

Social Networks and Migration: Does it pay for immigrants to use social networks?

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The Role of Social Networks

- Social Networks play an important role in the **labour market**.
- Social contacts share **information** about job opportunities.
- Between 30% - 60% of jobs in the US are reported to be **found** through social networks. (e.g. Granovetter, 1974, 1995).

Social Networks and Migration



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- A vast literature on the role of social networks in migration : networks reduce the migration **cost**.
 - Networks effects tend to be **stronger**, & might be **different**, in migrant communities because:
 - immigrants are more susceptible to the information problem
 - migrant communities tend to be more socially cohesive.
 - Immigrants have limited job choice because of lack of country specific skills.
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Theory & Evidence on the Role of Social Networks



- The economic theoretical models predict that informal contacts have **two** main effects on labour market outcomes: increase the probability of **employment**; and increase **earnings**.
- But, social networks can also be explained through the "**limited choices**" hypothesis as opposed to the matching story
- Empirical evidence on the effect of social networks on wages is **mixed**.

This paper

- focuses on the role played by social networks on two labour market **outcomes**: namely the probability of employment and wages of **immigrants** (foreign born) in the UK.
- Why is this important?
 - determines whether workers are allocated efficiently.
 - an important measure of the successful incorporation of immigrants in a society.
 - might also help us in understanding persistent inequalities in wages and employment patterns between groups.

Contributions

- Much of the empirical work has **proxied** for social networks by using some other observable such as the geographical proximity of individuals, their ethnicity, or other attributes.
 - We observe whether an individual has used social networks to **search** & to **obtain** a job rather than **assume** that an individual has done so simply because he/she belongs to an ethnic group (e.g. Munshi (2003) and Dustmann et al (2010)).
 - We control for other potential **confounding** factors by controlling for local labour market characteristics at the LAD.
 - We also control for the potential **selection** into network use.
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Data:

- Use the UK Special Licence Quarterly Labour Force Survey (SLQLFS) for Q1 2003 to Q3 2009 which has information at Local Authority (LAD) level, to control for local labour market characteristics.
- Individuals are interviewed for five consecutive quarters and are asked about earnings in the first and fifth wave.
- Use additional data sources from the Census.

The Sample

- The sample: **males**; pool the data & use the **panel** aspect; construct a sample of those recently employed who were unemployed during our observation period + those currently unemployed (excluding LT unemployed); focus on urban areas only.
- Exclude recent movers/immigrants to a LAD in the last year (but test for the robustness of this).

Social networks use amongst the unemployed (%)

	White British Born	Non-White British Born	Foreign Born
Social networks	54.43	52.73	51.37
Other methods	45.57	47.27	48.63

Successful Method of Obtaining a Job (%)

	White British Born	Non White British Born	Foreign Born
Social networks	24.67	22.86	22.94
Other methods	75.33	77.14	77.06
Breakdown of other methods (main)			
reply to ads	33.85	30.56	32.14
job centre	17.33	23.15	19.05
careers office	0.58	0.00	0.40
job club	0.17	0.93	0.00
private employment agency	17.39	21.30	20.24
direct application	17.62	13.89	16.27
other methods	13.07	10.19	11.90

Who gets a job through social networks?



	White British Born	Non White British Born	Foreign Born	White British Born	Non White British Born	Foreign Born
	<i>Got a Job: Social Networks</i>			<i>Got a Job: Other method</i>		
age	34.09	27.04	36.01	36.04	28.19	38.14
years of education	11.88	13.07	12.27	12.36	13.78	13.77
Arrived last year %			0.08			0.06
years in the UK			14.48			17.83
White %			0.36			0.34
Indian %			0.13			0.15
Pakistani & Bangladeshi %			0.20			0.13
Black %			0.12			0.17
Chinese and Others %			0.19			0.21

The impact of using social networks on wages

	White British Born	Non White British Born	Foreign Born
<i>Social networks</i>			
Mean	9.69*	8.64	9.12
Std Dev	[7.17]	[4.51]	[7.69]
<i>Other methods</i>			
Mean	8.21*	7.66	8.97
Std Dev	[5.28]	[2.88]	[5.22]

Methodology: First Stage

- Focus our analysis on **immigrants** (FB)
- Estimate the probability of using social networks
- Estimate the effects of social networks use on the probability of getting employment
- Estimate the effects of social networks use on the determinants of log hourly wages

Probability of Using Social Networks among the Foreign Born

- Use individual characteristics
 - Ethnicity, age, years of education, recent immigrant (<2 years), years in the UK, previous occupation
- Local labour market characteristics by LAD & TTWA
 - A measure of tightness (V/U); log average wage; log house prices, share of social housing, share of highly educated
 - Ethnic unemployment rate
 - Dissimilarity measure: $\frac{1}{2} [\sum (O_h/O) - (W_h/W)]$ where O ; counts of ethnic group, W : the benchmark group (whites) and h the wards.
 - Exposure measure: N_{ij}/N_j where i the ethnic group and j the LAD
- Time effects

Probability of Using Social Networks among the Foreign Born



	Coeff	t-stat
<i>Ethnic Origin (ref: White FB)</i>		
Indian	0.026	0.6
Pakistani/ Bangladeshi	0.105	2.92**
Black	-0.035	-0.93
Others	-0.057	-1.66*

Probability of Using Social Networks among the Foreign Born



- Pakistanis & Bangladeshi are the only group who are more likely to use social networks.
 - The “Other” group are the least likely to use social networks.
 - Occupations matter: unskilled more likely than skilled to use social network
 - Conventional proxies for social networks were not found to affect the use of social networks: e.g. ethnic unemployment rate; exposure & dissimilarity indices.
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Probability of Getting a Job : Foreign Born

	Coeff	t-stat
Social Networks	0.314	13.23***
Ethnic Origin (ref: White FB)		
Indians	0.011	0.32
Pakistani/ Bangladeshi	-0.065	-2.15**
Black	-0.106	-3.43**
Others	-0.093	-3.19**
Recent Immigrant	0.075	1.86*

Probability of Getting a Job : Foreign Born



- Ethnicity matters for escaping unemployment:
 - Indians are as likely as Whites immigrants to escape unemployment
 - Pakistanis/Bangladeshi, Blacks and Others are less likely than Whites to do so
 - Recent immigrants more likely than older immigrants to obtain jobs
 - Labour market variables matter as well.
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Determinants of Log Hourly Wages

	Coeff	t-stat
Soc Net	0.115	1.35
Ethnic Origin (ref: White FB)		
Indians	-0.011	-0.12
Pakistani/ Bangladeshi	-0.214	-2.80**
Black	-0.038	-0.44
Others	-0.252	-3.09**

Determinants of Wages

- Obtaining a job through social networks have a **positive** but insignificant effect on wages.
- Pakistanis/Bangladeshis and “Others” who got their jobs through social networks experience a wage **penalty**.

Next steps

- To move from correlations to **causal** relationships
- Model the **selection** into social networks use using iv techniques.

Conclusion

- It is important to disentangle social networks from neighbourhood effects.
 - Using proxies for social network measures rather than personal measures is problematic
 - So far our preliminary results suggest that :
 - immigrants use social networks but not always experience positive outcomes.
 - There is heterogeneity between the various ethnic immigrant groups.
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