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Can Social Capital Explain Persistent Racial Poverty Gaps?

Paper prepared for *The Colors of Poverty*

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Abstract

This paper investigates the role of social capital in understanding persistent racial gaps in poverty rates in the United States. We outline a general logic of social capital explanations of racial poverty gaps through the advantage or disadvantage resulting from racial inequality coupled with segregation or homophily in social life. We then focus on four forms of social capital as the most promising social capital explanations relevant to persistent racial gaps in poverty: job search networks; neighborhood collective efficacy; ethnic social capital; and school friendship networks. We review the literature on each form of social capital, supplemented with statistical analysis using the National Longitudinal Study of Adolescent Health. Our conclusion is that existing evidence points toward neighborhood collective efficacy, ethnic social capital, and peer networks as the more important social capital explanations for understanding racial differences in poverty, often in interaction with non-social capital factors, but that we must also look beyond social capital to understand racial differences in poverty rates overall.

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Can Social Capital Explain Persistent Racial Poverty Gaps?

Social capital has recently become one of the most widely used concepts in sociology and social science. No fewer than four monographs (Lin 2001; Aberg and Sandberg 2003; Feld 2003; Halpern 2005), ten edited volumes, and 900 social science articles (Halpern 2005, figure 1.1) on social capital have been published since 2001. The term has been one of sociology's most successful exports, finding its way into political science, economics, and anthropology. Broadly meaning the personal relationships that aid in achieving goals, social capital is not a single explanation or variable, but rather points toward a variety of explanations of how informal human social relationships are important for human behavior.

In seeking to understand the persistence of major disparities in poverty rates among racial and ethnic groups, a number of social capital explanations have been proposed. Many of these explanations are longstanding and actually predate the term "social capital." W.J. Wilson's "social isolation" thesis in *The Truly Disadvantaged* (1987), for instance, argues that the isolation of poor urban minorities from social contact with middle-class persons contributes to their persistent poverty. Likewise, the Coleman Report's (1966) finding that socioeconomic status of school peers predicts school success and that minority students have peers of lower socioeconomic standing is a social capital explanation. In most social capital explanations of racial poverty gaps, a disadvantaged racial or ethnic groups' structural position in social networks results in a reduced stock of a type of social capital, contributing to higher rates of group poverty. Less commonly,

some explanations focus on the potential negative consequences of social relationships as a form of “negative” social capital.

In this chapter, we consider whether several leading social capital explanations can explain persistent disparities in poverty rates across racial groups. Initially we discuss the definition of social capital. We then consider the relevance of the social fact of high levels of segregation or homophily on the basis of race and ethnicity for social capital. In many situations, segregation or homophily combines with racial inequality to create contextual disadvantages for members of disadvantaged racial groups. The consequences of segregation or homophily, however, are not necessarily negative: segregation or homophily can also facilitate developing denser and/or stronger social networks by grouping like individuals together, contributing to community institutions and social control.

A wide variety of theories may be described as social capital theories. We focus on four of the most promising social capital explanations of racial differences in poverty outcomes: that employment and wage gaps of non-white jobseekers can be explained by exclusionary job networks; that lower-income non-whites often reside in urban neighborhoods with low levels of “collective efficacy”, reducing their ability to control delinquency and crime; that co-ethnic social capital contributes to lower poverty rates among certain immigrant groups and their offspring; and that endogenous friend effects in peer networks are a source of educational disadvantage. At points we supplement our review of the literature with analysis of data on peer social capital from the National Longitudinal Study of Adolescent Health. We conclude that the evidence for these explanations is mixed, but that the stronger evidence in accounting for racial poverty gaps

are the contextual disadvantages from disadvantaged neighborhoods and peer groups, which contribute especially to crime and delinquency problems in minority communities. We also suggest that social capital among co-ethnics aids the incorporation of new immigrants and can facilitate the school achievement of second generation immigrant youth.

What is Social Capital?

Although the term social capital has been invented independently by several scholars (e.g. Loury 1977; Bourdieu 1985), the widespread modern use of the term was initiated by Coleman's (1988) seminal discussion of social capital in the creation of human capital. Coleman defines social capital as encompassing two features: (1) that it consists "of some aspect of social structures" and (2) that it "facilitates certain action of actors—whether persons or corporate actors—within the structure." Putnam (1995), in an equally influential discussion, defines social capital as "Features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives" (Putnam 1995, pages 664-665).

Since Coleman's discussion, a number of books and reviews have attempted to clarify the concept. Lin (2001), for instance, stresses the connection of social capital to social networks in his definition: "social capital may be defined operationally as resources that are embedded in social networks and accessed and used by actors for actions. Thus, the concept has two important components: (1) it represents resources embedded in social relations rather than individuals, and (2) access and use of such resources reside with actors" (pp. 24-25).

Portes (1998) describes social capital as “the ability of actors to secure benefits by virtue of membership in social networks or other social structures” (p. 6). Durlauf and Fafchamps (2004) succinctly define social capital as “community relations that affect personal interactions.” Halpern (2005) describes social capital as encompassing three elements, “a network; a cluster of norms, values and expectancies that are shared by group members; and sanctions – punishments and rewards – that help to maintain the norms and network” (p. 10).

Applying these definitions to research in sociology, a great many of the books and articles that have been written by sociologists since the earliest years of the discipline could be described as studies of “social capital”. Thus Portes (1998) notes that social capital “does not embody any idea really new to sociologists”; sociology as a discipline has long pointed to the importance of social context and social ties for understanding human behavior. Rather than representing a new theory, the usefulness of the concept social capital has been its heuristic value in helping social scientists draw connections among literatures in diverse areas and in providing a language to consider the importance of social context and social ties across many settings.

Corresponding to the multifaceted definitions of social capital, there are many ways that social capital has been measured. Empirical studies have used three principal types of measures of social capital.

The first approach has been to measure social relations directly: assessing the number, structure, or properties of relationships among individuals. This includes measuring the intensity of contact or frequency of interaction, the structural characteristics of a whole social network, or the characteristics of persons in contact with

an individual or group. This form of measurement is often most appropriate for social capital explanations that emphasize the transmission of information across networks or social pressures that result from overlapping or intense contacts. Teachman, Paasch, and Carver (1996), for instance, use questions about the frequency of conversations between parents and their eighth grade children about their school experiences and their plans for high school and college to measure parental academically-related social capital.

