Neighborhood Effect and Labor Market Integration*

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Preliminary version

Abstract

The 2008 economic crisis raised concerns about unemployment, especially for youths. Over the last decade, two stylized facts can be observed in the French labor market about youth unemployment: its average rate remaining at high levels and its major spatial variations. This paper investigates the impact of neighborhood contexts in getting a job. The identification of these effects from the sorting process requires implementing specific identification strategies. Two complementary approaches are developed in this paper using representative samples of youths leaving the French educational system (*Génération 1998* and *Génération 2004* panel surveys from the Céreq). In both estimation strategies, the positive impact of local employment conditions on job access remains significant suggesting that the labor market context matters to successfully enter the job market. The results from this study can shed light on the employment gap observed between African immigrants and natives' children in France.

Economics

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JEL Classification: R23, J6, J71, Z13

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Introduction

The explosion of youth unemployment in Europe stands among the main lasting consequences of the 2008 financial crisis. Over four years, young people have been the hardest hit by the job crisis and youth unemployment remains at crisis peak levels, becoming a major political issue (International Labor Organization (2012)). Striking high levels of youth unemployment are yet not uncommon in some countries and have even become a feature of some labour market, such as in France. For 40 years, the unemployment rate of men between 15 and 24 years old have been at least twice above the average rate, and remains a constant concern for public agencies. The need to look beyond national average is a lesson that can be learn from this experience. Indeed, youth unemployment varies widely across the country, even at a very local level. The difficulties faced by youth from french deprived suburbs on the labor market are well-known: it is widely accepted that living in housing projects has a negative impact on getting a job. However, the mechanisms explaining how spatial location can affect individual success are much debated. The causal effect of the state of the local labor market on individual labor market outputs is not certain. Social and ethnic segregation suggests that workers may simply sort among neighborhoods.

In this paper, we investigate the link between employment probability of young workers entering the labor market and the state of the local labor market measured from the employment rate. In particular, we try to disentangle the existence of a social equilibrium (Manski (1993), Brock and Durlauf (2001, 2007)) influencing individual behavior from sorting effect. Young workers entering the labor market represent a very small share of individual living in a neighborhood and may not influence the local equilibrium in the labor market. These newcomers to the labor market are however subject to the influence of the local equilibrium. The purpose of the paper is to measure to what extent this influence exists and if this measurement is contaminated by sorting among neighborhoods.

This paper contributes to the existing research by using two different methods of estimation on a specific database to address the problem of self-selection into neighborhoods, the major concern for the identification of local effects. Both based on local employment variations, these methods of estimation are used to investigate the link between the employment situation in the residential area they lived in when they finish school and their employment situation (having a job or not) three years after. Estimations are conducted on representative samples of 60,000 youth leaving the French educational system in 2001 and 2007: the 1998 and 2004 *Génération* surveys collected by Céreq (the French Center for Research on Education and Employment). Focusing on this specific working population group partly prevents the endogeneity of residential location with job location. The location at that time is mainly driven by the choice of education and parents' choice of location, as most of them still live with their parents. Moreover, information about the respondent's residential location at the time he left school were recently added at a precise level giving us the opportunity to work at an infra-municipality level. Finally, the results emphasize the fact that the employment situation of people in the neighborhood has a direct effect on finding a job.

The rest of the paper proceeds as follows. Section 1 presents the estimation strategy. Section 2 describes how the spatial approach of employment variations is applied in practice using the *Génération* databases and additional contextual variables. This summary of the data set provides the various definitions of neighborhoods that are used. Section 3 presents the results of both estimation methods carried out for men living in urban areas. The general finding is that local employment situation matters to enter job market: a one percentage point higher value of the local level of employment would increase the chance of getting a job by 0.22 (second method) to 0.45% (first method). The discussion that follows questioned the interpretation of these results using the employment gap between African immigrants and natives' children as a field of application.

1 Empirical Strategy

We model employment of individual i living in neighborhood $g(i)$ as a binary variable $y_{ig(i)}$ that equals 1 if the individual is employed:

$$y_{ig(i)} = \mathbb{1}_{\{X_i\beta_1 + Y_{.g(i)}\beta_2 + Z_{.g(i)}\beta_3 + \varepsilon_{ig(i)} > 0\}}$$

where X_i is a vector of individual observable characteristics, $Y_{.g(i)}$ is the local employment indicator and $Z_{.g(i)}$ is a vector of characteristics of the neighborhood.

We consider endogeneity of the social interaction effect when $Y_{.g(i)}$ is correlated to $\varepsilon_{ig(i)}$. The existence of endogeneity is natural if there exists sorting on unobserved heterogeneity in the location choice process. To correct for this problem of endogeneity, we propose two distinct strategies of identification. First, we find exogenous variation to explain the endogenous variable $Y_{.g(i)}$ following Evans, Oates, and Schwab (1992). The second strategy of identification consists in considering that agents choose a neighborhood but may be randomly allocated within the neighborhood as in Bayer, Ross, and Topa (2008). Several definitions of neighborhoods are used, each with enough people so that each agent could ignore the effect of his own choice on the average choice level calculated from the census.[1]

1.1 Instruments for the level of employment in the neighborhood

Evans, Oates, and Schwab (1992) use a specific framework to explore the link between teenage behaviors and school composition. Given that teenagers or parents may choose their high-school according to this criteria, they use city level variables to instrument the composition of the school. The motivation for these instruments is that families are not mobile between cities and are constrained to choose a school within a city, thus city characteristics may affect school composition,

[1] For a discussion about equilibrium properties and its uniqueness, see Tamer (2003) and Soetevent and Kooreman (2007).

but may not directly impact teenage behaviors. The correction of the estimates by the instrumental variables method reduces the impact of school composition on teenage behaviors. It suggests that what was seen as an endogenous social effect is partly due to the teenagers similarity in terms of unobservable heterogeneity: self-selection remains an important issue when taking into account social interactions. In the case of employment, estimations using epidemiological spatial models by Topa (2001) and Conley and Topa (2007) also show that there exists an important dependance between close neighborhoods. A similar instrumental variables strategy can be used if we assume that an individual is directly affected by the employment rate in his neighborhood, but that rates in other neighborhoods do not directly affect his employment outcome.

