

Job Talk Seminar

Muly San

(NYU)

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Who Works Where and Why? Parental Networks and the Labor Market.

Abstract: Social connections are valuable for workers entering the labor market, both because they may increase the likelihood of knowing about a job opening at a specific firm and because they may increase the likelihood of being hired, conditional on knowing about an opening. Using data from Israel and relying on identifying variation from the timing of job movements of parents' coworkers, I find that workers are three to four times more likely to find employment in firms where their parents have professional connections than in otherwise similar firms. I use the same variation to structurally estimate a matching model of the labor market with search frictions, and find that connections double the probability of meeting and increase by 35% the likelihood of being hired after meeting. The estimated value of one additional meeting with a connected firm is 3.7% of the average wage, with around 2/5 of the increase coming from the direct value of a connection. Connections matter for inequality; I find that the wage gap between Arabs and Jews decreases by 12% when equalizing the groups' connections, but increases by 56% when prohibiting the hiring of connected workers. These seemingly opposing results are explained by the fact that Arabs have connections to lower-paying firms but use their connections more extensively.