The second approach to measuring social capital is based on measuring individuals' beliefs about their relationships with others. The most often measured attitude or expectation is trust. Paxton (1999), for instance, relies on questions from national survey data about the level of trust in other people and major social institutions to examine changes in levels of social capital over time.

The third approach uses measures of membership in certain voluntary organizations to assess the level of social capital. Often, membership in voluntary organizations is treated as an indirect measure of social ties believed to be fostered by voluntary organizations, used because direct measures of social ties are not available. Putnam's (1995) use of memberships in clubs like bowling leagues is the most influential example of this approach to measuring social capital.

While these definitions of the term "social capital" focus on the positive potentials of social relationships, social relationships may also have negative consequences. If social capital is a resource to achieve goals, then it can also be used to achieve goals that are negative from the perspective of the wider society. Criminal networks are one of the clearest examples of this sort of consequence. In some cases, dense networks can create pressures for conformity that stifle individuality (Portes 1998).

Even in cases where the direct consequences of a network are to facilitate production of a valued good, the exclusionary nature of social networks raises equity issues. To take one example, social capital may facilitate members of a group learning to read better, thus developing their human capital. While everyone can learn to read better, some scarce goods are allocated in part based on ranking skills in a queue, meaning that gains by one group necessarily trade off with other groups. Positions in elite colleges, for instances, are awarded to a fixed number of students based in part on ranking of reading scores. For outcomes with limited positions, when one group gains another group necessarily loses.

A useful aspect of the social capital metaphor is that it points out the instrumental use of social ties that is a common aspect of everyday life: for most individuals, their social networks provide a valuable and useful resource. At the same time, social relationships can have negative consequences for participants, and relationships that advantage one group often disadvantage another. These points are especially relevant in understanding how social capital relates to social stratification and poverty.

Segregation, Homophily, and Social Capital

Most arguments about how social capital may contribute to inequality among racial and ethnic groups follow the same general logic. This argument is very similar to a general logic of how segregation or homophily in social life tends to advantage members of advantaged groups and disadvantage members of disadvantaged groups (see Massey 1990 for a worked-out example applied to neighborhood segregation). Segregation and homophily are both terms that imply that persons with similar social characteristics

associate with each other, although “homophily” more often is viewed as reflecting voluntary choice whereas “segregation” is more often viewed as based on mandated or forced group separation. By grouping like with like, segregation or homophily increases the average contact of members of advantaged groups with advantaged associates and decreases contact of members of disadvantaged groups with advantaged associates. To the extent that having advantaged social contacts or exposure to advantaged social contexts is itself of benefit in generating positive stratification outcomes, homophily or segregation then contributes to the advantage of the advantaged and the disadvantage of the disadvantaged. This logic is at play to some degree in three of the four specific explanations of how social capital is related to racial inequality that we discuss below.

A few examples may help to clarify this logic as it applies to many social capital explanations. Many argue that job placement networks may bring greater advantage if others in the network have high-status jobs themselves, since these persons are more likely to be able to provide information and influence in obtaining high-status and high-pay jobs (Lin 1999). The combination of racial segregation in job networks with higher average job statuses of whites then will tend to increase the average status of job contacts for whites and decrease it for blacks. Likewise, as many parents have long believed, a like-begets-like influence among adolescent peers means that having peers with high GPA is a benefit toward school achievement. Racial homophily in adolescent peer networks combined with racial gaps in GPA imply that white students will (on average) tend to have friends with higher GPA than black students.¹ If high-GPA friends are an advantage, then white students receive advantage from high-GPA associates.

¹ This logic will not work in the special case of perfect friendship homophily on GPA, but in practice homophily on non-race characteristics is almost never strong enough to undercut the logic of this argument.

The extent to which segregation or homophily advantages the advantaged group depends on the extent of racial inequality between the advantaged and disadvantaged racial groups, the strength of racial homophily (or segregation) in the relevant context, the strength of homophily (or segregation) on other non-race based criteria, and finally the advantage that comes from having an advantaged network or social context.

Although the argument outlined here can apply to any characteristic that distinguishes an advantaged group from a disadvantaged group—not just race and ethnicity—it applies especially strongly to race and ethnicity because race and ethnicity tend to be among the strongest bases for homophily or segregation. In American society, segregation or homophily on the basis of race is stronger than socioeconomic status homophily within racial groups, for instance (see White 1987 on residential segregation; Quillian and Campbell 2003 on friendship homophily).

A different line of argument, more commonly applied to situations of homophily than segregation, argues that under certain conditions segregation or homophily can be of assistance to the disadvantaged group. Unlike the arguments about how segregation or homophily concentrates advantage or disadvantage, which consider the characteristics of social network members as the outcome, the potential benefit of grouping like-with-like is that it can increase the number and intensity of social ties since persons with like characteristics are most likely to form ties and/or to form ties of greater strength when in contact (Quillian and Campbell 2003). Dense social ties then contribute to building local institutions and to networks that connect across multiple settings (such as school and church), increasing group social control because behavior in one setting has consequences for other settings (Krohn 1986). Overall, grouping like-with-like in certain

circumstances can aid in building group solidarity and harnessing it in pursuit of goals valued by the group.

The most common situation in which the benefit of like-with-like is stressed is immigrant ethnic grouping, including both ethnic spatial groupings (enclaves) and high ethnic concentration in particular businesses (ethnic niches or economies). In these situations, grouping like-with-like is thought to help co-ethnic members form institutions and use collective control to help motivate community members to achieve socially valued goals. We discuss the case of ethnic groupings further as one of the four principal theories of how social capital may help explain racial poverty gaps, below.

These two influences of grouping like-with-like can potentially operate simultaneously. Whether grouping like-with-like overall hurts or helps disadvantaged groups through these two mechanisms is a question that must be resolved empirically, one outcome at a time. These processes can also have implications for inequality within a disadvantaged racial or ethnic group. For instance, categorical refusal to hire by non-co-ethnics might help advantage co-ethnic employers and disadvantage co-ethnic workers by creating a surplus of disadvantaged ethnic labor within an ethnic enclave.

