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Access to Financing and Racial Pay Gap Inside Firms

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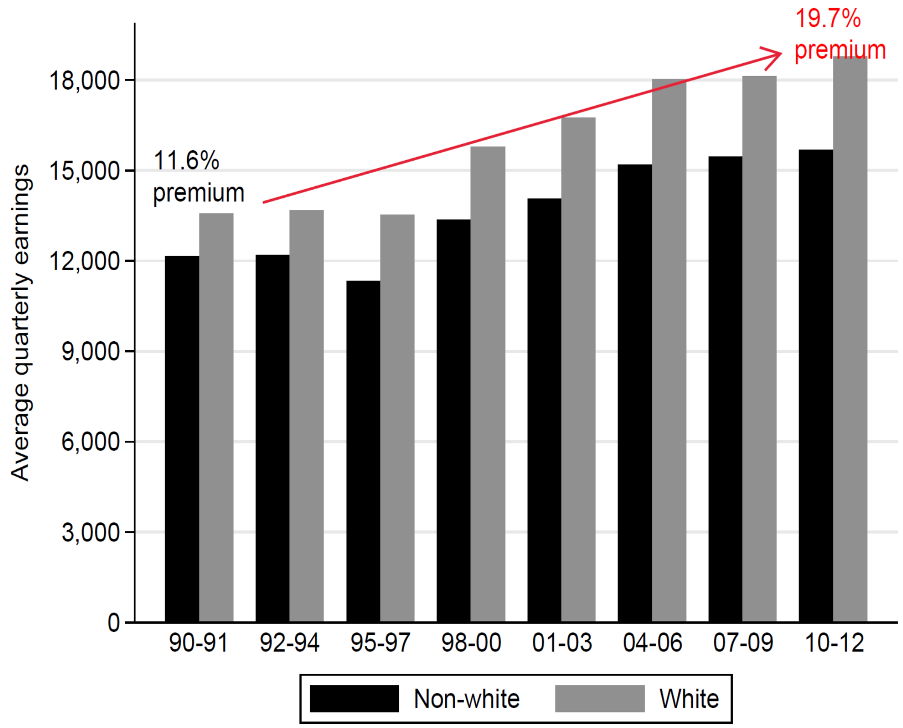
Uneven Outcomes in the Labor Market Conference, 2024

Isenberg School of Management

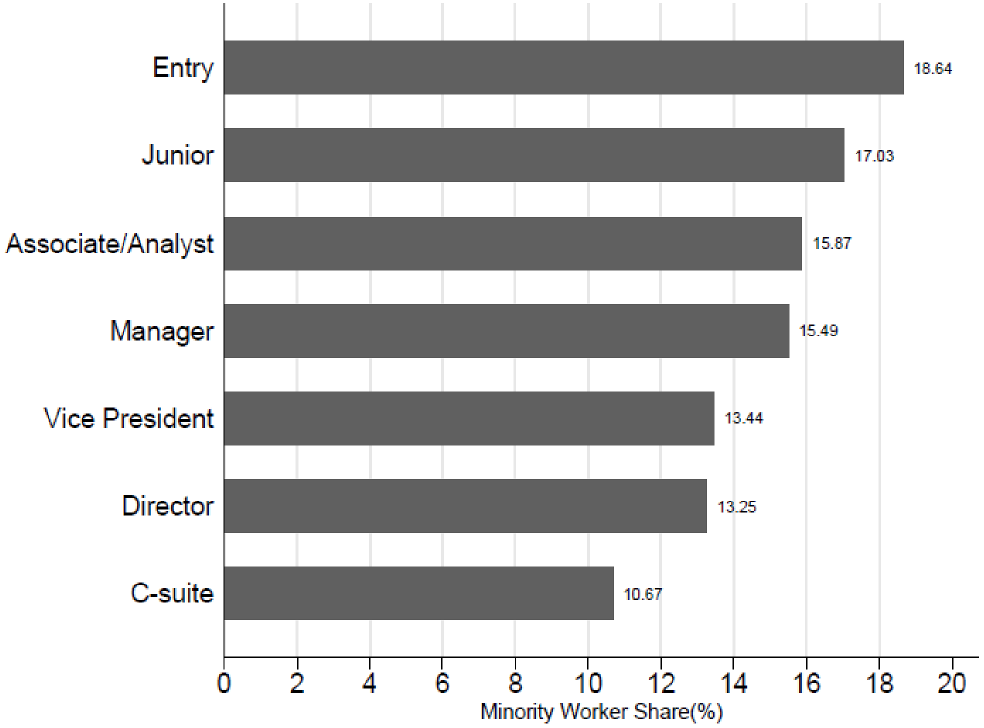
Motivation

- White workers persistently earn higher income than non-white workers:



Source: constructed by the authors using earning data from LEHD

- Non-white workers disproportionately occupy lower-rank/skill positions inside firms (Bayer and Charles 2018, McKinney et al., 2022) :

