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**Is Discrimination Bad for Business?**

**ABSTRACT**

Economic theory has long maintained that employers pay a price for engaging in racial

discrimination. According to Gary Becker’s seminal work on this topic and the rich literature

that followed, racial preferences unrelated to productivity are costly and, in a competitive

market, should drive discriminatory employers out of business. Though a dominant theoretical

proposition in the field of economics, this argument has never before been subjected to direct

empirical scrutiny. This research pairs an experimental audit study of racial discrimination in

employment with an employer database capturing information on establishment survival,

examining the relationship between observed discrimination and firm longevity. Results suggest

that employers who engage in hiring discrimination are less likely to remain in business six

years later.