

Referral Hiring and Racial Inequality: Evidence from Brazil

Abstract

Social networks play a central role in the job matching process. They are also characterized by racial segregation. We examine the consequences of referral hiring for racial inequality in the labor market. We consider a simple job search model where (a) social networks are racially segregated; (b) employers are more informed about the match quality of jobseekers that are referred by an incumbent employee; and (c) an employer's later hires are less connected than early hires to the entrepreneur's referral network. We test predictions of the model using administrative data from Brazil. Consistent with the model, we find that: (1) the racial composition of hires converges between employers with white and nonwhite founders as cumulative hires increase and (2) racial differences in dismissal rates dissipate as cumulative hires increase. Given racial disparities in entrepreneurship rates, referral hiring can explain why nonwhite workers sort to larger employers and are dismissed by their employers at higher rates than similar white workers. We find suggestive evidence that high-paying employers in particular have disproportionately few social connections to nonwhite jobseekers.