

Between 30% and 50% of workers report finding their current job through referrals

A new report published on [IZA World of Labor](#) shows that job-referral networks can make labor markets more productive and efficient but may increase the importance of luck in job matches.

Ian Schmutte, Assistant Professor at the University of Georgia, summarizes his findings: “Social interactions matter now more than ever in helping people find new and better employment. This is happening despite, or perhaps because of, the recent rapid spread of information technology and social media. Social networks might make it easier to find jobs, but might also work against people who are less well-connected. A better understanding of these social forces is needed for more effective labor market policy.”

The use of personal contacts by workers and firms to facilitate job search is widespread and growing over time. Data from the US Current Population Survey (CPS) shows that the use of personal contacts in the labor market nearly tripled over a ten-year period between 2000 and 2010. Estimates vary across sources, but researchers consistently find between 30% and 50% of workers report having found their current job through referral.

Studies indicate that referral networks can improve individual labor market outcomes and overall efficiency, but perhaps in a manner that could aggravate inequality. A large body of sociological evidence supports the casual observation that people tend to socialize with people who are similar to themselves in some way. The term used to describe this is called “homophily”. If social networks are divided by race, ethnicity, and economic status, then referral networks can reinforce between-group inequality.

A paper using data from the city of Boston found that a pair of workers living in the same block are three times more likely to also work in the same firm than a pair of workers living in the same neighborhood, but on different blocks. These effects are stronger for workers of the same race and gender. The results are also stronger for workers with low levels of education, which is consistent with other research that suggests that informal networks are more important for this group.

Another study using Swedish administrative data looked at the role family networks played in the labor market. Although the study does not have direct evidence on referral, it relies on the presumption that when a child ends up working in the same plant as their parent, their parent actively participated in helping him or her find that job. Such interactions are more likely when parents are better workers, but children are less educated. The results of the study also suggest that referred children have lower starting wages than other new entrants.

Schmutte says it would be unwise for policymakers to limit the use of referral networks in hiring. He suggests policymakers should support increased access to administrative data, new surveys that include information on referral and social networks, and shed light on how referral networks function. Policies that encourage social and economic diversity in the spheres where referral networks form can help eliminate their damaging effects on economic inequality while preserving their salutary effects on labor market efficiency.

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Notes for editors:

- IZA World of Labor (<http://wol.iza.org>) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.
- The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.
- Established in 1998, the Institute of Labor Economics (www.iza.org) is an independent economic research institute focused on the analysis of global labour markets. Based in Bonn, it operates an international network of about 1,300 economists and researchers spanning more than 45 countries.