

# Ethnic enclaves and immigrant economic integration

## High-quality enclave networks encourage labor market success for newly arriving immigrants

Keywords: immigrant concentration, ethnic networks, immigrant labor market integration

### ELEVATOR PITCH

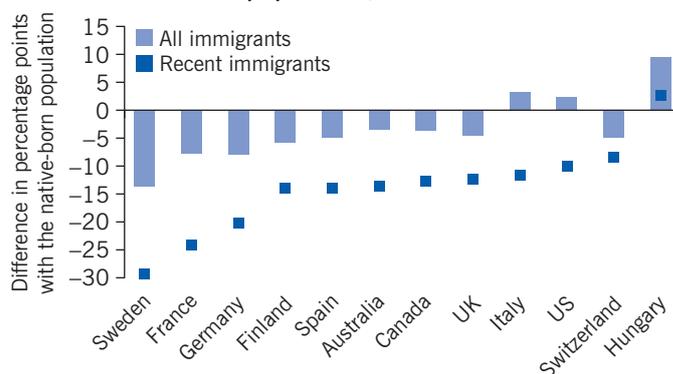
Immigrants are typically not evenly distributed within host countries; instead they tend to cluster in particular neighborhoods. But does clustering in ethnic enclaves help explain the persistent differences in employment rates and earnings between immigrants and the native population? Empirical studies consistently find that residing in an enclave can increase earnings. While it is still ambiguous whether mainly low-skilled immigrants benefit, or whether employment probabilities are affected, it is clear that effects are driven by enclave “quality” (in terms of income, education, and employment rates) rather than enclave size.

### KEY FINDINGS

#### Pros

- ⊕ Studies based on refugee dispersal policies indicate that living in enclaves is associated with higher earnings.
- ⊕ Higher earnings are driven principally by enclave quality (rather than enclave size): immigrants benefit financially from high-quality enclaves, as well as in terms of employment opportunities.
- ⊕ There is some evidence that low-skilled immigrants may benefit most from living in enclaves.

Employment rates of immigrants (aged 15–64) relative to native population, 2012–2013



Source: [1].

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#### Cons

- ⊖ There is no conclusive evidence that the size of an enclave increases employment rates.
- ⊖ Enclaves may reduce the employment chances of highly-skilled immigrants.
- ⊖ Immigrants' labor market success can be reduced if the ethnic networks in enclaves are of low quality.
- ⊖ Evidence is mixed on the length of time it takes for enclave quality to impact on immigrant earnings.
- ⊖ Reliable evidence is mainly based on policy experiments concerning asylum-seekers, while evidence on economic migrants is rare.

### AUTHOR'S MAIN MESSAGE

Theoretically, it is far from clear whether ethnic clustering, or enclaves, limits the prospects of labor market integration of immigrants, or instead helps integrate immigrants more successfully into a new country, due to better access to information and jobs. Empirical evidence, however, suggests that earnings may be higher for immigrants settling in ethnic enclaves, depending mainly on the quality of the co-ethnic network in an enclave. Thus, policies that encourage immigrants to settle in regions with relatively high employment rates and education levels among co-nationals may benefit their integration into the wider host-country labor market.

## MOTIVATION

The increase of immigrant populations in most countries has led to rising concerns about the causes and consequences of immigrant concentration. Policymakers are particularly interested in the question of how living in an ethnic enclave may affect immigrants' labor market integration. In the wider public discourse, immigrant enclaves are often associated with a voluntary socio-economic isolation of immigrant groups from the mainstream society, and residential segregation is perceived as a hindrance to labor market integration. In fact, the fear of "ghettoization" is one of the main arguments for asylum-seeker dispersion policies implemented in many Western countries.

Despite these widely-held beliefs, the true effects of ethnic enclaves on immigrants' labor market outcomes are far from obvious. Immigrants could as well profit from living in an enclave. Social networks in enclave neighborhoods can provide immigrants with valuable information about job opportunities and provide shelter from discrimination, both of which could be conducive to labor market success.

In view of increasing migration movements around the world, and in consideration of the fact that there are already policies in place that promote spatial dispersion of incoming refugees and asylum-seekers in most countries, it is important to address the question of whether living in an ethnic enclave influences immigrants' (asylum-seekers as well as economic migrants) labor market opportunities—and if so, whether that benefits or hinders their successful integration into the host-country labor market.