Difficulties of Testing Social Capital Theories

With appropriate survey data, it is straightforward to establish racial differences in the average characteristics of network peers or other measures of social capital. What is less straightforward is determining confidently how important an advantaged social context is in influencing individual outcomes. In particular, it is difficult to be sure that better outcomes for persons with more advantaged associates really result because of the causal

influence of associates on outcomes, rather than because associates who are likely (for other reasons) to be advantaged tend to associate with one another. This fundamental methodological problem, common to observational social science research, continues to be a major challenge that makes it difficult to draw strong conclusions about the importance of social capital (see Mouw 2006 for discussion).

Social Capital, Race, and Poverty

Since “social capital” is not a single theory, but rather includes a wide variety of explanations with the shared element of stressing the importance of social relationships, the range of explanations that can be included under the title of social capital is enormous. We explore four specific social capital explanations that have been among the most heavily discussed and researched in connecting to issues of race and inequality. In all of these cases, the explanation is based on the idea that grouping like-with-like creates disadvantage or advantage in social contacts and settings. Generally, these explanations propose to explain outcomes related to race and ethnic differences in poverty by the amount and forms of social capital held by members of different racial and ethnic groups.

The four principal theories we consider emphasize job search networks, neighborhood social capital as a source of social control, social capital among first and second generation ethnic group members (ethnic capital) as a source of advantage, and the influence of friendships on youth academic achievement. While there are several other social capital explanations in the literature that may contribute to understanding racial differences in poverty rates (for example see Morgan and Sorensen’s 1999 analysis of closure in networks or Stanton-Salazar and Dornbusch’s 1995 discussion of high

school guidance counselors) these other explanations have received much less research attention than the four explanations that we consider. Although we briefly discuss Wilson's (1987) social isolation thesis--that the minority urban poor are socially isolated from the middle-class--our view is that much of Wilson's discussion is subsumed in our discussion of the four specific theories of social capital we consider here.

Closely related to social capital effects are studies of the influence of contextual effects on outcomes, the best-known of which are the extensive literatures on neighborhood effects (see Duncan and Raudenbush 1999 for a review) and school effects (see Rumberger and Palardy 2005). Contextual effects look at the total influence of a social context on outcomes without, in most instances, identifying the mechanism. Contextual effects studies include social capital effects as potential mechanisms by which the contextual effects operate, but contextual effects could also capture other mechanisms that are not thought of as social capital, such as inequalities in the qualities of services delivered by local institutions (such as schools) or effects of physical infrastructure (such as broken windows). We consider only one theory that is focused at the aggregate level because it clearly specifies a social capital mechanism. It is important to keep in mind, however, that social contexts tend to have a strong influence on social relations. Individuals cannot make friends or marry persons they are not in contact with, and frequency of incidental contact strongly predicts the formation of friendships and other significant relationships (Festinger et. al. 1950; Quillian and Campbell 2003).

While anecdotes and intuition strongly suggest that social capital has *some* influence on stratification outcomes, the difficult issue is to isolate the specific social capital explanations that may have an important impact on racial stratification and

measure their influence. For an explanation to have a major impact on racial differences in poverty there must be a substantial racial difference in that dimension of social capital and a strong influence of that form of social capital on outcomes linked to poverty.

Job Networks and Social Capital

One important social-capital based explanation of racial differences in poverty focuses on racial differences in employment and earnings. Job search networks serve as a source of information about available jobs and may influence employers to hire a “connected” applicant. If many black and Hispanic job seekers have job networks that provide less information and influence toward acquiring a job than the networks of white job seekers, and these connections are an important advantage in gaining employment, then it could be that job networks are an important factor contributing to racial gaps in employment. Correspondingly, a high-quality job network can also improve the quality of the job obtained, which in the empirical literature has usually been measured by earnings or wages. Other things equal, if network size or network quality is helpful for gaining jobs, a larger or higher quality network should lead to more information about openings, allowing the job candidate to choose from more offers thus securing a higher quality job.

In addition to a compelling intuitive logic, several stylized facts support the importance of job networks. First, social network contacts are widely used in job search. Retrospective surveys indicate that 25% to 50% of workers acquire their jobs through personal networks (Granovetter 1995). Low-wage jobs are especially likely to be filled by informal personal contacts (Holzer 1987). Second, job contacts are mostly racially homogeneous: more than 85% of networks contacts are the same race as the job seeker

(Mouw 2002; Reingold 1999). Many qualitative studies also suggest job networks are important (for example Royster 2003, Waldinger 2003).

Corresponding to segregation in job networks, whites also tend to have contacts with somewhat higher rates of employment, higher occupational prestige, and higher earnings on average than black or Hispanic job seekers (Lin 1999; Reingold 1999). This is an example of advantaged contacts accruing to advantaged groups as a result of homophily in job contact networks. On the other hand, many studies find smaller differences on the basis of race and class than Wilson's discussion of "social isolation" indicates. Whites and blacks appear to use job networks about equally for job search, with higher use by Latinos (see Mouw 2002; Holzer 1987; Reingold 1999; Green, Tigges, and Diaz 1999; but see Korenman and Turner 1996). The equal or greater use of contacts by non-white job seekers suggests that there is not a large racial gap in availability of job contacts. Several studies focusing on poor, urban African-Americans find that they have social networks of size comparable to nonpoor blacks and that their networks include employed and middle-class persons (Oliver 1988; Fernandez and Harris 1992; Reingold 1999; Smith 2005). Smith (2003) concludes from reviewing the social networks literature that "the extent of the poor's disengagement from the mainstream has been overestimated" (p. 1032). Our review leads us to agree with Smith that non-whites have networks that are comparable in size to whites and that include many employed persons, contrary to any extreme form of social isolation. But we also conclude that whites tend to have contacts with somewhat better jobs on average than non-whites.

Recently, Smith (2005) has argued that while poor blacks have job contacts with employed persons, their contacts are often reluctant to recommend them to current

employers because they fear that the worker they recommend will do a poor job, reflecting badly on them. She concludes that the black poor may have extensive networks, but that they have difficulty activating support through networks to their job search benefit. Smith redirects the emphasis in the job networks discussion toward the willingness of network members to help rather than the size or composition of networks. Smith's argument is innovative and evidence from her interview study is convincing. There remains little evidence, however, that if the black poor were able to "activate" their social capital successfully that this would make a substantial difference in job outcomes. Employer attitudes, human capital deficiencies, and perhaps poor work habits (if their job contact's fears are correct) might mean that better job referrals would result in little net gain in employment.