We first model the contextual variable $Y_{.g(i)}$ as a function of close neighborhoods, $g'(i)$, outputs: $Y_{.g(i)} = f(Y_{.g'(i)}, v_g)$. Works by Topa (2001) and Conley and Topa (2007) previously mentioned, show that the rank condition is likely to be satisfied. Adjacent areas share a common structure in terms of labor markets that implies an important correlation between employment rates. The exogeneity of instruments is verified if individuals living in a given neighborhood are not directly affected by the context of other neighborhoods. In terms of social interactions, this assumption holds if individuals' ties are randomly distributed among other neighborhoods. Although it is not possible to verify this assumption, we check that the results are robust when using different distance and size of neighborhoods: individuals are less likely to be directly affected by further away neighborhoods.

Estimation is achieved using usual maximum likelihood and two stage methods for the Probit model with endogenous covariates. The first stage is given by :

$$Y_{.g(i)} = X_i\gamma_1 + Z_{.g(i)}\gamma_2 + Y_{.g'(i)}\gamma_3 + v_{g(i)}$$

1.2 Random assignment within the neighborhood

In a second strategy of identification, we make the assumption that individuals choose neighborhood where to live but that the precise block where they end up living is randomly assigned within this area. Bayer, Ross, and Topa (2008) use this assumption taking block assignments as random within a given neighborhood. This assumption allows to estimate the impact of neighborhood characteristics if we observe sufficient variation in block characteristics within neighborhood.

The assumption is sustained by the fact that individuals are likely to choose to live in a given neighborhood but that their final location is subject to random events such as the availability of empty accommodations at the moment they are looking for a place to live.

We denote by ℓ_g the neighborhood chosen by the individual. Within this neighborhood, we distinguish smaller locations g and the final location where individual i lives is denoted by $g(i)$. Then individual outputs of the initial specification can be rewritten as :

$$y_{ig(i)} = \mathbb{1}_{\{X_i\beta_1 + Y_{.g(i)}\beta_2 + Z_{g(i)}\beta_3 + \varepsilon_{ig(i)} > 0\}}$$

where the residual $\varepsilon_{ig(i)}$ can be decomposed to take into account for the potential sorting process among neighborhoods:

$$\varepsilon_{ig(i)} = \alpha_{\ell_g} + u_{ig(i)}$$

where we assume $u_{ig(i)}$ independent of covariates.

The estimation of this specification is achieved by assuming that $u_{ig(i)}$ are type I extreme values with Gumbel distribution. This particular distribution allows to differentiate out the fixed effects α_{ℓ_g} without affecting estimations. The model used is then a logit model.

2 Data

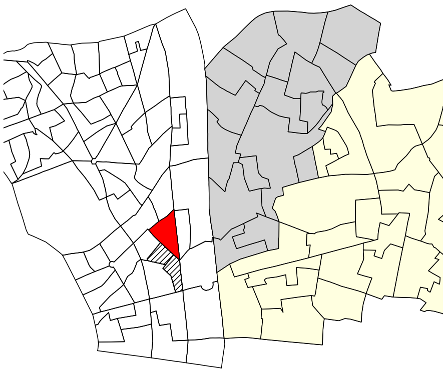
2.1 *Génération* surveys

To estimate the model, we used data from the *Génération* surveys collected by Céreq (the French Center for Research on Education and Employment). These surveys are representative samples of young people who leave the French educational system for the first time in a given year. These young people are interviewed three years after they leave school. In addition to the information relative to their labor market situation, the *Génération* surveys include many respondent's characteristics: family's socioeconomic status, age, education, household situation, parents' place of birth and nationality at birth, etc. We use the surveys conducted in 2001 and 2007 on the 1998 and 2004 cohorts in which geolocation data have been recently added.

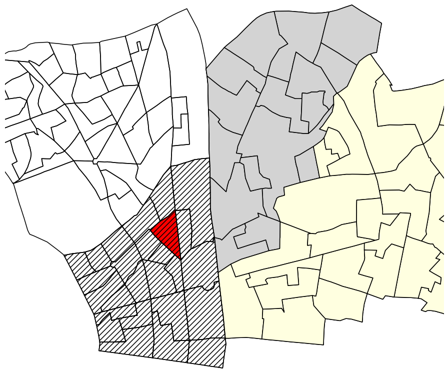
In both surveys, the respondent's infra-municipality residential location at the time he left school is provided: location is known at the census statistical block groups (*IRIS*) level. These small geographic areas are used by the French national institute of statistics (INSEE) for the dissemination of local data, especially within the almost 1,900 urbanized municipalities with more than 5,000 inhabitants[2]. Their target size is 2,000 inhabitants and their actual population generally falls between 1,800 and 5,000. Each *IRIS* unit is defined to be *"homogeneous in terms of living environment and the boundaries of the unit are based on the major dividing lines provided by the urban fabric (main roads, railways, bodies of water etc.)"*[3]. Including *IRIS* units in the municipality framework, the number of delineated areas in metropolitan France increases from 36,000 to almost 50,000. We will refer to *IRIS* as *Block Groups (BG)*. The residential location of an individual will refer to the *BG* he lives in as it is the smallest delineated area.

Larger areas aggregating *Block Groups (BG)* can also be used within municipalities. *TRIRIS* are the next level above *BG* in the geographic hierarchy: each *TRIRIS* is a combination of *BG* (in general three *IRIS*). *Large Districts* (*"Grands quartiers"*) are a level even above clustering *TRIRIS*. Like IRIS, both are defined so that each delineated unit is homogenous. We will refer to these two types of within municipality areas as *Large BG* and *Larger BG*. By default, analysis is restricted to areas delineated in *BG* excluding rural municipalities with less than 5,000 inhabitants.