## DISCUSSION OF PROS AND CONS

### How might living in enclaves affect immigrants' labor market success?

The clustering of immigrants in ethnic enclaves can affect their labor market prospects in several ways, and the direction of the overall effect is *a priori* unclear. Ethnic enclaves may provide a "warm embrace," especially for newly arrived immigrants, with the ethnic network in an enclave providing valuable information on opportunities in the labor market, job contacts or job-search channels [2]. Word-of-mouth via personal contacts is often found to be more efficient in providing reliable information than formal channels. It is also possible that enclaves directly provide jobs within the so-called "enclave economy," since ethnic business owners are likely to hire co-ethnic workers [3]. A sushi restaurant, for example, may prefer a Japanese to a native applicant, which would create a form of positive discrimination that immigrants welcome within an enclave economy. Furthermore, immigrant workers in an enclave economy avoid labor market discrimination they may encounter outside the enclave. Overall, the benefits associated with living in an enclave can be thought of as a "buffer," which reduces the cost of cultural or language assimilation by making these requirements less necessary to labor market success. Residence in an ethnic enclave may therefore benefit immigrants' economic performance.

However, there are also reasons why ethnic enclaves might hamper immigrants' economic assimilation. First, an enclave economy can offer only a limited number of jobs. In addition, wages in an enclave economy are typically lower than what could be earned in the larger host-country labor market, where there is a greater range

of alternative job opportunities. Second, while a local enclave economy might offer job opportunities in the short term, they might become “mobility traps” in the long term by reducing the incentives for immigrants to acquire important host-country skills, especially language skills. This would limit the opportunities of finding or moving to better-paying jobs in the wider labor market, possibly outside the enclave. Another argument for adverse enclave effects relates to the observation that ethnic neighborhoods emerge due to discrimination in the housing market. Consequently, ethnic enclaves are usually located geographically far away from the most attractive employment opportunities, which in turn hampers immigrants’ chances in the labor market.

Empirical studies are in the most part unable to test specifically any of the above mechanisms; instead they estimate net effects. Since the direction of this overall effect is theoretically ambiguous, it must be determined by empirical analysis.

### The residential sorting problem

A major problem in analyzing potential effects of living in an ethnic neighborhood is that immigrants are not randomly assigned to neighborhoods. Rather, residential location is an individual or household choice. It is therefore quite likely that individuals choose where to live based on individual skills that also affect their labor market outcomes. For example, if immigrants with relatively unfavorable labor market skills locate in ethnic enclaves to a greater extent, and also experience more difficulty in finding jobs, one conclusion might be that there are negative associations between enclave residency and employment probabilities, solely due to such residential “sorting.” Those immigrants would in all probability have difficulties in integrating into the host country labor market anyway, irrespective of whether they reside in an enclave or not. On the other hand, highly-motivated immigrants might move out of enclaves. Consequently, a naïve comparison of immigrants’ labor market success, inside and outside enclaves, cannot determine whether living in an enclave actually causes adverse labor market outcomes. In sum, any empirical study that attempts to provide causal effects of enclaves on immigrants’ economic performance must credibly address the “sorting problem” described above. In fact, this is the main empirical challenge that has to be addressed in the literature concerning enclave effects.

Several studies avoid the problem of sorting at the neighborhood level by analyzing variation in enclave size across larger geographical areas [2], [4]. The underlying assumption is that the sorting problem is less prevalent *across* than *within* cities (or regions). Another approach is to exploit variation at the very disaggregate geographical level of residential housing blocks [5]. Here, the assumption is the absence of endogenous sorting at the block level *within* neighborhoods. Studies based on these approaches find that immigrant enclaves (or enclaves made up of ethnic minorities) are, on the whole, harmful to employment and earnings.

