

# Entrepreneurship and ethnic enclaves

A neighborhood-level analysis of bonding social capital

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## Abstract

We explore the effects ethnic enclaves in residential neighborhoods on non-employed immigrants' transition into entrepreneurship. Specifically, we investigate whether having many local entrepreneurs *in the same ethnic group* induces individuals to leave unemployment for entrepreneurship. Using geocoded Swedish full-population data for 2011-2012, we exogenously partition Sweden into a grid of 1 km<sup>2</sup> squares to represent neighborhoods, and study the behavior of the two largest non-European immigration groups: South-Saharan Africans and Middle Easterners. We demonstrate a robust tendency for people to leave non-employment for entrepreneurship, if many local members of the local diaspora are running their own firms. The results are generally insignificant with respect to entrepreneurial activity in other groups. The results support local ethnic social capital as important for immigrants outside the labor market. In conclusion, we discuss the powerful policy implications of the resulting social multiplier.

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