LABOR MOBILITY AND RACIAL DISCRIMINATION

The large demonstrations in the US after the deaths of Eric Garner and Michael Brown last summer indicate that racial animus is still alive. This appears to translate into racial discrimination in labor market outcomes, such as wage discrimination (Charles and Guryan 2013, Lehmann and Lang 2011). Is there an effective way to prevent discrimination in wage-setting when employers are prejudiced? We examine here whether job-to-job mobility constraints are a possible explanation of race-based wage differentials. Constraints on labor mobility – such as quotas, work permits, or restrictive contracting rules on national labor – may limit the ability of workers to move from prejudiced firms to unprejudiced ones and allow firms to act on their prejudice.

Our theory: Job-to-Job mobility

To explain the impact of worker mobility constraints on wage discrimination, we derive a theoretical model merging labor market frictions with the Becker (1985) assumption of taste for discrimination. Firms offer workers two types of contracts: perfect and imperfect. A job offer is “perfect” when the worker receives a wage that perfectly rewards his talent, and “imperfect” when the worker earns only a fraction of what his talent is worth. The worker accepts the imperfect job offer if the wage offered exceeds his reservation wage, and searches on the job. When making a job offer, the firm faces a tradeoff between diverting a share of the worker’s talent, and seeing the worker potentially poached by a rival – which induces a costly turnover.

We assume that discrimination affects the job offer tradeoff. Since a prejudiced firm has a lower disutility when it terminates an employment relationship with disliked workers, it tends to offer these workers an imperfect job offer. This results in racial wage differentials for a given talent. Interestingly we find that this discriminatory behavior does not survive in all circumstances. Prejudice does not translate into discrimination when labor mobility constraints are sufficiently low or sufficiently high. When mobility constraints are too high, firms have low monopsony power. Since employees can easily find new jobs, race. When mobility constraints are low, firms have high monopsony power. Since employees can easily find new jobs, equally talented workers receive the same perfect contract, independent of their race.

Evidence from the European soccer market

We investigate the effect of worker mobility constraints on wage discrimination by exploiting a policy shock that completely changed the labor market for football players – the Bosman ruling, which came into effect in December 1995. Specifically, the pre-Bosman era had two important restrictions on job-to-job mobility: (1) transfer fees needed to be paid for out-of-contract players; and (2) a number of foreigners restricted by a quota system.

Figure 1 Model Simulations

The ruling removed the quota barriers for EU nationals and the obligation to pay a fee for out-of-contract players. Players can now readily switch from any country in the EU. This policy change created a compelling quasi-experimental variation to identify the causal effect of mobility on racial discrimination.

We use Szymanski’s “market-test” to assess whether a group of workers is facing wage discrimination. Under the assumption that football is an efficient market, a team’s wage bill should perfectly reward the talent of its players and explain the club’s performance. As shown in Figure 2, wage expenditures and performance are heavily correlated in the English top division between 1981 and 2008.

Figure 2 Wage expenditure and performance

Figure 3 Relative mobility of white and black English players

The second piece of evidence is based on using a different sample of players. Since non-EU players still face restrictive contracting rules, they are less mobile, extremely fast; we find evidence of discrimination in the 5 years before the ruling, but no effect in the following 5 years. This result is consistent with our theoretical predictions on the effect of relaxed mobility constraints on wage discrimination.

Is this due to the Bosman Ruling?

A potential objection to our findings is that what we are measuring may simply be the effect of the Bosman ruling but a change in attitudes toward racism and racial discrimination. Of course, any shock that is contemporaneous to the Bosman ruling would confound its effects. In order to check whether the increase in labor mobility is driving the decrease in discrimination, we present two further pieces of evidence.

First, we find that black English players changed clubs more often than white players, but only after Bosman. This can be explained by football players “voting with their feet” when discriminated against. Before the Bosman ruling, players who wanted to move when they were discriminated against were not necessarily able to do so. Once restrictions were lifted, black players increasingly changed clubs if they were discriminated against.

Figure 3 below contrasts the turnover of black (B) and white (A) English players by comparing their share in the total number of transfers with respect to their share in the total population. This variable is positive if black players change clubs more often in a given year than their white colleagues and negative if not. The Bosman ruling, white players tended to change clubs more often than black players, but this tendency was reversed after Bosman.

The apparent wage discrimination disappears. After Bosman, the team’s racial composition, suggesting discrimination. After Bosman, the lack of equal treatment was reversed after Bosman. In the post-Bosman period, we interpret the Bosman ruling as a shock on job-to-job mobility constraints and compare the pre- and post-Bosman situation of black versus white English players. In the pre-Bosman era, we find that black players changed clubs more often than white players, but only after Bosman. This can be explained by football players “voting with their feet” when discriminated against. Before the Bosman ruling, players who wanted to move when they were discriminated against were not necessarily able to do so. Once restrictions were lifted, black players increasingly changed clubs if they were discriminated against.

In conclusion, we theoretically demonstrate that a large decrease in labor market frictions can erode the monopolistic power of firms, leading to a decrease in wage discrimination. This result holds empirically using a natural experiment in football labor market.

Our results could be important for public policy. If we consider restrictive contracts to be an important component of labor market frictions, increasing labor mobility could lower discrimination. A heartening interpretation of our results is that the proper labor market conditions can cause wage differentials between white and black employees to disappear even if racist attitudes remain.

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