Immigration, social networks and occupational mismatch

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Highlights

• Based on SOEP data we find that job referrals are more widespread among immigrants.

• In the data referrals generate more occupational mismatch than formal matching.

• We develop a model with two ethnic groups, two search channels and two occupations.

• It predicts a mismatch gap between natives and immigrants due to referral hiring.

• SOEP data confirms that stronger referrals of immigrants contribute to mismatch gap.

Abstract

In this study we investigate the link between the job search channels used to find employment and the probability of occupational mismatch. Our specific focus is on

differences between natives and immigrants. We use data from the German Socio-Economic Panel (SOEP, 2000–2014). First, we document that referral hiring is the most frequent single channel of generating jobs in Germany; in relative terms referrals are used more frequently by immigrant workers compared to natives. Second, referral hiring is associated with the highest rate of occupational mismatch among all channels in Germany. We combine these findings and use them to develop a search and matching model with two ethnic groups, two search channels and two occupations. Our model predicts that higher rates of referral hiring produce more frequent occupational mismatch of the immigrant population compared to natives. This prediction and the underlying mechanism of the model are confirmed by the data.

Keywords