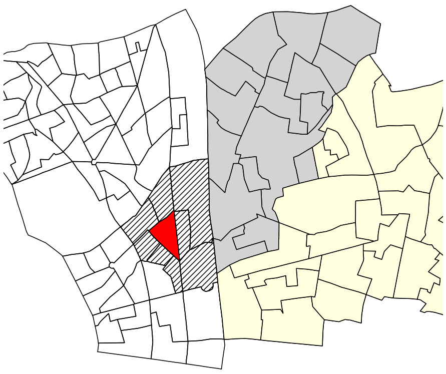
[2] *IRIS* are delineated in all municipalities with more than 10,000 inhabitants and in most with more than 5,000.
[3] http://www.insee.fr/en/methodes/default.asp?page=definitions/iris.htm



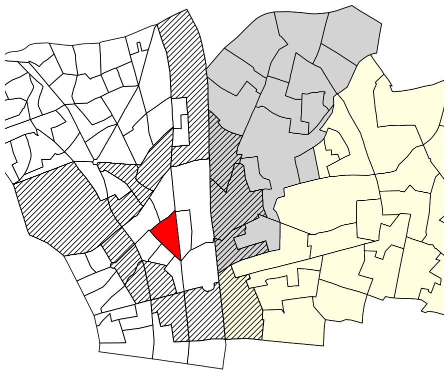
(a) *Large BG*



(b) *Larger BG*



(c) First surrounding belt (N1)



(d) Second surrounding belt (N2)

Figure 1: Alternative definitions of neighborhoods: Block Groups (BG), cluster BG and surrounding belts.

Figure 1 gives an illustration of these perimeters. On these maps, all nuclear divisions refer to *Block Groups (BG)*. Consider an individual located in the *BG* represented in red.[4] On Figure 1a, the dashed area corresponds to the *Large BG* where he lives while the dashed area on Figure 1b corresponds to his *Larger BG*. The area of the municipality he belongs to (Paris in this example) is also partially represented by the white area surrounding the delineations previously mentioned, by opposition to the grey and yellow tint areas[5] belonging to other municipalities (respectively Bagnolet and Montreuil).

[4]Shaded area for black and white copies.
[5]East-half darker areas for black and white copies.

2.2 Contextual variables

Contextual variables are matched to the survey through the *BG*. We import data from several sources of information. By default, local employment rates are taken from the 1999 exhaustive census for the 1999 cohort and from the 2006 census[6] for the 2004 cohort. Census also provide information on the neighborhood social composition at the *BG* level (number of blue collar workers, immigrants, single-mother families...). The first "Permanent database of facilities" (BPE)[7] is used to get detailed information about facilities and services existing in each *BG*.[8] It provides information about the diversity and quantity of various facilities in the immediate surroundings. We know if there are any police stations, general practitioners, pharmacies, child care services, hairdressers, professional builders / repairs, post offices, banks, local retailers (such as backer, butcher and grocer shops, newspaper stores...), shopping centers, sport facilities (indoor/outdoor), cinema... Contextual variables calculated from the 2006 census are also added giving information about the type of housing (public housing ratio, the single-detached dwellings ratio), the homeownership status, residents turnover (proportion of residents in the block since at least 5 years / arrived during the two last years), transport mode (car owner ratio, public transportation ratio) and the social composition of the block (ratio executive/white and blue collar, proportion of people without diploma, one parent family ratio, immigrant-to-population ratio). Available for each *BG*, all this information can also be gathered at any cluster level such as *Large BG* and *Larger BG*.

2.2.1 Distance between areas and surrounding belts of instrumentation

For each individual, the neighborhood where he lives in when he left school is denoted as $g(i)$. As in Topa (2001), we consider the distance $d(g, g')$ between two neighborhoods g and g' as the minimum number of frontiers an individual has to cross to go from g to g'. For individual i we denote by $g_{N1}(i)$ the set of neighborhoods such that $g_{N1}(i) = \{g : d(g(i), g) = 1\}$. It is the area of the *BG* that immediately encircle the *BG* of residence. They delimit a first surrounding belt. More generally, we define $g_{Nk}(i) = \{g : d(g(i), g) = k\}$ as the k^{th} surrounding belt. Back to Figure 1, for individual i situated in the red *BG*, $g_{N1}(i)$ corresponds to the dashed area on Figure 1c and $g_{N2}(i)$ corresponds to the dashed area on Figure 1d. Then, the covariate that gives the employment rate in the area of residence is denoted by $y_{.g(i)}$, and instruments, that is the employment rate in other locations, are denoted by $y_{.g_{N1}(i)}$ and $y_{.g_{N2}(i)}$.

2.2.2 Nested neighborhoods and exogenous location

For the second strategy of identification, we consider *Large BG*, *Larger BG* and even municipalities as potential neighborhoods chosen by the individual and thus as perimeters on which sorting may play an important role. Within these neighborhoods, we use the variation from one *BG* to another

[6]Based on the 2004-2008 Permanent census survey.

[7]A detailed description of this 2007 database is given at http://www.insee.fr/en/methodes/default.asp?page=sources/ope-adm-bpe.htm

[8]The "Municipalities Inventories 1998" fits better in terms of the time of data collection but brings no information about infra-municipalities variations. We assume that despite a 8-year distance, these contextual variables can be used as indicators.

in order to identify the effect of local neighborhood characteristics. Focusing on the previous maps (Figures 1a and 1b), we will then assume that an individual chose to live in the dashed area but that his location in a specific BG within this area is random.

2.3 Data overview

2.3.1 Characteristics of the selected sample

This study is devoted to identify local social effects in finding a job. For that purpose, we choose to disentangle this specific effect from the correlation existing between an individual's location of residence when he finishes school and his employment situation three years after. For more homogeneity in the type of residential areas and to be able to use various homogenous definition of neighborhood, estimation are conducted on areas delineated in BG, excluding municipalities less than 5,000 inhabitants. Youth living outside Metropolitan France just before high school are also excluded to prevent education variables to be affected by a primary education in a foreign country. To ensure the results are not driven by extreme values, the distribution of youth according to their BG employment ratio is truncated at 1st and 99th percentile. Table 1 includes tabulated data for both this selected sample and the whole survey sample, the size of the subsample being slightly above half of sample.

The positive correlation between the level of employment where an individual lived when he finished school and his employment situation three years after can be observed Figure 2. BG ratio of employment for 15-64 year olds are calculated from the 1999 census for the 1998 cohort and from the 2006 census for the 2004 cohort. The proportion of youths having a job increases with the levels of employment in their BG of residence when they finished school. Spatial sorting might explain such a relation even if the sample partly prevent from the direct effect of job location on residential location. The location of youths finishing school is mainly driven by an education choice and parents' choice of location, as most of them still live with their parents when they finished school: three quarters of men are in such a situation (see Table 1). But as educational achievement is linked with family background, residential sorting affecting parents may cause an educational sorting of their children. That could explain the positive relation between the local level of employment and the probability of finding a job three years after. However, the positive correlation can still be observed for subsamples having the same level of education (Figure 2), even if this relation is stronger for the less educated youths.[9] The purpose of the next parts of the paper is to carry on and check if such a correlation still exists after controlling for other individual characteristics, local amenities and potential endogeneity.