Racial gaps in the quality of job networks or in the willingness of contacts to provide recommendations are largely irrelevant if job networks provide little advantage relative to other methods of job search. The second major question we must then consider is: Do job networks provide a significant benefit in getting a good job in modern American labor markets? The literature that addresses this question is very mixed.

Among surveys of individuals, most studies find that the use of personal contacts does not appear to be associated with advantage in job quality of jobs obtained (higher wages or earnings) relative to other methods of job search (Lin 1999, Marsden and Gorman 2001, Mouw 2003). Nor do individuals who obtained their jobs by personal contacts tend to have shorter jobless spells than individuals who use other methods

(Mouw 2003). These studies suggest no substantial benefits to use of networks contacts in job search.

Supporters of the importance of job networks point to two other lines of research in support of the significance of job networks for inequality. First, studies of hiring by a single large employer by Fernandez and Weinberg (1997) and Fernandez, Castilla, and Moore (2000) find applicants with a personal contact at the company were much more likely to receive an offer than those without a personal contact, controlling for other applicant characteristics. Their results indicate that applicants with contacts have a substantial advantage, although this could reflect a particular practice of the one employer studied. Second, several studies find that the occupational prestige of contacts in a seeker's job network is predictive of the occupational prestige of the job attained by the seeker (Lin 1999). This finding has led Lin (1999) and others to argue that there is a benefit of the status of the contacts in the searcher's network for obtaining high-status jobs.

Recently, Mouw (2003) has argued that these two findings do not provide convincing evidence of the benefits of job networks, in light of other findings that contradict the importance of job networks. Mouw argues that the association between network contacts status and status of job obtained or unemployment duration may reflect the fact that individuals in high-status jobs tend to have high-status friends (homophily) rather than any causal effect of high-status contacts on obtaining high-status jobs. Following Montgomery (1992), Mouw points out ambiguities in drawing conclusions from prior empirical tests of job networks. He proposes the alternative test that if the effect of contact status on job quality or employment probability is a causal one, then

individuals with high-status persons in their networks should be more likely to use networks to find jobs than those who do not. Using four sources of data, he finds no evidence that this is the case. Overall, he concludes that the evidence of a strong causal effect of networks on wages or employment probability is weak. He argues that applicants may have advantages in getting jobs for certain specific employers with which they have contacts, but this results more in matching individuals with specific employers than in improving the overall quality of their jobs. Likewise, Mouw (2002) finds evidence that racial segregation in employment networks contributes significantly to racial segregation in employment among firms, but not that it significantly decreases the wages or increases time unemployed of black job seekers. Ultimately, Mouw concludes that the evidence does not disprove the possibility that workers who receive jobs through contacts could have done as well if they used other job search methods.

Mouw's arguments provide a cogent reconciliation of several findings in support of the conclusion that a high-quality job network is not of much benefit because other methods of job search may be equally effective. In this case racial and ethnic differences in access to employment networks may, then, not be a major explanatory factor in racial gaps in the probability of employment or earnings.

In highlighting the weakness of the evidence of network benefits for job seekers, two limits of existing quantitative studies are important to note. The first is that it remains plausible that quantitative studies have not measured the properties of job networks that matter most for obtaining jobs. For instance, no study has measured the average influence of a contact over hiring decisions at the destination company, which could be the crucial property of a job contact to be of significant help to a job seeker.

Indeed, all current quantitative tests may be wrong because they are measuring the wrong network qualities. Second, job networks may be more important for subgroups of workers that are not heavily represented in general labor market surveys. There is good reason, for instance, to believe that job networks are especially important for gaining employment for immigrants, as discussed in the ethnic capital section below.

Several studies find that persons who use personal networks do not end up with jobs with higher wages or occupational prestige (or shorter unemployment times) than those who use other methods of job search. This fact has been especially difficult to square with claims about the benefits of job search networks. Yet because of the intuitive appeal of this explanation, and because job contacts seem important in qualitative interview studies of hiring (Royster 2003; Waldinger 2003) and the single employer studies (Fernandez and Winberg 1997), active debate and interest surrounding this explanation will continue. Current research, however, contains very mixed findings about the benefits to job network use for job search, with many results suggesting little benefit to search via job networks.

Social Capital and Neighborhood Collective Efficacy

Most studies in the “neighborhood effects” literature estimate the total effect of neighborhood poverty or neighborhood affluence on later life outcomes for children without identifying the mechanism behind the “effect” of neighborhood poverty or affluence. Neighborhood effect studies thus include advantages that may come from social capital in better neighborhoods, but it also includes many effects that are not social capital, like better instructional qualities of local schools. The influence of neighborhood

economic and social composition on social capital are one of many possible mechanisms that may account for parts of the total influence of neighborhood on outcomes.

One major line of research on social capital that specifies and measures a social capital mechanism is Robert Sampson and colleagues' work of the role of neighborhood "collective efficacy" on violent crime (Sampson, Raudenbush, and Earls 1997; Sampson, Morenoff, and Earls 1999; Sampson, Morenoff, and Raudenbush 2005). "Collective efficacy" is the shared willingness of residents of a neighborhood to intervene to maintain social order and control crime and delinquency. Sampson et al. measure collective efficacy through a series of survey questions that evaluate willingness of neighborhood residents to intervene and stop delinquency, residents' expectations that others will likewise act to stop delinquency, and the level of trust among neighbors. In their results, collective efficacy is strongly predictive of the level of neighborhood violence, even controlling for a number of measures of neighborhood structural conditions.²

Closely related to the concept of collective efficacy is Anderson's (1999) work on factors leading to a breakdown in community order and a "code of the street" in some poor urban communities. Based on extensive ethnographic work, Anderson argues that a combination of a lack of jobs and poor police protection have contributed to a situation in which basic trust among community members breaks down and violence or threat of violence becomes the main means of neighborhood social control. In this situation the "code of the street" takes hold and even law-abiding residents must then project a tough image to avoid victimization. Anderson's work can to a significant degree be viewed as an analysis of neighborhoods in which an extreme lack of social efficacy contributes to a

² Sampson, Morenoff, and Raudenbush (2005), however, do not find that collective efficacy accounts for racial disparities in committing violence—a distinct measure from local area crime rates--although they find that other neighborhood social conditions can account for these disparities.

breakdown in the basic norms and rules that govern social interaction in better networked neighborhoods.