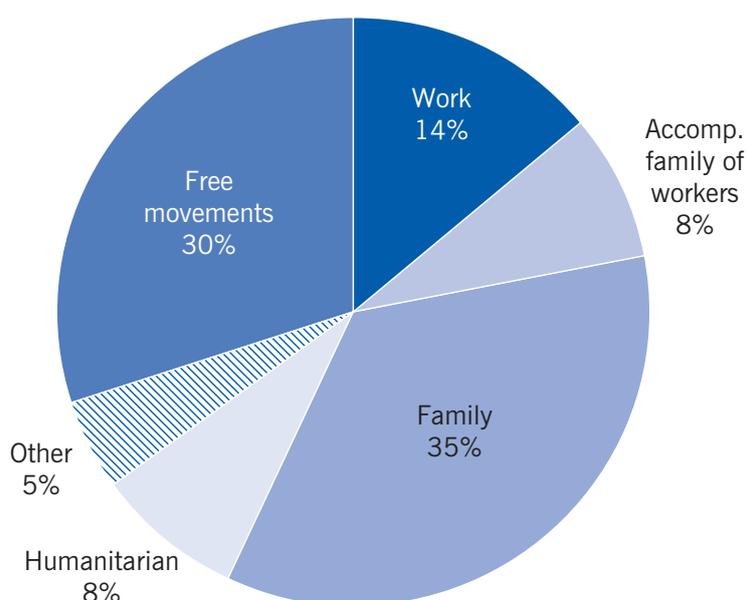
The “ideal” approach to studying enclave impacts that are not affected by the sorting problem would be to perform a policy experiment by which immigrants are randomly distributed across neighborhoods, or regions, in a host country. Policy experiments that come close to this setting are spatial dispersal policies that are practiced by some Western countries, where refugees and asylum-seekers are randomly assigned

to locations upon arrival in the host country. Four empirical papers report causal estimates of the impact of ethnic clustering on refugee and asylum-seeker labor market outcomes [6], [7], [8], [9]. In order to find causal effects, these studies exploit the quasi-experiment of refugee and asylum-seeker placement policies in Sweden, Denmark, and the US. In particular, they use the fact that refugees are distributed upon arrival across the respective host country by public authorities, which precludes them from immediate self-sorting according to their own preferences.

Studies based on refugee and asylum-seeker dispersal policies present, to date, the methodologically most rigorous evidence of enclave effects on immigrants' labor market integration, while similarly reliable evidence concerning economic migrants is very rare. Yet, although humanitarian migration represents only a small part of overall migration to OECD countries (Figure 1) and the evidence concerning asylum-seekers might not be strictly generalizable to all immigrants, it still provides important information. The main reason for this is that labor market integration is likely to be slower and less successful for asylum-seekers than for economic migrants, since refugee migration is not motivated by employment reasons. The effects found for refugees and asylum-seekers might therefore be seen as a “lower bound” of enclave effects for other migrant groups.

The studies on Sweden and Denmark look at measures of refugees' labor market outcomes between six and eight years after assignment [6], [7], [8]. At this point, individuals have themselves chosen where to live (after initial placement through the dispersal policy asylum seekers are free to move). Naïve estimates of associations between enclave size and labor market success are therefore prone to the sorting problem described above. The researchers then account for potential sorting into

Figure 1. Categories of entry among permanent migrants to OECD countries in 2013



Source: OECD. *International Migration Outlook 2015*. Paris: OECD Publishing, 2015.

enclaves by using information on each individual's location of initial assignment under the dispersal policy. Since the assignment was decided by the public authorities, this approach exploits exogenous variation in enclave size that should not be related to individuals' own location preferences. Such estimates suggest a causal relationship between living in an enclave and labor market success, rather than merely a correlation.

Interestingly, the comparison between the naïve estimate of the enclave effect and the estimate that accounts for causation is informative about the extent and direction of residential sorting. The studies on Sweden and Denmark provide clear evidence of “negative” residential sorting, in the sense that immigrants with relatively unfavorable labor market characteristics tend to locate in enclaves to a greater extent [6], [7], [8]. Hence, naïve estimates are downward-biased and this bias seems to be severe. In fact, while living in an enclave appears to be associated with earnings *loss* when sorting is not taken into account, earnings *gains* are found when controlling for negative sorting into enclaves.

