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The Role of Social Ties in the Job Search of Recent Immigrants

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The Role of Social Ties in the Job Search of Recent Immigrants^{1*}

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Abstract

We show that among workers whose network is weaker than formal (non-network) channels, those finding a job through the network should have higher wages than those finding a job through formal channels. Moreover, this wage differential is decreasing in network strength. We test these implications using a survey of recent immigrants into Canada. At least at the lower end of an individual's wage distribution above his reservation wage, finding a network job is associated with higher wages for those with weak networks, and the interaction between network strength and finding a job through the network is negative as predicted.

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Executive Summary

This paper examines the role played by social networks in the job search process of recent immigrants. Participants in the labour market do not have complete information. In particular, job seekers do not know about all existing job vacancies that may potentially be good matches. In this context, social networks may provide a valuable informational resource. In fact, one would expect the problem of information scarcity to be more severe for new immigrants. For example, new immigrants may face language barriers that hinder access to information from formal/non-network sources. It is then natural for them to rely on people they know for information about potential jobs.

In examining the role played by social networks in influencing the labour market outcomes of immigrants, the existing literature has mainly looked at the effects of living in ethnic enclaves. The underlying belief is that social networks among immigrants are likely to be larger within ethnic enclaves. Except for unusual circumstances such as refugee programs that randomly assign immigrants to their locality, it is typically difficult to assess the effect of living in an enclave on immigrant outcomes. If booming communities attract many immigrants, it will appear that immigrants do better if they move where there are lots of immigrants. On the other hand, if, for example, immigrants with poor knowledge of the host country language tend to move to immigrant enclaves, it may appear that enclaves hurt immigrants.

In contrast with this literature, although we also examine the role of *network/enclave size*, we focus on the effect of *network strength*. In our theoretical section, strong networks are those with a high probability of producing a job offer. In our empirical work, we show that an immigrant who settles near a relative or friend on arrival in Canada is more likely to find a job through a network. We define a strong social tie as the presence, upon arrival, of at least one relative or friend in the locality where the recent immigrant initially settled and use this variable to capture network strength.

We develop a theoretical model that shows that among workers whose network is *stronger* than formal (non-network) channels (i.e. the offer arrival rate from networks is greater than from formal channels), those who find a job through the network should have *lower* wages than those who find a job through formal channels, and this wage differential is predicted to be increasing in absolute value in network strength. The empirical strategy focuses on this interaction between network strength and job-finding method. This approach greatly mitigates the problem of omitted variables bias which, as discussed above, typically plagues studies that try to examine network-size effects.

We combine census data with the Longitudinal Survey of Immigrants into Canada, a nationally representative sample of recent immigrants arriving in Canada between October 1, 2000 and September 30, 2001. We use these data to examine the role played by strong social ties in the job search of these new immigrants entering the Canadian labour market.

The presence of a strong social tie is significantly associated with finding a job through the network (but only insignificantly with finding a job) suggesting that this variable is a good proxy for network strength. We also find that larger networks/enclaves are associated with a higher probability of finding both network and formal jobs although these effects dissipate within a few years after the immigrants' arrival, and we have already noted the need for caution in interpreting this correlation.

Strong networks are also associated with higher wages at the lower end of an immigrant's wage distribution but have only a modest relation to their overall wage. If we compare two otherwise similar groups of recent immigrants, the group with strong ties earns a statistically insignificant 5.6% more, on average. However, the 25th percentile of the strong network group's wage distribution is 9.4% higher and the median is 4.7% higher. Again, it is not clear whether this relation is causal although the result is consistent with the expectation that immigrants with stronger ties will have higher wages.

The main innovation in the research is our examination of wages conditional on whether the immigrant found a job through a network or more formal means and to use the results to assess the importance of strong social ties. In the absence of strong social ties, those finding their first jobs through networks have weekly wages that are similar to those finding them through formal means. With strong networks, as predicted, those finding their jobs through the network have *lower* wages compared to those finding them through formal means, but the difference is small and again statistically insignificant. In contrast, there is an important effect at the lower end of an individual's potential wage distribution. If we compare two otherwise similar groups of recent immigrants, both of whom do not have strong network ties, the 25th percentile of the group finding its job through the network earns 17.2 percent more than the same percentile of those doing so using formal means. More importantly, if we do the same comparison (of 25th percentile wages) for those with strong ties, those who are in network jobs earn a wage that is only 0.8 percent higher compared to those who obtained jobs through formal channels. Thus, at this level, the network premium (network-formal wage differential) is 16.4 percent lower for those with strong social ties compared to the network premium for immigrants without these ties.

Therefore the network premium is decreasing in network strength as predicted by the theoretical model, suggesting that at this end of the wage distribution the presence of a strong social tie increases the offer arrival rate of jobs from the network. We interpret this as suggesting that, everything else equal, new immigrants with strong ties are more likely than are immigrants without such ties, to receive an offer through their network. However, relative to weak ties, strong ties do not increase or decrease the arrival rate of network jobs at the upper end of the immigrant's potential wage distribution, only at the lower end of this distribution.

It is often argued that immigrants tend to cluster together because the presence of established immigrants facilitates assimilation of new arrivals, both in the labour market and in the social environment of the host country. We find that social networks help in

the economic assimilation of recent immigrants. Our findings suggest that immigrants with strong social ties in their localities enjoy a faster arrival rate of jobs, at least at the lower end of their wage distribution. Our paper does not address other issues related to immigrant dispersion, including the longer-term labour market effects of immigrant enclaves.