No scholar has drawn out the implications from this literature to racial or neighborhood disparities in poverty or other stratification outcomes, but it is clear that connections are present. On average there are very large racial gaps in neighborhood poverty and affluence--these again follow from the logic of segregation plus inequality generating inequality in contextual conditions. Racial gaps in neighborhood affluence contribute to large racial gaps in neighborhood collective efficacy (Sampson, Morenoff, and Earls 1999). These conditions are likely to be an important factor in explaining large racial disparities in participation in criminal activity and contact with the criminal justice system (Petit and Western 2004; Sampson, Morenoff, and Earls 2005). Prison is highly deleterious to income and employment prospects, with studies showing an enormous negative impact on the life chances of the most impacted group, African-American men (Pager 2003; Oliver et. al. 2005). To be sure, disparities in sentencing for type of crime and racial bias in arrest are also very important in the racially disproportionate impact of the criminal justice system, but racial disparities in involvement in crime are also a factor (see Sampson, Morenoff, and Raudenbush 2005).

Although promising, there are also some important limitations to the social efficacy literature. One limitation is that the social efficacy empirical studies emphasize the link between collective efficacy and violent crime; the relationship of efficacy to property and drug crimes that constitute most crime and are the basis for most arrests is less well established. A second important limitation is that these studies are vulnerable to criticisms that collective efficacy measures capture some other social process at the

neighborhood level that jointly determines efficacy and violent crime, although these studies do employ an extensive set of neighborhood controls which reduce the extent of this problem. Finally, the collective efficacy empirical literature has been tested using only one source of data and by one group of researchers, albeit a very competent one. The collective efficacy literature lacks the testing and external validation that can only come from other data sets analyzed by a wider group of researchers.

Immigrants, Ethnicity, and Social Capital

On average, immigrants to the United States are a socioeconomically disadvantaged group. The poverty rate among immigrants is about 18%, contrasted to about 13% for natives. This statistic, however, conceals tremendous variability in socioeconomic status across national origin groups. Immigrants from Mexico, Latin America, Cambodia, Laos, Vietnam, Haiti, the Dominican Republic, and the former Soviet Union experience rates of poverty ranging from 20% to 40%. Immigrants from most other Asian countries and European countries experience poverty rates below 16%, with some experiencing poverty rates below natives (Portes and Rumbaut 1996, p. 78-79). To a large extent, these differences reflect differences in immigrant flows to the U.S., especially in their human capital level. Although evidence is much sketchier on the second generation than the first generation because the second generation cannot routinely be identified in census statistics, studies find that many of these patterns are reproduced in the academic achievement of the second generation, with Asian students doing well and students of Mexican, Latin American, and Caribbean descent doing less well. These patterns of

unequal backgrounds persist after controls for family socioeconomic status (Portes and Rumbaut 2001).

Several basic features of migration promote the formation of social capital along ethnic immigrant lines. The importance of social networks in facilitating migration, both through social processes and U.S. immigration law, gives many immigrants a ready kin network upon arrival in this country (Portes and Rumbaut 1996). Common culture, history, language, and outlook provide a common bond among co-ethnics (Bankston 2004). And upon arrival, the salience of ethnicity is greatly accentuated by “reactive ethnicity,” or the greater salience ethnic identity and culture take on by contrast with the culture of the host society, especially if the immigrant group receives a hostile reception.

The high stock of social capital held by immigrant ethnics is frequently invoked in attempts to understand immigrant adaptation in general and the relative economic and schooling success of certain immigrant groups in particular. Social capital explanations have dominated explanations of three major patterns of immigrant incorporation: the tendency of ethnic employees to dominate certain employment sectors, or ethnic niches; the high rate of entrepreneurship among certain new immigrant groups, or ethnic entrepreneurship; and the spatial clustering of ethnic group members, or ethnic enclaves.

Ethnic niches, or employment sectors dominated by a particular ethnicity, are a major feature of immigrant labor market incorporation. Most accounts explain niching primarily based on ethnic employment networks in hiring and shared information about opportunities (Waldinger 1996, 2003; Wilson 2003). The arguments are very similar to those made by the broader literature on the benefits of employment networks without regard to ethnicity: that job networks provide information about jobs and influence with

hiring agents in obtaining jobs. Although we previously argued that the evidence supporting the superiority of information networks for job search in general was inconclusive, this literature has not separately considered immigrant labor.

Indeed, there is reason to think that network job search methods are especially important and useful for job matching among immigrants. Immigrants are less able to use formal methods of job search than natives because of their lesser familiarity with American labor market institutions and limited English. Likewise, networks provide an efficient way to match ethnic immigrant workers with employers who tolerate limited English and who do not discriminate blatantly against the ethnic target group. Correspondingly, ethnographic studies document the especially extensive use of networks in hiring immigrants (Waldinger 2003). We know of no quantitative studies of immigrants' job networks, but quantitative studies have found higher use of networks by Latinos, a high share of whom are immigrants.

A second line of social capital argumentation stresses the advantages of ethnic social capital for developing immigrant businesses (Aldrich and Waldinger 1990). On average, immigrants have a higher rate of self-employment than natives, but this average rate obscures great variation in rates of self-employment by national origin (Light 1979, Borjas 1990). Ethnic social capital contributes to the development of immigrant businesses through several mechanisms. First, ethnic cooperative credit associations help to make capital available to ethnic group members who could otherwise not gain it. There remains debate, however, about whether the amount of money available through this mechanism is enough to support significant business development or expansion (Light 1972, Min 1996, Park 1997). Ethnic enterprises may also benefit from a ready

network of co-ethnic business contacts, especially in enclave areas. In some cases ethnic entrepreneurs benefit from international networks, such as those linking production sites in foreign countries to retail outlets in America. Finally, ethnic enterprise may be facilitated by dense network connections with co-ethnics in helping to find and recruit labor.