### Who wins and who loses?

The studies for Sweden [6] and Denmark [7] that exploit refugee and asylum-seeker placement policies to provide credible causal estimates find evidence that living in an enclave municipality is associated with considerable earnings gains. The study on Sweden suggests that these positive effects exist mainly for the group of low-skilled immigrants, whereas the high-skilled do not significantly benefit (but also do not lose) from living in an enclave, in terms of earnings. For immigrants with fewer than ten years of schooling the authors find that an increase in the enclave size (measured as the share of co-ethnic residents among the local population) by one standard deviation is associated with an earnings gain of around 13%, eight years after immigration. The study on Denmark similarly finds enclave size to be associated with earnings gains. Yet, this effect is found to amount to 18% in annual earnings, seven years after immigration, irrespective of skill levels. This suggests that, in contrast to the Swedish study, there is no indication of differences in the earnings return to living in an enclave across educational groups. None of the studies finds significant gender differences for the enclave size effect on earnings. Results of the Danish study additionally indicate that earnings increase with enclave size, but at a decreasing rate.

These two studies also investigate whether enclave residence affects immigrants' employment rates. The study on Sweden reports zero effects of enclave size on employment (i.e. the probability of having positive earnings). Similarly, the study on Denmark finds no significant association between enclave size and employment rates for the group of low-educated immigrants. However, the group of highly-educated immigrants in Denmark appears to suffer a decrease in employment probability of about 2.1 percentage points for every standard deviation increase in enclave size.

Overall, there are indications that at around seven or eight years after immigration, low-skilled immigrants experience stronger returns to living in an ethnic enclave than the highly-skilled [6], [7]. This is in line with the finding that lower-educated immigrants have a relatively stronger tendency to settle in enclave communities.

## It's enclave quality, not size!

The enclave literature points to the importance of the quality of the ethnic network that immigrants are exposed to in enclaves. In fact, empirical studies show that high-quality enclaves, in terms of income, education, or (self-)employment rates, appear to drive the positive earnings effects [6], [7], [8]. Hence, residing in a relatively low-quality enclave may actually harm labor market outcomes.

By explicitly testing whether there is an independent effect of enclave size independent of enclave quality, a second Danish study, again using the refugee dispersal policy, finds that this is not the case [8]. In fact, when controlling for enclave quality, the effect of enclave size is negligible, both for employment and earnings. On the other hand, the effect of enclave quality (measured as the local co-ethnic employment rate) is positive and statistically significant. Overall, these results suggest that whether the influence of ethnic enclaves is positive or negative depends on the quality of the ethnic network in the enclave.

A study on immigrants in the US finds that the effect of enclave size on both earnings and inactivity varies with the average education levels of ethnic groups [10]. While groups with very low education levels, such as immigrants from Mexico and Central America, suffer negative consequences from living in enclave communities, groups with relatively high education levels benefit. The results further indicate that the turning point of negative to positive enclave effects is at about a group's average education levels, which is between tenth grade and minimal post-secondary education. Thus, living in an enclave where most co-ethnics have post-secondary degrees is beneficial, while living in an enclave where most adults have education below tenth grade, appears to be disadvantageous.

Another study on the UK finds that living in close proximity, i.e. within one hour's travel time, to a large number of employed neighbors of the same ethnicity is positively associated with job-finding rates [11]. Interestingly, this effect is local, i.e. it decays rather rapidly with distance and vanishes beyond about an hour's travel time.

## Short- and long-term effects of enclaves

The Swedish and Danish studies provide further information on the timing of enclave quality effects on immigrant earnings. However, the evidence is mixed. While one of the Danish studies finds constant positive effects over time (the analysis covers two to six years after immigration) [8], the Swedish study, covering two to eight years after immigration, provides suggestive evidence for the enclave quality effects to be cumulative in nature. That is, the latter study finds that the positive effect of living in a high-quality enclave increases with time spent in the host country and begins to take effect after around eight years following immigration [6].

But what about effects in the very short term? Immediately following arrival, enclave size might impede incoming immigrants' job-finding success if the presence of co-ethnics represents competition for jobs, rather than a source of information. A US study uses a similar policy experiment as the Scandinavian studies to estimate the short-term effects of enclave size on job-finding rates of newly-arriving refugees and asylum-seekers [9]. Ninety days following arrival, the employment rate of the recent

immigrants is found to be negatively affected by the number of other recently-arrived immigrants, while the number of co-ethnic immigrants that have arrived for two or more years positively affects their job-finding rates.

