Social capital, friendship networks, and youth unemployment

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ABSTRACT

Youth unemployment is a contemporary social problem in many societies. Youths often have limited access to information about jobs and limited social influence, yet little is known about the relationship between social capital and unemployment risk among youth. We study the effect of social capital on unemployment risk in a sample of 19 year olds of Swedish, Iranian, and Yugoslavian origin living in Sweden (N = 1590). We distinguish between two dimensions of social capital: occupational contact networks and friendship networks. First, ego's unemployment is found to be strongly associated with friends' unemployment among individuals of Yugoslavian origins and individuals of Swedish origin, but not Iranian origin. Second, occupational contact networks reduce unemployment risks for all groups, but especially so for Iranians. The effect sizes of the two dimensions are similar and substantial: going from low to high values on these measures is associated with a difference of some 60–70 percent relative difference in unemployment risk. The findings are robust to a number of different model specifications, including a rich set of social origin controls, personality traits, educational performance, friends' characteristics, and friendship network characteristics, as well as controls for geographical employment patterns. A sensitivity simulation shows that homogeneity bias need to be very strong to explain away the effect.

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1. Introduction

Youth unemployment is a social problem with potentially severe consequences—it triggers criminal careers (Farrington et al., 1986); it increases the risk terms of adult unemployment (Gregg, 2001), it can lead to future income losses (Nordström Skans, 2004); and it increases the risk of physical and mental ill health (Hammarström et al., 1988). In addition to being related to the general level of unemployment in a society, youth unemployment, youth unemployment has some unique causes. First, employers are often reluctant to hire youth because their productivity is yet unknown—there is only a limited track record of their performance in a job (Freeman and Wise, 1982; Skans, 2009). Second, psychological factors such as lack of motivation are important explanations of youth unemployment (Mortimer, 1994). Youths are in a fragile phase where the hardships of getting a job can cause strong feedback effects. Unemployment spells for youths will coincide with the last phases of identity formation (Hess et al., 1994), and lack of employment can cause stress and disappointment, and discourage youth from taking future work (Ellwood, 1982), creating vicious circles which further lower chances of employment (Furnham, 1985).

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We focus on a third explanation of youth unemployment that has rarely been studied: the role of social networks. Youths often have more limited occupational contact networks that are largely structured by parent's social positions. This limits their access to information about jobs, and limits their social influence. While coming of age, youths are also often dependent on friends, and friend network composition might be decisive for e.g., the motivation of finding a job. We study school leavers during approximately half a year after leaving school. We employ two key measures of relations and networks − the proportion of friends (most of which comes from the school) who are employed, and the extent of contacts with individuals within certain (high or low status) occupations − and then examine their association with the individual's own unemployment risk. These measures capture fundamentally different aspects of networks, and their simultaneous relation to (youth) unemployment has to our knowledge not been studied before. Our first prediction is that unemployed friends will increase ego's unemployment risk. Our second prediction is that contacts with high-status persons and the range of contacts within different occupations will reduce ego's unemployment risk. As youth unemployment is particularly prevalent among immigrants in Sweden (Vilhelmsson, 2002), we also examine how social network effects vary across groups of individuals of Swedish and non-Swedish background, specifically for the two large immigration groups of Iranians and ex-Yugoslavians. A central benefit of studying youths is that their occupational contact network will be structured mainly by their parents' and extended family's networks, and not by their own labor market experiences. This minimizes the possible endogeneity, i.e., that having a job leads to richer networks. This has been a limitation in previous research on social capital focusing on adults.

Sweden, widely recognized as a highly inclusive welfare state, is a particularly interesting case in point since this country has had one of the highest *relative* youth unemployment rates within the OECD (2008, pp. 89–122), i.e., compared to the adult unemployment rate. In Sweden, the school-to-work transition is known to be a drawn-out process, especially among the lowest skilled (Erikson et al., 2007).

2. Social capital and labor market opportunity

2.1. Information access, job referral and influence

Granovetter (1974) showed that recruitment in the labor market is often informal, and that acquaintances play an important role, pointing to the importance of information flows in social networks. Having personal networks with many acquaintances means that you get more information about job openings, which facilitates the job search and is likely to increase success. Fernandez et al. (2000) suggest that from an employer's perspective, recruitment through job referral networks gives access to a better pool of applicants, allows for better job-worker matches, and creates natural mentoring of new hires, which tend to reduce screening costs and increase economic returns. To the extent that unemployed individuals have unemployed friends rather than employed friends, this means that they are cut off from job referral networks, their access to information will suffer, and this relative isolation from information on job openings will decrease (re-)employment chances. This line of reasoning is connected to current economic theorizing on unemployment. Information access plays a central role in the Diamond-Mortensen-Pissarides (DMP) model of aggregate unemployment (see Andolfatto, 2008 for an introduction): workers and employers are required to gather information on available jobs and applicants qualities, respectively, which gives rise to a friction that eventually increases equilibrium unemployment levels. Job-seekers' and employers' access to good information is likely to lower aggregate unemployment by shortening periods of unemployment. The model outlined by Calvó-Armengol and Jackson (2004) also suggests that unemployment is influenced by network effects, and that information access is one key mechanism; with lack of employment this access become depressed.

Information access may have a racial or ethnic component. Holzer (1987) argued that inferior access to valuable information streams through personal contact is a major reason for higher unemployment among black American youth. To the extent that welfare dependency and unemployment among adult black individuals are high, their potential contact with labor market actors will be lower. In a case study, Fernandez and Fernandez-Mateo (2006) outline the "wrong networks" hypothesis and suggest that networks of racial minorities can be unconnected to job referrals, and that the peers of minorities may not transfer referrals at all, or not to minorities specifically. While Fernandez and Fernandez-Mateo did not find any evidence of racial biases, in another case study Petersen et al. (2000) found that ethnic minorities were cut off from employer networks.

Finally, the most straightforward network mechanism is direct influence, for example when a hiring decision is made in favor to some connected friend or acquaintance. To be able to exert influence via networks, one must reach contacts of high status (Lin et al., 1981) that have discretion to make independent decisions, which means that segregated networks without such contacts severely limits the chances of influence.

2.2. Reinforcement and proximate relations

The incentives for getting a job can be influenced by friendship relations. Akerlof (1980) developed a model of social custom, where a key mechanism is that reputation is determined both by the individual's own actions and by the proportion of the population who believe in a norm or code. If there is a cost of breaking a norm, this cost decreases when proximate others also break the norm. Drawing on Akerlof, Clark (2003) predicts that the loss in utility from becoming unemployed would be smaller for individuals with many unemployed in their proximate social context. Hedström and Åberg (2011) have likewise argued that unemployment can be thought of as a stigma that is carried with more ease if other individuals in ones