Labor Market Discrimination, the Racial Wage Gap and the Schooling Decisions of the Next Generation: Evidence from WWII

Anna Aizer, Ryan Boone and Adriana Lleras-Muney

Abstract:

Can the racial gap in labor market earnings explain black-white disparities in the schooling of the next generation? To answer this, we exploit the large increase in labor demand in markets that received WWII defense industry contracts. This increase in labor demand combined with a policy that prohibited discrimination by race and ethnicity in the defense industries resulted in increases in African American earnings and declines in the racial gap in earnings between 1940 and 1950. This was achieved largely via occupational upgrading among African Americans into semi-skilled professions. In contrast with women whose progress in the labor market was largely reversed in short order, this occupational upgrading persisted for African Americans. We argue that these findings are consistent with declines in statistical discrimination. Moreover, we find that in these same labor markets, the next generation of African American children invested relatively more in their human capital, as measured by greater years of schooling and a decline in the black-white schooling gap. There are three reasons why reductions in the black white earnings gap might lead to reductions in the black white schooling gap of the next generation. First, this would relax the financial constraint faced by many African American families, allowing their children to remain in school longer. Second, occupational upgrading might have increased the returns to human capital among African Americans. Finally, there may be political responses that result in changes in public funding and provision of schooling and other public goods that affect the human capital accumulation of the next generation of African Americans. We find evidence in favor of the first explanation only, suggesting few spillover effects beyond those whose employment was directly affected by the increase in labor demand.