### **Ethnic enclaves in Europe and the US**

Does the extent of residential ethnic clustering among immigrants vary across countries? The answer to this question is complicated by two issues in particular. First, there is no consensus on how to measure ethnic concentration. Second, there is a limited availability of relevant data (by immigrant nationality and at geographically disaggregated levels).

Three studies report a comparable measure of local ethnic concentration for immigrant groups in the US, Sweden, and Germany. In particular, they define ethnic enclaves as areas in which the population's share of an ethnic group is higher than the share of that group at the national level. The national share serves as a benchmark since it is the share that one would expect if an ethnic group was uniformly distributed across areas within a country. The US study reports that 48% of US residents with a migration background lived in relatively high-concentration zip code areas in 1979, with significant dispersion across ethnic groups (e.g., 83.8% of Mexicans, 49.6% of Italians, compared to only 25.8% of Greeks) [12]. The Swedish study shows that in 1997, 42% of first-generation, i.e. foreign-born, immigrants resided in ethnic enclaves [6]. Finally, the German study reports that among immigrants from the former Yugoslavia, Italy, and Greece, approximately 40–50% lived in high-concentration counties in 1987, compared to only 21.2% among Turkish immigrants [13].

The overall levels of ethnic clustering among immigrants therefore appear to be strikingly similar in European countries and the US, with around 40–50% of the respective immigrant population living in ethnic enclaves.

### **LIMITATIONS AND GAPS**

Convincing empirical evidence of enclave effects on immigrants' labor market integration is scarce. Existing reliable evidence (which carefully takes endogenous sorting into account) is based predominantly on particular policy experiments concerning refugees and asylum-seekers in selected countries. Yet, countries vary in their immigration policies and the composition of the immigrant populations they attract. Consequently, the results may not be generalizable to other groups of (labor) immigrants and other countries. Some evidence has begun to emerge, but more causal evidence is needed for a wider set of immigrant groups and countries that examines both the impact of enclave size and quality on economic integration.

While theoretical considerations suggest that living in an enclave might be beneficial for rapid labor market integration in the short term and detrimental for economic progression in the long term, empirical studies do not categorically confirm this hypothesis. Rather, there is some evidence for positive earning returns to enclave quality in the relatively long term, over a period of up to eight years after migration. One study even suggests that these positive effects increase over time. It is important to know more about the time pattern of enclave effects, beyond this timeframe and over generations.

Finally, future research should address the question of the complex, underlying mechanisms that link enclave size and/or quality to immigrants' labor market success. Evidence so far is consistent with the idea of information spillovers via local social interactions, with co-ethnics playing an important role. Hence, it is not unreasonable to suspect that word-of-mouth information from (especially successful and highly-educated) co-ethnics would be more efficient in helping newly-arriving immigrants' find a (better) job than formal information channels outside the enclave. Yet, studies that address the residential sorting issue provide only net estimates of the overall enclave effects, without testing particular mechanisms, such as information diffusion among local co-ethnic networks, or the role of enclave economies in providing jobs to newly-arriving immigrants. More evidence is therefore required to reach a conclusive answer on the underlying mechanisms at play.

## SUMMARY AND POLICY ADVICE

Empirical evidence suggests that immigrants benefit from living in neighborhoods with a large number of co-ethnics if the ethnic network is of high quality, i.e. if co-ethnics are well-educated, work in well-paid jobs, and if the employment rate in the ethnic community is high. Hence, labor market integration could improve if newly-arriving economic migrants, refugees, and asylum-seekers would settle in neighborhoods with relatively high average education levels and relatively high employment rates among the co-ethnic population.

Possible policies might include a targeted spatial dispersion of incoming refugees and asylum-seekers across areas according to socio-economic characteristics, such as education levels and employment rates of the resident ethnic populations. With respect to labor migrants, policymakers might consider the feasibility of policies that encourage and incentivize especially the low-skilled immigrants to settle in regions with relatively high employment rates and education levels among co-nationals.

Overall, enclave quality (in terms of levels of income, standards of education, and rates of employment) is more important than enclave size for driving economic success. Policy should therefore focus less on avoiding ethnic "ghettoization" *per se*, but aim to discourage socio-economic residential segregation and instead implement housing policies that promote mixed residential areas in terms of high- and low-skilled workers.

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## Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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### Further reading

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