2.3.2 Individual characteristics control variables

Several individual characteristics are used as control variables in the following analysis. The level of education is controlled by making a distinction between six levels of education. Respondents

[9] A similar correlation can be observed using employment ratios for 15-64 year olds see in Appendix Figure 3a.

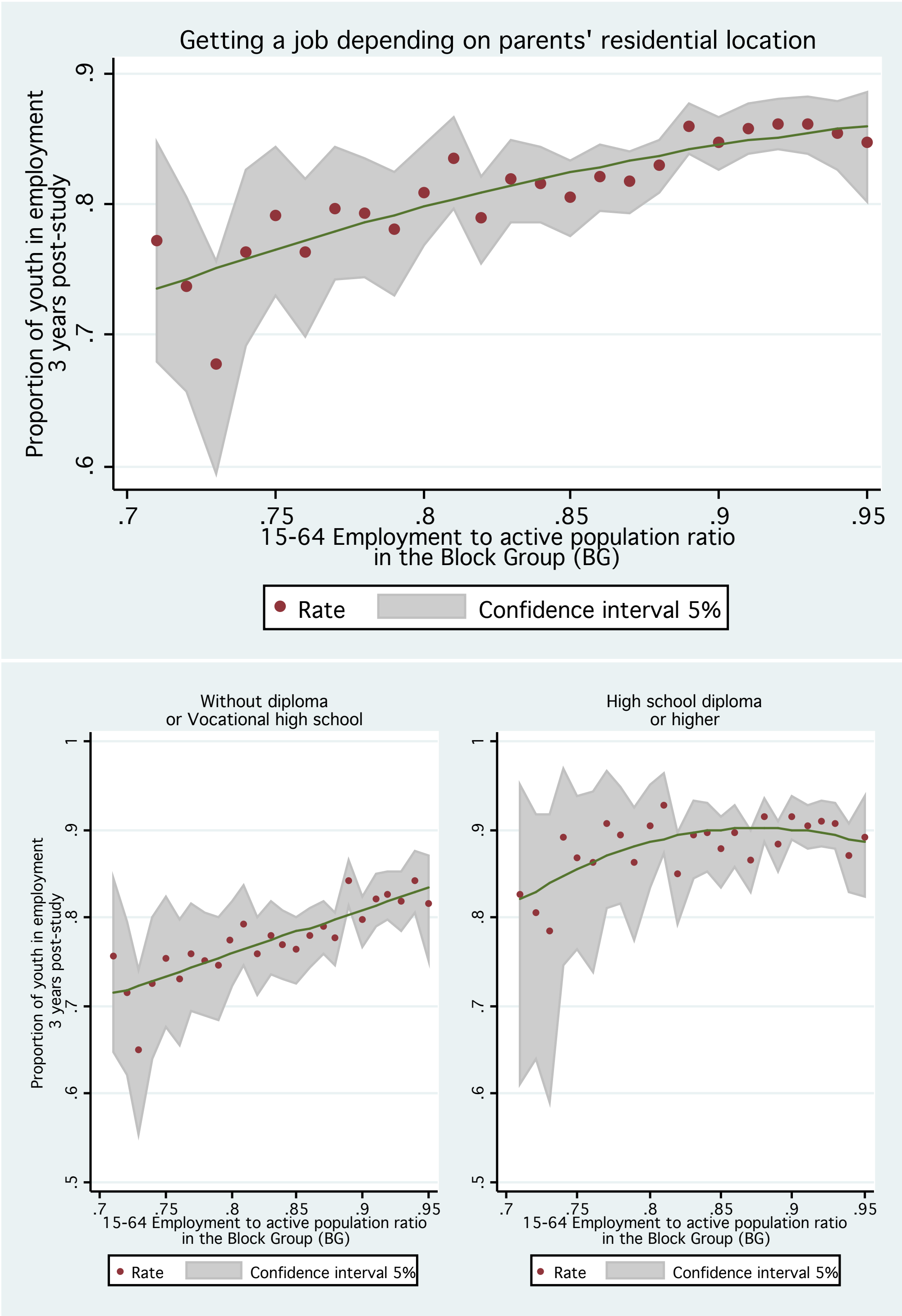


Figure 2: Level of employment where an individual lived when he finished school and his employment situation three years after

	Studied Sample		Whole population	
	Men	Women	Men	Women
Employed (%)	84.1	81.7	85.4	82.7
Mean age (end of education)	21.9	22.6	21.3	22.3
Education (%)				
Repeating a year before high-school	21.8	13.7	22.9	13.7
No diploma	18	8.8	18.3	8.4
Vocational high-school	19.6	9.2	24.3	11.1
General high-school	19.8	20.9	21.6	23
Higher vocational	12.6	22.3	13	26.2
College	12	22.8	9.2	18.8
Graduate	18	16	13.6	12.5
Socio-economic status of parents (%)				
Blue/white-collar	51.8	50.2	53	51.6
Intermediate	10	9.7	9.9	9.4
Executive	25.9	27.3	21.9	23.4
Craftsman	12.3	12.9	15.1	15.6
Parents' occupation				
Two working parents	54.9	56	58.3	59.5
One working parent	27.8	27.3	26.3	25.5
Never work/unknown parent	17.3	16.7	15.4	15.1
Parents' foreign origin				
Immigrant parent	17.2	14.8	12.8	11.1
incl.: from African c.	8.6	7.6	5.8	5.3
Rapat/Expat parent	5.3	6.6	4.2	5
incl. from Maghreb	3.9	5.1	2.9	3.7
Household (%)				
Parental home	70.3	58.5	74.3	60.7
Living in couple	14.5	24.8	11.8	24
Single	15.2	16.7	13.9	15.4
Having children	9.2	17.5	7.6	17.1
Past residential immobility				
Same municipality	87.1	84.5	89.9	87.5
Immobility duration (years)	9	9.5	8.8	9.6
Generation 2004 (%)	27.1	24.1	34.4	30.1
Delineated in *BG*	100	100	55.4	58.8
N	16 695	16 236	31270	29 073

