Social Capital in the Labor Market

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Outline

Overview
My research
The basic problem
Example from ARS paper

Job Contacts paper
Background/Theory
Indirect test
Empirical Results
Frequently Asked Questions

Extensions
Immigrant workers
Segregation effects
Other interesting research
Conclusions
My research

I am basing this talk on three papers


▶ All papers available on my website, www.tedmouw.org
My research

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Why?

What role do connections play in the labor market?

- Prevailing models of labor market outcomes focus on individual characteristics (human capital, status attainment) rather than the connections and ties between people.
- However, individual characteristics only explain 15-20% of the variance in wages. [Jencks’ Inequality (1974)]
- 40-50% of all jobs are found through job contacts (i.e., through help or information from friends & relatives)
- What role does social structure (who you know) play in the labor market?
- Big picture: Does social capital really affect outcomes? Or is it just the non-random way in which friends are acquired (social homophily). Applies to all social capital research.
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Social capital matters...

- I am sure that social capital ("who you know") matters...
- but how much does it matter?
- Are we measuring it correctly?
- What about competing theories?
- Social Homophily
- Atomized markets
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Social Capital and homophily

Problem of friendship *choice*:

- friends are not randomly assigned and may be positively associated with observed and unobserved characteristics
- Social homophily: people choose friends who are similar to them
- As a result, there may be a spurious relationship
- Example: college friends
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### TABLE 1  Monte-Carlo estimates of social capital with correlated unobservables

<table>
<thead>
<tr>
<th>Variable</th>
<th>True values</th>
<th>OLS</th>
<th>Fixed Effects</th>
<th>Cross-Lagged Regression</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$Y_i$</td>
<td>$Y_i$</td>
<td>$\Delta Y_i$</td>
</tr>
<tr>
<td>$x_i$</td>
<td>1.0</td>
<td>0.920</td>
<td>0.859</td>
<td>(0.096)**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.098)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social capital variables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\bar{Y}_{-i}$</td>
<td>0</td>
<td>0.485</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.039)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\bar{x}_{-i}$</td>
<td>1.0</td>
<td>0.699</td>
<td>1.702</td>
<td>1.080</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.193)**</td>
<td>(0.178)**</td>
<td>(0.171)**</td>
</tr>
<tr>
<td>$\bar{x}_{-i,t-1}$</td>
<td>N.A.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\bar{Y}_{i,t-1}$</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0</td>
<td>0.031</td>
<td>0.058</td>
<td>-0.077</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.045)</td>
<td>(0.045)</td>
<td>(0.060)</td>
</tr>
<tr>
<td>Obs</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.29</td>
<td>0.27</td>
<td>0.01</td>
<td>0.30</td>
</tr>
</tbody>
</table>

---

*Standard errors in parentheses significant at 5% level; double asterisk (**) indicates significant at 1% level; all the computer files for this analysis are available on the author’s web page, http://www.tedmouw.org, if readers wish to repeat the analysis with different parameters.*

*See Equation 2 in the text.*
Previous Evidence

- **Empirical evidence:**
  - 1) No consistent evidence that using contacts is associated with higher wages, higher job prestige, higher job satisfaction, lower turnover etc. (see Granovetter 1995, Marsden 2001, Lin 1999, Bartus 2001 for reviews)
  - 2) Single employer studies: applicants who were employee referrals have a higher % of getting hired (e.g., Fernandez & Weinberg 1997) 32% versus 6%
- Paradox?
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Search Theory

Economic search theory model

- Montgomery (1992): if you have good connections, you raise your “reservation wage” to reflect higher expectations
- so all jobs that you find (with or without contacts) have higher wages
- Consequence: if the use of contacts is endogenous to the level of social capital, then we should not expect a relationship between using contacts and wages, but between social capital and wages.
- i.e., better connected people should have higher wages because of the information and influence those contacts provide.
- Need to turn to social capital models


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Social Capital Perspective

- Social capital perspective: it is not using contacts but the social resources that are embedded in those contacts.
- Lin 1999: Social capital = “resources that are accessible through one’s direct and indirect ties”
- Evidence:
  - Status of contact is positively correlated with respondent’s occupational status
  - Social network resources are positively associated with higher wages.
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  - Status of contact is positively correlated with respondent’s occupational status
  - Social network resources are positively associated with higher wages.
Problem