Some of the literature in the area of ethnic entrepreneurship and labor goes beyond the argument that ethnic social capital aids in founding ethnic businesses to argue that ethnicity provides efficiencies unavailable to non-ethnic employers—that ethnicity provides an important resource that gives ethnic businesses advantages over non-ethnic ones. Wilson and Martin (1982) suggest that these ties allow small businesses to increase profits by vertical and horizontal integration, providing better jobs than typical small business opportunities available in the non-ethnic economy. Bailey and Waldinger (1991) argue that co-ethnic hiring through networks is beneficial for employers because it engenders mutual obligation, reducing the chance that trained employees are likely to leave their employer. Several authors suggest that contacts with co-ethnics in ethnic communities help create trust, mutual expectations, and enforceable sanctions, because both parties are in the same community and a “bad” business reputation can spread along the co-ethnic network. Wilson and Portes (1982) and Portes and Bach (1985) extend arguments about ethnic economy benefits to workers, whom they argue receive higher wages in immigrant enclave businesses than in majority sector businesses, making ethnic economy jobs more desirable than comparable jobs among small firms in the non-ethnic economy.

Claims about the greater efficiency of ethnic enterprise relative to non-ethnic enterprise, however, have been contested in the empirical literature. Studies of self-employed immigrants, for instance, find that they have incomes that are slightly below the incomes of native workers with similar characteristics who are not self-employed (Borjas 1990; Sanders and Nee 1987). Portes' initial results suggesting higher job quality in enclaves have been disputed by Sanders and Nee (1987), and solid evidence in favor of the idea that ethnic enclaves produce specific functional benefits for ethnic business has been elusive (see also Zhou and Logan 1989; Evans 1989). Fundamentally, studies that claim unique efficiency benefits to ethnic business have usually not involved direct comparisons of immigrants and native businesses. When such direct comparisons are made, they provide little evidence that ethnic businesses function better than similar non-ethnic businesses.

The third advantage of ethnic social capital accrues to the children of immigrants, and possibly also later generations of enclave ethnics. Several scholars argue that social capital among immigrants can help adults maintain social control of the community's youth, reducing delinquency and maintaining an orientation that encourages school achievement (Portes and Zhou 1993). This argument is most convincingly made by Min Zhou and Carl Bankston in their study of Versailles Village, a Vietnamese community in New Orleans (1998). They document the success of second generation Vietnamese immigrants in school, arguing that ethnic social capital has been an important contributor to the children's success. Their arguments are made more persuasive by the disadvantages faced by the children of Versailles Village on dimensions other than social capital: Vietnamese immigrants held little human capital before arrival and after arrival

experienced high rates of poverty and welfare receipt and lived in a high-poverty African-American area. The Vietnamese community had high social capital through strong extended family structures, in part because post-war government relocation assistance for Vietnamese refugees allowed entire families to relocate.

Zhou and Bankston (1998) argue that dense social networks in the community provide a series of supports and constraints that help Vietnamese families maintain elements of Vietnamese culture that aid in successful adaptation to American society. The dense and overlapping community networks cross multiple contexts such as church, community, and work. The result is pervasive community observation and control. Deviance is punished by poor reputation; positive achievements in school and the community are celebrated as public events.

As Zhou and Bankston (1998) point out, the second generation in Versailles Village define themselves in part by contrast with the low-income, minority community surrounding them: they compare studious immigrants (selves) against hedonistic natives (others). Their definition is consistent with cultural images of Asian Americans as model minorities. An interesting contrast are the second generation West Indian immigrants discussed by Waters (1999). What emerges most clearly from Waters' study is the way in which the white world's attribution of West Indians as black, with all that entails in terms of stereotypes and discrimination, facilitates' adoption of a black identity that incorporates oppositional elements among many second generation immigrants. Differences in level of social capital between West Indian immigrants and Vietnamese immigrants may also play a role, although that is not Waters' focus. In the West Indian case, the contrast of studious immigrant versus hedonistic American is undercut by

cultural images of blacks and treatment by whites that often puts West Indians and other African-Americans in the same category.

The literature on ethnic economies has documented the importance of networks and other forms of social capital within ethnic enclaves and ethnic economies. Ethnic economies provide a secondary market in which certain deficits faced in the labor market and in business by immigrants, especially limited English proficiency, are less of a handicap. These ethnic markets, enclaves, and economies thus provide an important submarket without which immigrants would be worse off. Zhou and Bankston (1998) also make a convincing case that social capital plays a role in helping to maintain achievement orientations and social control among second generation Vietnamese immigrants.

Social Capital and Friends

The Coleman Report (1966) is one of the earliest examples of a study that emphasized the role of peers in explaining racial differences in academic achievement. Coleman concluded that peers were important based on strong association between average characteristics of school populations and academic achievement outcomes. Friend influences were subsequently included in early models of status attainment through the influence of friends' educational aspirations on the respondent's educational aspirations (Duncan, Haller and Portes 1968; Hauser 1972; Sewell and Hauser 1975; see also Hallinan and Williams 1990). Most of these studies found relatively large friend influences on educational aspirations. Groups of high-achieving friends may tend to motivate each other's academic achievement through internal group competition, or may

directly help each other to learn more. High-achieving groups of friends might also encourage taking more advanced and difficult classes.³

These early studies take the total similarity between friends after controls as an estimate of the friend “effect” on outcomes. Since total similarity captures both the influence of friends on each other as well as homophily in friend selection—the tendency of like persons to become friends—these estimates overestimate the causal effect of friends. Later studies have attempted to separate homophily and causal effects by using longitudinal data to estimate friend influence with initial similarity controlled (Kendall 1978; Cohen 1983) or by using friend association among college roommates in situations where college roommate status has been randomly assigned to estimate friend influence (Sacerdotal 2001; Zimmerman 2003).