Table 1: Characteristics of youth finishing school in 1998 and 2004

having repeated a class before high school are also identified and their age at the end of education is introduced (according to the level of education they have attained). Characteristics of the parents are also taken into account. Their foreign origin is used to make a distinction between three groups: individuals having two parents born in France, individuals having at least one immigrant parent[10], individuals having at least one parent born in a foreign country with the French nationality.[11] Socio-economic status of parents is taken into account by making a distinction between a reference group having blue/white-collar parents and three other groups for youths with at least one of their parent occupation being intermediate, executive or craftsman. The occupation status of the parents is ranking from the case of two working parents to the case of parents who never worked (or are unknown) including cases of one working parent and of one parents who never work. When they left school, individual can live with their parents or on their own either as a single or a couple. A dummy variable indicates if respondents became a parent during the first three years after leaving school. Past residential mobility during education is also computed. We can know if individuals were in the same municipality when they began high school and when they left school (and the duration of this likely residential immobility, which correspond to youths who had not left their parents' home). As we use both *Génération* surveys from 1998 and 2004, a dummy variable for the 2004 cohort respondents is added. Descriptive statistics for all these variables are provided Table 1.

2.3.3 Neighborhood characteristics

The local situation of employment is introduced through various employment ratios such as the 15-24 or 15-64 employment-to-active population ratio. Other ratios are also used, calculated with other denominators (such as employment-to-population ratio).

The other contextual characteristics are summed-up into four variables using principal component analysis and multiple correspondence analysis. As contextual variables are highly correlated, this strategy enables us to reduce the dimensionality of data while maintaining enough information to control for most of the neighborhood characteristics. We use two different types of projections as variables coming from each source (Census and "Permanent database of facilities" (BPE)) are quite different. 11 rates from the census give information about the type of housing and neighbors whereas 17 dummies from the "Permanent database of facilities" (BPE) indicate the existence of various services and facilities in the neighborhood. The three first axes of the principal component analysis account for three-quarters of the total variance. The first axe splits BG according to the type of housing (high rate of public housing in the positive part versus high rate of single-detached dwelling owners in the negative part). The social composition of the BG is projected on the second axis: areas with high proportions of executives and newcomers (in the block since for less than 2 years) are on the negative part whereas areas with the highest levels of immobile residents (in the block since at least 5 years) without any diploma are on the positive part. The positive part of

[10] An additional distinction in made for immigrants from African countries.

[11] With a specific distinction for those born in Maghreb, the former French settlement colonies.

the third axis mainly distinguishes areas where residents are mainly immobile, executives and use public transportation. Residential areas are also sorted in descending order of local services and facilities on the first dimension of the multiple correspondence analysis. It accounts for almost 90% of the inertia.

3 Results

3.1 Estimation framework

In the following estimation approaches, we estimate local effects on entering the job market. Employment situation is defined as being or not in employment at the time of the survey three years after leaving school. Estimations are conducted on urban municipalities delineated in statistical *Block Groups (BG)*. Various employment ratios are used as indicators of the employment situation in the neighborhood such as employment-to-active population ratios (Empl/act) and employment-to-population ratios (Empl/pop). They are calculated for different age groups and on larger or smaller neighborhood areas. The other characteristics of the *BG* of residence are taken into account through their projection on the three axes.

The two approaches do not share exactly the same spatial support, the second excluding some observations used in the first one. In the second approach, fixed effects take into account the characteristics of the neighborhood including the level of employment. Within each BG cluster (such as *Large BG* and *Larger BG*), variations of these local characteristics are measured as in the first approach. A necessary condition for estimation is that all surveyed inhabitants living in a given neighborhood (BG cluster) do not have similar outcomes, otherwise local fixed effect cannot be estimated. Thus, the spatial support will be limited to large and various neighborhoods where at least two surveyed youth with different outcomes (in employment or not) can be observed.

3.2 Instruments for the level of employment in the surrounding areas

The *BG* 15-24 employment-to-active population ratio is instrumented by different indicators of employment conditions in various surrounding areas. We first use the average employment situation in abutted *BG*. This first *BG* belt called N1 (also defined previously as a $g_1(i)$ area type) immediately surrounds the given *BG*. Estimations using the second belt (the abutted *BG* of the first belt) are also conducted (Table 2). Larger belts clustering surrounding *Large BG* and *Larger BG* (rather than simple *BG*) are also used to test the robustness of the results to spatial change. Table 2 and 4 show the impact of the employment rate in the employment equations using these various instruments. From a general point of view, all estimates are slightly higher than one and significantly different from 0. The use of instruments tends to increase the value of the coefficients in comparison with the value of the coefficient obtained without instrumenting.

The results are robust to the choice of instrument. In Table 2, we can observe that the results do not change much when we choose distant neighborhoods (ie the second belt N2 rather than the

Table 2: Men employment probit and IV probit 1: estimated coefficients of the neighborhood employment ratio

Employment	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	1.0120***	1.7837***	1.9307***	1.8672***	2.0674***
	(0.1439)	(0.2707)	(0.2774)	(0.3202)	(0.3446)
15-24 Empl/act IV Probit 1^{st} stage		OLS	OLS	OLS	OLS
15-24 Empl/act N1		0.6250***			
		(0.0109)			
15-24 Empl/act N2			0.6506***		
			(0.0124)		
15-64 Empl/act N1				0.8219***	
				(0.0203)	
15-64 Empl/act N2					0.7924***
					(0.0225)
N	16 610	16 610	16 610	16 610	16 610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 3: Men employment probit and IV probit 1: marginal effects of the neighborhood employment ratio

Employment	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	0.2442***	0.4314***	0.4673***	0.4518***	0.5009***
	(0.0347)	(0.0661)	(0.0680)	(0.0785)	(0.0848)
N	16 610	16 610	16 610	16 610	16 610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*

first belt N1) to instrument the local employment indicator. From the last two columns of Table 4, we can see that our results are robust when using larger areas (ie *Large BG* and *Larger BG* rather than *BG*) to create our instrument. Finally, we can observe in both tables that the results do not depend on the choice of the instrument in terms of age: whether we use the employment rate for individuals aged between 15 and 24 or for individuals aged between 15 and 64 does not have a significant impact on the results.[12]

Corresponding marginal effects of the *BG* 15-24 employment-to-active population ratio (with and without instrumenting) are computed Table 3 and Table 5. The estimated elasticity of the chance of getting a job with respect to the local 15-24 Empl/act rate is ranged from 0.24 (before correction) to 0.45. It means that a 1 point of percentage higher level of *BG* employment ratio would be associated with an increase in the chance of getting a job by one-quarter to one-half of a percent.