Again, the problem of endogeneity

- Does the positive effect of a “social capital” variable merely reflect social homophily?
proposed test

- My solution: If we accept that the use of contacts is endogenous to the level of social capital, then:
  - A test of causality: If social capital really has a causal effect on the wages of jobs found through contacts, then better-connected workers should be more likely to use contacts than less-well connected workers.
  - (Proof in the paper based on sequential search and extensive search models, see ASR paper)
  - Necessary but not sufficient condition...
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Simple Example

(insert figure 2 here)
Simple example.

A and B are identical workers, except B has more friends (job contacts) than A. On a typical job search, A and B search newspapers, help-wanted signs, and their contact networks for job opportunities. They apply for all relevant, available jobs and then choose the job with the highest wage offer.

If the wages of offers are random numbers between 0 and 1, then:

<table>
<thead>
<tr>
<th>Worker</th>
<th>Formal offers</th>
<th>Offers from contacts</th>
<th>Average wage of accepted job</th>
<th>Probability of using contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2</td>
<td>1</td>
<td>.75</td>
<td>.33</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>3</td>
<td>.83</td>
<td>.60</td>
</tr>
</tbody>
</table>

B has higher level of “network social capital” and hence higher probability of using contacts to find work.
Exogenous Social Capital

The flow chart (on the next slide) guides the empirical results

- In the paper, I first consider the implications of rejecting the proposed test of social capital
- This leads to “exogenous” social capital models.
- Points B-I of the flow chart
Flow Chart

(insert figure 3 here)
Is the use of job contacts endogenous to the level of social capital?

No. The use of contacts is exogenous to the level of social capital. Therefore, we can use direct tests of the effect of contacts on job outcomes.

Does the effect of using job contacts depend on the characteristics of the contact person?

No. Using contacts is beneficial in general.

Cross-sectional analysis of the effect of contacts (Tables 2 and 3): Analysis of the direct effect of contacts on wages, duration of unemployment, and job satisfaction.

Is the effect of contacts on labor market outcomes downwardly biased because of the tendency of low-wage jobs to hire via informal methods?

Longitudinal analysis of the effect of contacts (Table 4): Do individuals who use contacts do better than when they do not use contacts?

Yes. As a result, the direct relationship between using contacts and wages is ambiguous.

Implications of social capital and search theory models: Higher levels of social capital result in better wages and/or shorter job searches.

Endogenous social capital models (Tables 6 and 8): Do social network resources affect labor market outcomes?

The problem of homophily: An observed relationship between respondent's wages and friends' characteristics may not be causal; it may reflect reverse causality and selection effects on unobserved variables.

A test of causality (Tables 7 and 8): If social capital has a causal effect on wages, then individuals with higher levels of social capital should be more likely to use contacts, everything else being equal.

Figure 1. Flow Chart of Alternative Theories and Empirical Tests
Direct Effect of Contacts

- Data from the NLSY
- Test multiple specifications of the direct effect of contacts

(insert figure 4 here)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 4</td>
<td>Model 5</td>
<td>Model 6</td>
<td>Model 7</td>
</tr>
<tr>
<td>Used contact in 1982</td>
<td>-0.009 (.015)</td>
<td>-0.001 (.039)</td>
<td>-0.007 (.015)</td>
<td>-0.014 (.023)</td>
<td>-0.009 (.017)</td>
<td>-0.009 (.017)</td>
<td>-0.041 (.049)</td>
</tr>
<tr>
<td>Used contact in 1994</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contact × union</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak contact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong contact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Importance of Contact

| Very important               |                   |                  |                  |                  |                  | -0.011 (.017)    |                  |
| Somewhat important           |                   |                  |                  |                  |                  | -0.004 (.023)    |                  |
| Not very important           |                   |                  |                  |                  |                  | -0.049 (.055)    |                  |


Notes: Numbers in parentheses are standard errors. No coefficients were significant at the p < .05 level (two-tailed tests). All models also include education, race, gender, experience, experience squared, job tenure, union job, working when offered job, and looking for work when offered job. A model of “job duration” was also tested using a probit model of whether the job lasted at least one year. Results indicate no effect of using contacts on job duration.