The finding of both longitudinal and natural-experiment studies is that there is a like-begets-like influence among friends. Kandell (1978), for instance, finds that of total friend similarity in the use of marijuana, educational aspirations, and participation in delinquency, about half results from friend influence, with the other half resulting from friend selection (homophily). Sacerdote (2001) and Zimmerman (2003) find somewhat smaller effects, although they are really examining roommate rather than friend effects (roommates are not necessarily friends), and they use special subsamples of students at elite colleges. Mouw (2006) also describes other recent analyses (many unpublished) of roommate assignment on several social outcomes. In an analysis that uses total cluster correlations to estimate upper bounds for neighborhood, peer, schoolmate, and family

³ Another potentially important peer effect for racial differences in poverty are the peers that recruit individuals into delinquency. We view this argument as somewhat subsumed by our earlier discussion of neighborhood efficacy, a major factor in controlling local adolescent peer groups. Peers play an important role in the micro-process of participation in delinquency.

effects, Duncan, Boisjoly, and Harris (2001) find that friend correlations (after adjustments for other covariates) are second in magnitude only to sibling correlations and are far larger than adjusted correlations among neighbors or schoolmates. If we can apply Kendall's (1978) result that roughly half of total similarity among friends results from friend influence (this is a stretch, because Kendall did not study exactly the same outcomes as Duncan et. al.), then friend effects would be important to understanding socioeconomic inequality.

The remaining issue is whether race and ethnic differences in peer characteristics that are relevant to stratification outcomes are large enough to have a substantial influence on stratification outcomes. Race is a very strong basis for friend homophily (Moody 2001; Quillian and Campbell 2003). Indirectly, racial homophily in friendship creates differences in the average characteristics of peers on characteristics correlated with race, like grade point average (GPA) and socioeconomic status background. We know of no studies, however, that have systematically examined the magnitude of achievement-relevant differences in peer characteristics across race.

To investigate further differences in social capital available in peer networks, we use data from the National Longitudinal Study of Adolescent Health, a large school based study of students in grades 6-12 conducted in 1994-1995. The Add Health data provides the most comprehensive data on friendship networks for any large group of individuals in the United States. Students were asked to name up to five friends of each gender. Following Quillian and Campbell (2003), we focus on same-sex friends only, because the survey does not separate other-sex friends from romantic relationships.

Table 1 shows the characteristics of peers on three dimensions that are available from the Add Health in-school survey and that past studies suggest are relevant for understanding peer influence and school-relevant social capital: the average GPA of friends, the percentage of friends with at least one parent with a college degree, and the percentage of friends for whom neither parent graduated from high school. The left columns show results for all respondents by race; the right columns show results for only respondents whose parents lack high school degrees. Parental education is the best measure of parental socioeconomic status on the in-school survey.

The results indicate that black and Hispanic students have friends who, on average, have lower GPAs and less educated parents. The differences are large enough to have some impact. Whites students' friends have GPAs that are on average about 0.3 higher (on a 1-4 scale) than black or Hispanic students, a difference of about .4 of a standard deviation. More than 50% of the friends of white students' parents have a college degree, contrasted to 30% to 35% of black and Hispanic students. Asian students have friends with high GPAs and parental education. When we examine only students from relatively disadvantaged backgrounds—in this case students with parents who did not graduate from high school—racial differences are smaller. Interestingly, it turns out that homophily in friend selection mostly has the effect of depressing the GPA of friends of black and Hispanic students with high GPA relative to white students with high GPA (Redd 2004). We also do not find evidence of true “social isolation” from the middle class. For black and Hispanic students whose parents do not have high school degrees, more than 25% of their friends have a parent with a college degree, and the large majority

of their friends have a parent with a high school degree. This results from reasonably high levels of SES-mixing in friendship formation (Quillian and Campbell 2003).

Table 2 uses this data to estimate crude models of friend influence. Like the earlier status attainment literature, these models do not attempt to separate friend influence from friend homogamy—a project that requires longitudinal data or exogenous instrumental variables. We instead use this simple OLS regression of respondent GPA on friends' average GPA, although we improve on the early status attainment literature by adding fixed effect variables for schools.⁴ Following the loose rule of thumb from Kandell (1978) and Cohen (1983), we estimate that friend influence is half of what we find here, translating to an increase in respondent GPA of .19 to .22 with a one unit increase in the average GPA of friends.

Finally, table 3 uses this data to compare estimates of the GPA effects of friends (or roommates in the case of Sarecdote 2001) to derive estimates of the extent of racial difference in GPA that can be explained by average GPA of friends. The Sarecdote (2001) estimates we present are likely too low for our sample. His study was based on students' roommates at Williams College, which has lower GPA variation than our high school sample and is based on roommates rather than friends. Lin (2005) uses the Add Health friendship data to estimate peer effects based on an econometric model that borrows from the literature on estimating spatial effects. His estimates vary greatly depending on controls in the model. Lin's weaker effects are similar to the effects we find based on coefficients estimated from table 2 and multiplied by .5 to represent an

⁴ Fixed effects include a dummy variable for each school, allowing the model to control for all average differences between schools. This provides a control for school-level characteristics. In models with school fixed effects, differences in GPA and friendship networks between schools do not contribute to the estimate of the effect of friendship network GPA on student GPA.

influence of homophily. Most of these estimates suggest friend effects account for about 15% to 20% of the racial difference in GPA between white and black students and white and Hispanic students.

Combined with the evidence from many studies that like-beget-like peer effects exist and may be reasonably important, the differences in average peer characteristics across race that we observe here are large enough to be a contributing factor to racial differences in school achievement. Our analysis suggests that peer effects matter, although they are far from a complete explanation of racial differences in schooling-related outcomes.

CONCLUSION

“Social capital” has become a catchphrase for the myriad ways in which social interactions matter. The broad framework provided by social capital discussions has been useful in many respects, but really understanding the importance of social capital involves going beyond the metaphor to assess specific processes and explanations.

Social capital explanations that contribute to understanding racial poverty gaps have tended to follow one of two logics. The first and more commonly used logic explains racial poverty gaps by references to social capital deficits of disadvantaged racial groups relative to advantaged groups. Inequalities in social capital result primarily from the combination of racial inequality with racial segregation or racial homophily, which results in relatively advantaged associates for members of advantaged groups and less advantaged associates for members of disadvantaged groups. To the extent that advantaged associates are of benefit in generating positive stratification outcomes,

differences in social networks then increase the advantage of the advantaged. In the second logic, homophily or segregation facilitates the development of dense social ties and common orientation among co-ethnics, which acts as a resource in generating positive stratification outcomes.