[12]Using *BG* employment rate from 1999 even for the 2004 cohort do not change the result (see in Appendix Table 8 and the followings): the *BG* 15-24 employment-to-active population ratio has still an impact on employment.

Table 4: Men employment probit and IV probit 2: estimated coefficients of the neighborhood employment ratio

Employment	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	1.0120***	1.5872***	1.5171***	1.7036***	1.7040***
	(0.1439)	(0.2263)	(0.2323)	(0.2863)	(0.2938)
15-24 Empl/act IV Probit 1^{st} stage		OLS	OLS	OLS	OLS
15-24 Empl/act *Large BG* N1		0.8004***			
		(0.0103)			
15-24 Empl/act *Larger BG* N1			0.7823***		
			(0.0105)		
15-64 Empl/act *Large BG* N1				0.9809***	
				(0.0206)	
15-64 Empl/act *Larger BG* N1					0.9481***
					(0.0210)
N	16 610	16 610	16 610	16 610	16 610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 5: Men employment probit and IV probit 2: marginal effects of the neighborhood employment ratio

	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	0.2442***	0.3835***	0.3665***	0.4119***	0.4120***
	(0.0347)	(0.0551)	(0.0564)	(0.0699)	(0.0717)
N	16 610	16 610	16 610	16 610	16 610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*

3.3 Nested neighborhood, fixed effects and within exogenous variations of local employment situation

In the second estimation strategy, neighborhood (cluster *BG*) characteristics are controlled using fixed effects. By default, neighborhood is the *Larger BG* but estimations are also computed using smaller *Large BG* and larger *Municipality* neighborhood areas.[13] Employment variations within the neighborhood are assumed to be exogenous. Other variations in social composition and amenities within the neighborhood are controlled for using the projections of these characteristics on their three principal components and are assumed to be exogenous too.

Local variations of the 15-24 Employment-to-active population ratio within *BG* each neighborhood still have a significant impact on employment (Table 6). The chance of having a job rather than being unemployed are supposed to be from 3 to almost 5 times higher in a *BG* without any unemployed people rather than one without any employed people.[14] In other terms, for a one-unit increase in the very local ratio[15], we would expect to see an increase in the odds of being employed ranging from 1.1% to 1.6% . Marginal effects can be calculated at the mean value of the ratio in the model with no fixed effects (Table 7). A 1 percentage point increases in the *BG* employment ratio would induce a 0.22% increase of the chance of getting a job.

Table 6: Effect of Intra-*Larger BG* variation of employment: Men employment logit

Employment	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)
15-24 Empl/act	1.1110***		
	(0.4185)		
15-24 Empl/pop		1.1440**	
		(0.5251)	
15-64 Empl/act			1.5816*
			(0.8278)
N	10,960	10,960	10,960

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

[13] See Appendix from Table 13 to Table 16.

[14] Table 6 values are also the expected change in log odds with an employment ratio are ranged from 0 to 1. Odd ratio are obtained taking their exponential value.

[15] For one percentage point increase in this ratio, coefficients in Table 6 are divided by 100.

Table 7: Marginal effect of Intra-*Larger BG* variation of employment (FE=0): Men employment logit

Employment	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)
15-24 Empl/act	0.2257***		
	(0.0569)		
15-24 Empl/pop		0.2790**	
		(0.1240)	
15-64 Empl/act			0.2353***
			(0.0268)
N	10,960	10,960	10,960

*Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq). Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

3.4 Discussion

3.4.1 Interpretation of the results

Estimates from both methods show that the chance for a youth to get a job depends on his neighborhood employment level, especially the 15-24 employment-to-active population ratio. A one percentage point higher value of the local level of employment would increase the chance of getting a job by 0.22 (second method) to 0.45% (first method).

We use a quite agnostic empirical approach of the neighborhood. Focusing on *BG* delineated areas give us the opportunity to define neighborhood areas depending on few homogenous blocks rather than on larger administrative boundaries. Moreover, this detailed delineation of the location also enables us to use various definition of neighborhood by gathering more or less extended nearby areas.

No matter what specific definition of the neighborhood is chosen, estimates highlight a significant effect of neighbors employment situation on the chance of getting a job. The effect remains significant even after controlling by two different methods for potential endogeneity of local employment levels. Further analysis show that this effect can be affected by some individual characteristics. Indeed, crossed effect of employment rate and some variables vary between modalities. For example, the level of employment in the *BG* has a stronger additional impact on youths without diploma (see in Appendix Table 20). But most of these crossed effects remained non significant at the 10% level.

3.4.2 A field of application: the employment gap between African immigrants and natives' children

One field of application of our results is in studies investigating the factors that can explain the employment gap observed between African immigrants and natives' children. Studies on the French labour market reveal major disparities among workers according to their parents' country of origin. Descendants of immigrants born and raised in France, especially of African origin, have on average lower employment rates than descendants of natives. Three years after finishing school, only 68.4% of African immigrants' sons have a job compared to 84.5% of natives' sons. If youths are influenced by the behavior of their neighbors in getting a job, the fact that African immigrants' descendants tend more often to live in deprived urban areas could partly explain their difficulties in entering the job market. Living in neighborhoods with a higher level of unemployment reduces their chance to get a job. From a simple back-of-the-envelop calculation[16], the neighborhood effect would explain 7 to 16% of the total gap.