a Job satisfaction analysis is an ordered probit; the log-likelihood equals -3.649.

b The sample uses only professional, managerial, and technical (PMT) workers employed in the 1994 NLSY survey. Seventeen percent of the employed sample of 6,687 respondents were in these occupations.
Fixed effects models

Also found null results for fixed effects models in Table 4 of the paper (explain)

► not surprising if you believe Montgomery’s model of endogenous social capital
Status of Contact Models

- Use 1970 Detroit Area Study data
- Has the occupation of the contact person
- Do people who use high status contacts do better?

(insert figure 5 here)

- Key point: The correlation is due to the large % of same-occupation contacts.
Table 5. Coefficients from Exogenous Social Capital Models of Respondent’s Occupational Prestige, Detroit Area Study, 1970

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Mean (S.D.)${}^a$</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3${}^b$</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Father’s job prestige</td>
<td>37.05 (11.57)</td>
<td>—</td>
<td>.060</td>
<td>.024</td>
<td>—</td>
</tr>
<tr>
<td>Education</td>
<td>11.76 (2.72)</td>
<td>—</td>
<td>1.136**</td>
<td>1.364**</td>
<td>—</td>
</tr>
<tr>
<td>Prior job prestige</td>
<td>37.20 (13.26)</td>
<td>—</td>
<td>.266**</td>
<td>.300**</td>
<td>.556**</td>
</tr>
<tr>
<td>Tie strength</td>
<td>.94</td>
<td>—</td>
<td>3.135</td>
<td>3.405</td>
<td>—</td>
</tr>
<tr>
<td>(1 = strong, 0 = weak)</td>
<td></td>
<td></td>
<td>(2.714)</td>
<td>(3.589)</td>
<td></td>
</tr>
<tr>
<td>Contact’s job prestige</td>
<td>43.91 (12.57)</td>
<td>.498**</td>
<td>.254**</td>
<td>.035</td>
<td>—</td>
</tr>
<tr>
<td>Contact connected to firm</td>
<td>.73</td>
<td>—</td>
<td>-.217</td>
<td>-.797</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1.504)</td>
<td>(1.849)</td>
<td></td>
</tr>
</tbody>
</table>

Difference in Prestige

| Contact higher prestige      | .648              | —        | —        | —             | -.297 (2.084) |
| Contact lower prestige       | .192              | —        | —        | —             | -7.910 (2.367) |

Constant

| Constant                     | 18.846** (2.676)  | 1.304 (4.350) | 7.712 (5.934) | 21.734** (3.187) |

Contact is in same occupation as respondent

| Contact is in same occupation as respondent | .28 | — | — | Excluded$^b$ | — |

Observations

| Observations | 219 | 219 | 219 | 154 | 219 |

R²

| R² | .25 | .41 | .29 | .33 |

Note: Unless otherwise noted, numbers in parentheses are standard errors.

$^a$ Standard deviations are not reported for dummy variables. Mean of respondent’s occupational prestige is 40.7 (S.D. = 12.5).

$^b$ Excludes same-occupation ties.

$^c$ These are dummy variables indicating whether the contact person had higher or lower occupational prestige than the respondent’s previous job; the excluded category is “equal prestige.”

$^{**}p < .01$ (two-tailed tests)
Endogenous Social Capital Models

- Use two data sets
- 1987 Urban Poverty and Family Life Study (UPFLS)
- 1994 Multi-City Study of Urban Inequality (MCSUI)
- Both have demographic information about respondent’s friends
- I want to test:
  - Effect of social capital on wages and
  - effect on probability of using contacts
Results

Here I just discuss the MCSUI results.