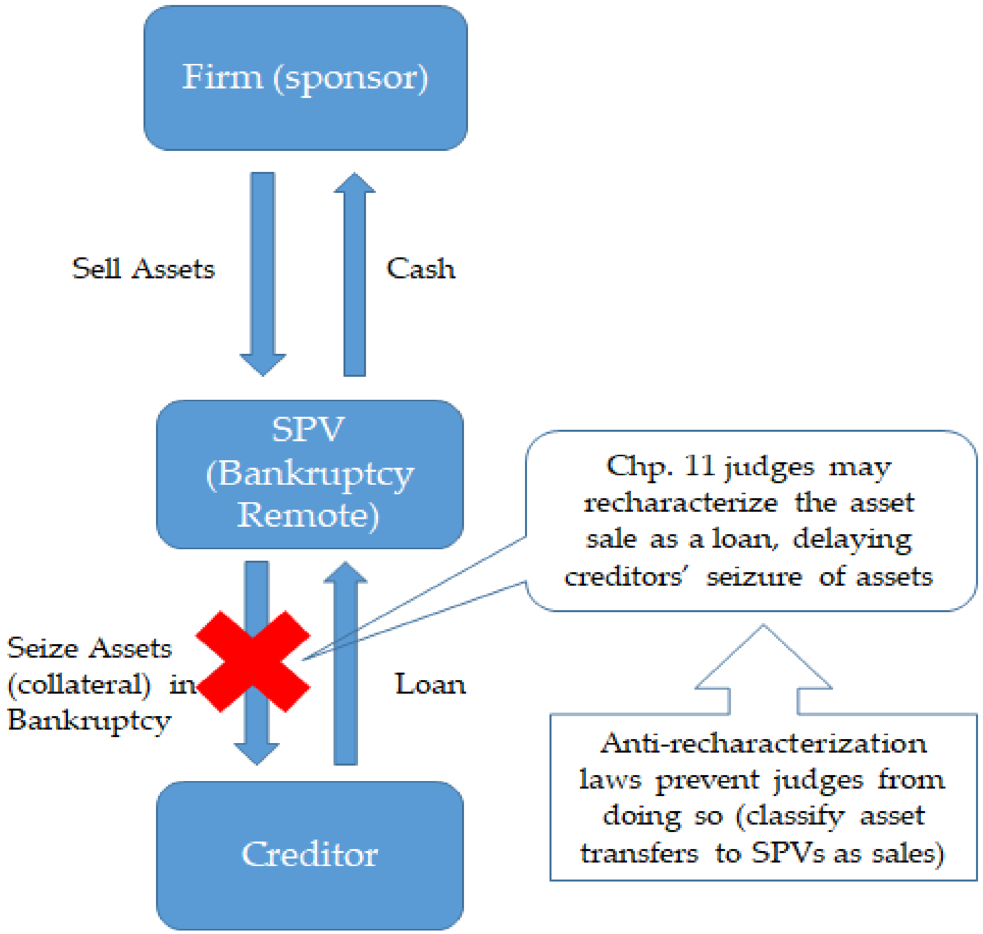


Source: constructed by the authors using resume data from Revelio Labs

Question: How does firms' access to financing affect the racial pay gap?

- Non-trivial predictions:
  - Investing in productions → increasing labor demand requires better utilization of minority workers → inequality ↓
  - Resources may be disproportionately captured by the incumbent majority → inequality ↑
- Use individual employment records and demographic information from the U.S. Census Bureau (LEHD-LBD) and Revelio Labs
- Explore the effect of exogenous shocks to firms' access to debt markets

Method



State anti-recharacterization laws (ARL)

↓

Making it easier to seize assets

↓

Increasing lenders' confidence

↓

Increasing credit supply to firms incorporated in TX and LA (1997) and AL (2001)

Assess workers with similar demographics in the same industry and state, comparing those in treated firms to those in untreated firms.

How does access to financing affect racial pay gap inside firms?

- With better access to financing, **minority workers** observe a **3%-4% greater increase in earnings** compared to white workers in the same firm and time, with the same gender and education levels
- Effects are mainly **driven by Black and Asian workers**.
- **Effects persist in the long run**, even when workers leave the firm

Through what channels?

- Recall: minority workers tend to occupy positions of lower rank or skill. Does the shock **enhance the value of low-skill jobs** OR lead minority workers to **match with higher-rank, higher-skill jobs?**

- Better access to debt markets does not reduce the racial pay gap among low-skill workers; however, it **significantly narrows the pay gap for medium- and high-skill workers.**

- After ARLs, minority workers are **more likely to receive promotions**, i.e., moving to new positions with higher salaries.

- Minority workers experience **a greater increase in the likelihood of transitioning to a tech-heavy occupations** compared to white workers.

Conclusion

- Our study highlights the role of financial markets in the labor market and offers the first firm-level evidence on the effects of reducing financial frictions on the racial pay gap.
- With **better access to financing**, firms **reduce the racial pay gap** on average due to production expansion and better utilization of minority workers' human capital.

Thank you!
Questions or Comments? Please reach out at
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