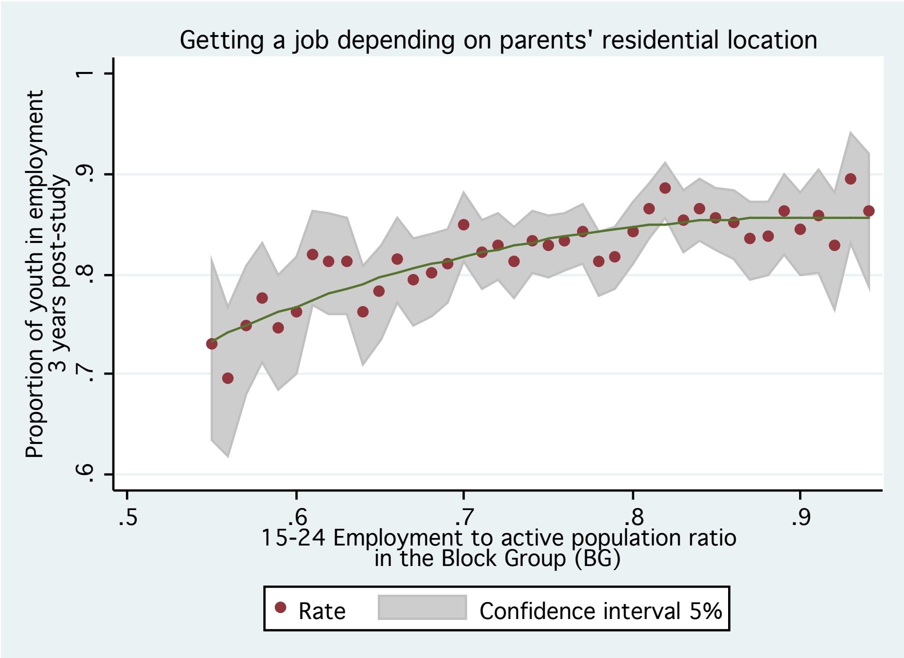
4 Conclusion

This paper is devoted to studying the effect of local employment on entering the job market. We test the hypothesis that young workers are subjected to the social employment equilibrium of their neighborhood. Two estimation strategies are used to disentangle this local effect from local residential sorting. The first one uses surrounding employment conditions to instrument for the neighborhood's level of employment. The second one relies on the assumption of random assignment within the neighborhood. Estimates from both strategies suggest that the local employment situation does matter to enter the job market. Such a process may partly explain the large average employment gap observed between African immigrants' descendants and natives' descendants. Indeed, African immigrants' descendants live on average in more deprived area. This result does not provide a clear channel that policy makers can use to improve job access. However, it can give some clues for further investigations on the local effect of subsidized jobs or on spatially targeted employment policies.

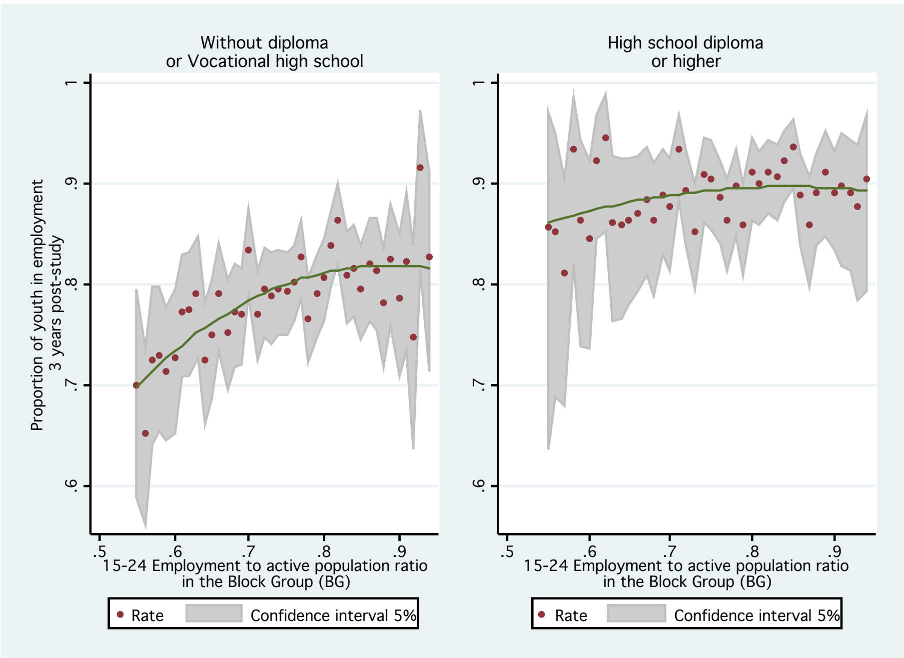
[16]When they left school, African immigrants' sons live on average in BG with lower level of employment (69% vs 75%). According to the first estimate method, a 6 point gap would explain a 1.3 to 3% lower level of employment difference.

A Appendix

A.1 Descriptive statistics



(a) *All men*



(b) *By level of education*

Figure 3: Level of employment where an individual lived when he finished school and his employment situation three years after

A.2 Instrumental approach

A.2.1 Using employment level in 1999 (for all)

Table 8: Men employment probit and IV probit: estimated coefficients of the neighborhood employment ratio in 1999

Employment	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	1.1269***	1.5815***	1.6336***	1.6648***	1.8942***
	(0.1420)	(0.2394)	(0.2490)	(0.2813)	(0.3034)
15-24 Empl/act IV Probit 1^{st} stage		OLS	OLS	OLS	OLS
15-24 Empl/act N1		0.6787***			
		(0.0113)			
15-24 Empl/act N2			0.6961***		
			(0.0127)		
15-64 Empl/act N1				0.8886***	
				(0.0206)	
15-64 Empl/act N2					0.8554***
					(0.0228)
N	16,610	16,610	16,610	16,610	16,610

*Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq). Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 9: Men employment probit and IV probit: marginal effects of the neighborhood employment ratio in 1999

Employment	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	0.2717***	0.3816***	0.3942***	0.4018***	0.4576***
	(0.0343)	(0.0581)	(0.0605)	(0.0684)	(0.0741)
N	16,610	16,610	16,610	16,610	16,610

*Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq). Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*

Table 10: Men employment probit and IV probit: estimated coefficients of the neighborhood employment ratio in 1999