We have focused on four specific social capital explanations that follow these logics. Three follow the first logic of segregation plus inequality leading to social contextual disadvantage for disadvantaged racial groups, while one (ethnic social capital) follows the opposite logic of beneficial social capital arising from homophily or segregation. Table 4 provides a summary of conclusions regarding the four specific social capital explanations we have reviewed. For a social capital explanation to be important in understanding racial poverty gaps, there must be a large racial gap associated with the form of social capital considered by the explanation, and that form must have a large effect on outcomes related to poverty. Our review leads us to conclude that neighborhood collective efficacy, ethnic social capital, and school friendship networks are explanations for which good evidence supports their importance in understanding racial poverty gaps. For job finding networks, the evidence is weaker, largely because studies of the benefits of job networks relative to other methods of job search are mixed.

We conclude that the term “social capital,” then, covers several processes important for understanding racial disparities in poverty. On the other hand, we do not find reason to privilege social capital explanations over a variety of other processes such as discrimination that we believe to be equally or more important. In explanations

following the first logic we discussed previously, social capital exacerbates racial inequalities that result from these other factors.

We find the evidence especially compelling linking racial inequality and certain types of social capital disadvantage resulting from disadvantaged neighborhoods. Racial gaps in neighborhood conditions are very large. In the year 2000, for instance, a black or Hispanic family with income below the federal poverty line was about three times as likely to be living in a high-poverty neighborhood as a white family with income below the poverty line (Jargowsky 2003). Racial gaps in neighborhood conditions experienced by members of different racial groups are larger than differences in most measures of economic or social status. Research on neighborhood collective efficacy suggests that gaps in neighborhood conditions are linked to differences in rates of criminal victimization and offending. In impoverished neighborhoods with poor community social control, the temptation for youth to seek criminal means of social mobility rather than legitimate means are strong, with the high risk of becoming involved in the criminal justice system and the diminished legitimate career prospects that follow from this involvement. The increasingly long sentences for non-violent drug crimes further contribute to the likely importance of this explanation for racial disparities in poverty outcomes. Ongoing research on this topic should help to better clarify the part played by neighborhood social capital in the nexus of crime, criminal justice, and racial inequality.

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Table 1: Average Characteristics of Named Friends by Race

A. Average GPA of Named Friends

Student Race	All Students	N	Students without a HS Graduate Parent	N
White	2.97	30873	2.74	1282
Black	2.65	7382	2.51	475
Hispanic	2.62	7474	2.56	1711
Asian	3.15	2465	3.12	108

B. Average Percent of Named Friends with a Parent with a College Degree

Student Race	All Students	N	Students without a HS Graduate Parent	N
White	41.0%	30873	30.9%	1282
Black	34.1%	7382	28.9%	475
Hispanic	31.9%	7474	30.0%	1711
Asian	45.7%	2465	40.7%	108

C. Average Percent of Named Friends not Living with a Parent with a High School Degree

Student Race	All Students	N	Students without a HS Graduate Parent	N
White	5.5%	30873	9.4%	1282
Black	8.2%	7382	9.6%	475
Hispanic	12.5%	7474	14.8%	1711
Asian	7.7%	2465	8.3%	108

Source: Add Health in School Sample, 1994-1995

Note: Students of other races and multiracial students not included.

Table 2: Regression of Respondent's GPA on Friends' GPA, Parental Characteristics, and School Characteristics

Variable	No School Fixed Effects				With School Fixed Effects			
	Baseline		GPA of Friends		Baseline		GPA of Friends	
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
Race= White	(reference)		(reference)		(reference)		(reference)	
Race=Black	-0.33	0.01 ***	-0.19	0.01 ***	-0.29	0.01 ***	-0.20	0.01 ***
Race=Hispanic	-0.29	0.01 ***	-0.17	0.01 ***	-0.25	0.01 ***	-0.17	0.01 ***
Race=Asian	0.22	0.02 ***	0.13	0.01 ***	0.21	0.02 ***	0.14	0.02 ***
Mother's Grades in School Completed	0.04	0.00 ***	0.03	0.00 ***	0.04	0.00 ***	0.03	0.00 ***
Neither Parent has a HS Degree	(reference)		(reference)		(reference)		(reference)	
At least one parent HS, neither college	0.04	0.01 **	0.03	0.01 *	0.07	0.01 ***	0.05	0.01 ***
At least one parent has a college degree	0.22	0.02 ***	0.15	0.02 ***	0.23	0.02 ***	0.18	0.02 ***
Mother not in a Professional Occupation	(reference)		(reference)		(reference)		(reference)	
Mother in a Professional Occupation	0.03	0.01 ***	0.02	0.01 **	0.03	0.01 ***	0.02	0.01 **
Gender = Female	(reference)		(reference)		(reference)		(reference)	
Gender = Male	-0.15	0.01 ***	-0.08	0.01 ***	-0.17	0.01 ***	-0.10	0.01 ***
Born in the U.S.	(reference)		(reference)		(reference)		(reference)	
Foreign Born	-0.01	0.01	0.02	0.01	0.06	0.01 ***	0.06	0.01 ***
Average GPA of Friends			0.45	0.01 ***			0.38	0.01 ***
School Fixed Effects	No		No		Yes		Yes	
N	46980		46980		46980		46980	

Note: All Models are estimated with a constant but the constant is not shown.

* = p < .05; ** = p < .01; *** = P < .001

Table 3: Alternative Estimates of Peer GPA Effect

Author	Estimate(s)	% of White/Black Difference Explained	% of White/Hispanic Difference Explained	Explanation
Sarecdote (2001)	0.125	11.3%	10.4%	GPA roommate effect among students at Williams College. Based on random roommate assignment.
Lin (2005)	.840; .221	76.2%; 20.1%	70.2%; 18.5%	Spatial Autoregressive Statistical Model using Add Health data. Second estimate incorporates school by grade fixed effects and is not statistically significant.
Quillian and Redd, Table 2	.225; .190	20.4%; 17.2%	18.8%; 15.9%	Assumes half of peer effect spurious, following Kandel (1978). Second estimate incorporates school fixed effects.

Table 4: Summary of Four Social Capital Theories of Racial Poverty Gaps

Explanation	Racial Difference	Effect on Stratification Outcomes	Overall Effect on Racial Poverty Disparities
Job Finding Networks	Moderate	Small	Small increase
Neighborhood Collective Efficacy	Large	Moderate to Large	Moderate to large increase
Ethnic Social Capital among Immigrants	Large for Immigrants vs. Natives	Moderate	Moderate reduction
School Friendship Networks	Small to Moderate	Moderate	Moderate increase