in import tariffs between 1990 and 1995. We analyze whether local labor markets that experienced relatively larger increases in exposure to international trade also experienced relatively larger reductions in the conditional wage gap between black and white workers. As Topalova (2010) and Kovak (2013), we focus on local labor markets as the unit of analysis and use the initial structure of employment to

calculate the relevant tariff reduction from the perspective of each local labor market. We then look at the impact of this exogenous change in exposure to foreign competition on the conditional racial wage gap, using an approach inspired by Charles and Guryan (2008). By combining these two strategies, we show that the increased exposure to foreign competition across Brazilian local labor markets was associated with a permanent decline in the wage differential across races.

Theories of taste-based employer discrimination predict that higher competition in the market for final goods should lead to lower discrimination against minorities in the labor market (see Becker, 1957, or the more recent treatment by Ederington and Sandford, 2016). This implication comes from the fact that discrimination in the labor market

[☆] Earlier versions of this paper circulated under the title “Competition and the Racial Wage Gap: Testing Becker’s Model of Employer Discrimination.” The authors wish to thank Rafael Dix-Carneiro, Gustavo Gonzaga, Naercio Menezes-Filho, and Cristina Terra for sharing their data. This paper benefited from comments from Rafael Dix-Carneiro, Claudio Ferraz, Andrew Foster (its editor), Gustavo Gonzaga, James Heckman, Brian Kovak, Naercio Menezes-Filho, David Neumark, Hugo Nopo, Vladimir Ponczek, Gabriel Ulyssea, two anonymous referees, and seminar participants at the 14th IZA/SOLE Transatlantic Meeting of Labor Economists, the 10th IZA/World Bank Conference on Employment and Development, the 3rd LACEA Labor Network Meeting, the 1st DATAZOOM Applied Micro Seminar, the 19th LACEA Annual Meeting, EESP-FGV, Inspier, IPEA-Rio, PUC-Rio, Tinbergen Institute, and USP-RP.

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