Employment	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	1.1269***	1.4865***	1.4310***	1.6077***	1.6074***
	(0.1420)	(0.2071)	(0.2116)	(0.2550)	(0.2619)
15-24 Empl/act IV Probit 1^{st} stage		OLS	OLS	OLS	OLS
15-24 Empl/act triris N1		0.8321***			
		(0.0105)			
15-24 Empl/act gquart N1			0.8153***		
			(0.0108)		
15-64 Empl/act triris N1				1.0390***	
				(0.0209)	
15-64 Empl/act gquart N1					1.0067***
					(0.0213)
N	16,610	16,610	16,610	16,610	16,610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 11: Men employment probit and IV probit: marginal effects of the neighborhood employment ratio in 1999

	Probit	IV Probit	IV Probit	IV Probit	IV Probit
T1524_iris_N0_99	0.2717***	0.3586***	0.3451***	0.3879***	0.3878***
	(0.0343)	(0.0502)	(0.0513)	(0.0620)	(0.0636)
N	16,610	16,610	16,610	16,610	16,610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*

A.2.2 Alternative output: permanent contract

Table 12: Men permanent work contract probit and IV probit: estimated coefficients of the neighborhood employment ratio (*Block Group* level)

Permanent contract	Probit	IV Probit	IV Probit	IV Probit	IV Probit
15-24 Empl/act	1.1619***	2.0323***	1.9687***	2.4142***	2.1941***
	(0.1231)	(0.2292)	(0.2383)	(0.2725)	(0.3005)
15-24 Empl/act IV Probit 1^{st} stage		OLS	OLS	OLS	OLS
15-24 Empl/act N1		0.6250***			
		(0.0109)			
15-24 Empl/act N2			0.6506***		
			(0.0124)		
15-64 Empl/act N1				0.8219***	
				(0.0203)	
15-64 Empl/act N2					0.7924***
					(0.0225)
N	16,610	16,610	16,610	16,610	16,610

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

A.3 Nested neighborhood

A.3.1 Intra-Municipality and *Large BG* variation of employment

Table 13: Effect of Intra-Municipality variation of employment: Men employment logit

Employment	Logit (Mun. FE)	Logit (Mun. FE)	Logit (Mun. FE)
15-24 Empl/act	0.9348***		
	(0.3540)		
15-24 Empl/pop		0.6070	
		(0.4255)	
15-64 Empl/act			1.5989**
			(0.6667)
N	13,655	13,655	13,655

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 14: Marginal effect of Intra-Municipality variation of employment (for FE=0): Men employment logit

Employment	Logit (Mun. FE)	Logit (Mun. FE)	Logit (Mun. FE)
15-24 Empl/act	0.2018***		
	(0.0582)		
15-24 Empl/pop		0.1504	
		(0.1043)	
15-64 Empl/act			0.2377***
			(0.0227)
N	13,655	13,655	13,655

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 15: Effect of Intra-*Large BG* variation of employment: Men employment logit

Employment	Logit (*Large BG* FE)	Logit (*Large BG* FE)	Logit (*Large BG* FE)
15-24 Empl/act	1.1572**		
	(0.4497)		
15-24 Empl/pop		0.8781	
		(0.5683)	
15-64 Empl/act			1.3918
			(0.9435)
N	9,538	9,538	9,538

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 16: Marginal effect of Intra-*Large BG* variation of employment (FE=0): Men employment logit

Employment	Logit (*Large BG* FE)	Logit (*Large BG* FE)	Logit (*Large BG* FE)
15-24 Empl/act	0.2446***		
	(0.0653)		
15-24 Empl/pop		0.2184	
		(0.1397)	
15-64 Empl/act			0.2471***
			(0.0605)
N	9,538	9,538	9,538

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

A.3.2 Using employment level in 1999 (for all)

Table 17: Effect of Intra-Municipality variation of employment (1999 rates): Men employment logit

Employment	Logit (Mun. FE)	Logit (Mun. FE)	Logit (Mun. FE)
15-24 Empl/act	1.1490***		
	(0.3878)		
15-24 Empl/pop		0.7220	
		(0.5465)	
15-64 Empl/act			1.9178***
			(0.6462)
N	13,655	13,655	13,655

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 18: Effect of Intra-*Larger BG* variation of employment (1999 rates): Men employment logit

Employment	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)
15-24 Empl/act	1.4759***		
	(0.4797)		
15-24 Empl/pop		1.1608	
		(0.7310)	
15-64 Empl/act			2.0906**
			(0.8778)
N	10,960	10,960	10,960

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

Table 19: Effect of Intra-*Large BG* variation of employment (1999 rates): Men employment logit

Employment	Logit (*Large BG* FE)	Logit (*Large BG* FE)	Logit (*Large BG* FE)
15-24 Empl/act	1.6109***		
	(0.5449)		
15-24 Empl/pop		0.8148	
		(0.7814)	
15-64 Empl/act			1.7716*
			(0.9853)
N	9,536	9,536	9,538

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

A.3.3 Crossed effect of employment ratio and each level of education

Table 20: Effect of Intra-*Larger BG* variation of employment: Men employment logit

Employment	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)	Logit (*Larger BG* FE)
15-24 Empl/act	1.3440**		
	(0.5450)		
*Voc. h. school	-0.1245		
	(0.6443)		
*Gen. h. school	-0.3476		
	(0.6192)		
*Higher vocational	-1.0576		
	(0.8542)		
*College	-0.1618		
	(0.8288)		
*Graduate	-0.2933		
	(0.9643)		
15-24 Empl/pop		1.9200***	
		(0.7388)	
*Voc. h. school		-0.7638	
		(0.8430)	
*Gen. h. school		-1.0451	
		(0.8164)	
*Higher vocational		-2.1573**	
		(1.0514)	
*College		0.0283	
		(1.0744)	
*Graduate		-1.5745	
		(1.0094)	
15-64 Empl/act			2.1346**
			(0.9367)
*Voc. h. school			-0.1141
			(0.9687)
*Gen. h. school			-1.5585*
			(0.9178)
*Higher vocational			-2.0862
			(1.5329)
*College			-1.3407
			(1.3302)
*Graduate			0.0467
			(1.4961)
N	10,960	10,960	10,960

Models estimated by ML using data from Generation 1998 and 2004 Surveys (Cereq).
*Clustered standard errors appear in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*
Models also include controls for education level, repeating years before high school, cohort, age lefting school (by education level), type of household, children, past residential mobility, parents' socio-economic status, occupation and foreign origin, neighborhood amenities

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