- The UPFLS results are similar
- The UPFLS data has occupation of friend
- I would argue that this is a step in the right direction

(insert figure 6 here)
Table 8. Coefficients from Models Predicting the Use of Contacts and Log Wages, Multi-City Study of Urban Inequality, 1994

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Logit Model/Used Contact</th>
<th>OLS Models Predicting log Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used contacts</td>
<td>.396 (S.D.: .114)</td>
<td>Model 1: -.069**</td>
</tr>
<tr>
<td>Female</td>
<td>-.347** (.114)</td>
<td>Model 2: -.193**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 3: -.174**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 4: -.183**</td>
</tr>
<tr>
<td>Race(^b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td>.132 (.171)</td>
<td></td>
</tr>
<tr>
<td>Hispanic</td>
<td>.212 (.176)</td>
<td></td>
</tr>
<tr>
<td>Asian</td>
<td>.027 (.368)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>.0003 (3.440)</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>13.77 (2.89)</td>
<td>Model 2: .061**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 3: .050**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 4: .049**</td>
</tr>
<tr>
<td>City(^c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Los Angeles</td>
<td>.54 (.168)</td>
<td>Model 2: .108**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 3: .130**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 4: .128**</td>
</tr>
<tr>
<td>Boston</td>
<td>.31 (.177)</td>
<td></td>
</tr>
<tr>
<td>Social Network Measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average education of friends</td>
<td>13.41 (2.59)</td>
<td>Model 2: .016*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 3: .020*</td>
</tr>
<tr>
<td>Average education of friends (\times) used contact</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of friends with a &quot;steady job&quot;</td>
<td>.788 (.310)</td>
<td>Model 2: .227**</td>
</tr>
<tr>
<td>Proportion of friends with a &quot;steady job&quot; (\times) used contact</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of friends on welfare</td>
<td>.049 (.365)</td>
<td>Model 2: -.006</td>
</tr>
<tr>
<td>Proportion of friends on welfare (\times) used contact</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion in 3-digit occupation using contacts</td>
<td>.189 (.082)</td>
<td>Model 2: -.092</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>Model 3: .122**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 4: .123**</td>
</tr>
<tr>
<td>R-squared</td>
<td></td>
<td>Model 2: .26</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 3: .28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Model 4: .29</td>
</tr>
</tbody>
</table>

Notes: Unless otherwise noted, numbers in parentheses are standard errors; number of observations = 1,434.

\(^a\) Model 4 tests exogenous social capital model with interaction effects. See point O in Figure 1.

\(^b\) "White" is the omitted category.

\(^c\) "Atlanta" is the omitted category.

\(^p < .05\) * * \(p < .01\) (two-tailed tests)
As a result...

- Because the proposed social capital variables have
- a positive effect on wages
- but no effect on the use of contacts
- I argue they are picking up a spurious effect
- due to homophily
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Small Market

- In a labor market that was so small that the employer knew the members of the applicant’s contact network even though the applicant wasn’t an employee referral, then the model does not work.
- Example: the academic labor market.
High Status Workers

- Question: Is it possible that people with higher social capital are less likely to use contacts because they are in occupations where they do not need to?
- Answer #1: Control for use of contacts in 3-digit occupations.
- Answer #2: Network social capital vs. social capital: network social capital is only accessed via social ties; not an individual characteristic.
Use Contacts as last resort

- **Question:** Perhaps people turn to networks as a last resort (i.e. strong ties) when they must have a job.
- **Answer:** Good question, but NLSY data on monthly use of contacts by unemployed workers shows no increased use of contacts over time.
These measures don’t work, but what about other measures or data?
Immigrant workers

- Example of a situation where contacts are important: undocumented immigrants
- Data:
- Mexican Migration Project (MMP)
### Use of Contacts

**Table 1: Use of Job Contacts to Find Work**

<table>
<thead>
<tr>
<th></th>
<th>Multi-City Study of Urban Inequality (MCSUI)</th>
<th>Mexican Migration Project (MMP), 1987-1999 data</th>
<th>1987 Chicago Urban Poverty and Family Life Study (UPFLS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Hispanic</td>
<td>.419</td>
<td>.360</td>
<td>.360 (N=207)</td>
</tr>
<tr>
<td>White</td>
<td>(N=883)</td>
<td>(N=546)</td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td>.423</td>
<td>.328</td>
<td>.328 (N=546)</td>
</tr>
<tr>
<td>(N=1,101)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hispanic</td>
<td>.712</td>
<td>.700</td>
<td>.612 (N=313)</td>
</tr>
<tr>
<td>(N=1,004)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexican</td>
<td></td>
<td></td>
<td>.504 (N=200)</td>
</tr>
<tr>
<td>Puerto-Rican</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asian</td>
<td>.475</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Effect of Contacts

**Table 10: OLS models of Log Wages, migrant Mexican**

<table>
<thead>
<tr>
<th></th>
<th>(1) Inhrwage</th>
<th>(2) Inhrwage</th>
<th>(3) Inhrwage</th>
<th>(4) Inhrwage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job contact with relatives</td>
<td>.379</td>
<td>-.051</td>
<td>-.006</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.016)**</td>
<td>(0.016)</td>
<td></td>
</tr>
<tr>
<td>Job contact with friends</td>
<td>.281</td>
<td>-.040</td>
<td>-.008</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.018)*</td>
<td>(0.018)</td>
<td></td>
</tr>
<tr>
<td>&quot;Social Capital&quot; Variables</td>
<td>2.67</td>
<td></td>
<td>0.059</td>
<td>0.046</td>
</tr>
<tr>
<td>Log # of relatives in U.S.</td>
<td>(1.08)</td>
<td></td>
<td>(0.006)**</td>
<td>(0.009)**</td>
</tr>
<tr>
<td>Log # of friends in U.S.</td>
<td>1.44</td>
<td></td>
<td>0.012</td>
<td>0.033</td>
</tr>
<tr>
<td>Undocumented</td>
<td>.508</td>
<td>-.258</td>
<td>-.037</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.014)**</td>
<td>(0.015)*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other controls

- Cond 1
- Cond 2
- M1
- M2
Use of contacts

- Does the log # of friends and relatives predict the use of contacts?

(insert figure 8 here)
Table 9: Multinomial Logit models of the use of relatives and friends to find work, migrant Mexican workers in the U.S. (MMP data)

<table>
<thead>
<tr>
<th>&quot;Social Capital&quot; Variables</th>
<th>All Cases</th>
<th>Undocumented Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relatives</td>
<td>Friends</td>
</tr>
<tr>
<td>Log # of relatives in U.S.</td>
<td>0.253</td>
<td>0.054</td>
</tr>
<tr>
<td></td>
<td>(0.037)**</td>
<td>(0.039)</td>
</tr>
<tr>
<td>Log # of friends in U.S.</td>
<td>0.016</td>
<td>0.025</td>
</tr>
<tr>
<td></td>
<td>(0.031)</td>
<td>(0.034)</td>
</tr>
<tr>
<td>Log months of U.S. experience</td>
<td>-0.242</td>
<td>-0.146</td>
</tr>
<tr>
<td></td>
<td>(0.042)**</td>
<td>(0.046)**</td>
</tr>
<tr>
<td>Documentation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(excluded category: legal resident)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undocumented</td>
<td>0.556</td>
<td>0.359</td>
</tr>
<tr>
<td></td>
<td>(0.091)**</td>
<td>(0.098)**</td>
</tr>
<tr>
<td>Other controls</td>
<td>Gender, survey, place, English, education</td>
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</tr>
<tr>
<td>Constant</td>
<td>0.046</td>
<td>-1.100</td>
</tr>
<tr>
<td></td>
<td>(0.529)</td>
<td>(0.698)</td>
</tr>
<tr>
<td>Observations</td>
<td>4925</td>
<td>4925</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
* significant at 5%; ** significant at 1%
Effect of referrals on segregation

- When social networks are segregated by race,
- what is the effect of employee referrals on firm segregation?

Map 2. Race of the Last Worker Hired: Detroit Metropolitan Area

- Attempts an instrumental variable estimate of the effect of social capital
- Uses rainfall data in Mexico to predict network size in the U.S. 3 years later
- Good example of a interesting twist
- Unfortunately, uses employment as a dependent variable
- This may be problematic
Munshi 2003


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Being cautious about the effect

- Social homophily suggests that social capital effects may be upwardly biased
- We should be cautious about interpreting the coefficients
- This doesn’t mean we should stop doing research on social capital
- Need to pay attention to how friendships are formed
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Future research

▶ An ideal data set would:
▶ Have longitudinal information on friendship,
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▶ Other possibilities would exploit naturally occurring quasi-experimental data
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