

Diversity, Institutions, and Economic Outcomes: Post-WWII Displacement in Poland by Charnysh (2019)

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- Charnysh (2019): *"Diversity, Institutions, and Economic Outcomes"*
 - Puzzle
 - Literature
 - Theory and Hypotheses
 - The Polish Case and Data
 - The Model and Empirical Findings
- Further Theoretical Implications

Puzzle: Heterogeneity and Economic Development

- Puzzle:
 - What is the effect of ethnic, linguistic, religious, genetic, or social heterogeneity on economic development?
 - Through what mechanisms diversity affects economic activities?

Literature:

- Weakening Economic Performance:
 - Negative association between ethnic diversity and the local provision of productive public goods (education, roads, sewers, and trash pickups) in the US (Alesina, Baqir, and Easterly 1999)
 - Genetic fractionalization as the origin of ethnic and cultural heterogeneity and consequent economic activities (Ashraf and Galor 2013)
 - Between-group inequality as a measure of heterogeneity is negatively associated with national public good provision across 46 countries (Baldwin and Huber 2010)

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 - Between-group inequality as a measure of heterogeneity is negatively associated with national public good provision across 46 countries (Baldwin and Huber 2010)
- Weakening Economic Performance:
 - Ethnic diversity is associated with lower primary school funding and worse school facilities in Kenya. Suggestive evidence that diversity leads to poor water well maintenance (Miguel and Gugerty 2005)
 - Ethnic Diversity leads to different cooperation strategies and varying levels of social sanctioning strategies (Habyarimana et al. 2007)

Suggested Mechanisms for Weakening Economic Performance:

Diversity resulting in

- Different preferences and tastes for cooperation
 - Diverse cooperative norms (Fearon and Laitin 1996)
- Different levels of social sanctioning technologies
 - Weak social ties (Fearon and Laitin 1996; Baldwin and Huber 2010)
 - Less identification and punishment of uncooperative individuals
 - Incapacity to impose social sanctions (Miguel and Gugerty 2005; Habyarimana et al. 2007)
- Different strategies to cooperate (Habyarimana et al. 2007, 2009)
 - Cooperate when co-ethnic and defect when others

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The inability to impose sanctions leads to

- Collective action failures
- Failure to provide productive public goods,
- Less social capital, economic activities, and economic growth.

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- In the long run,
 - Both rely on the state in public goods provision
 - Experience with a state-enforced public good provision making heterogeneous regions with
 - accumulation of state capacity (Slemrod 1992; Besley and Persson 2014)
 - better provision of productive public goods (Besley and Persson 2014)
 - more vigorous enforcement of rules and regulations (North and others 1990; Dincecco 2015; Bodea and LeBas 2016)
 - Conditional on having inclusive formal institutions:
 - more economic activities and better economic outcomes (Charnysh 2019; Acemoglu and Robinson 2012)

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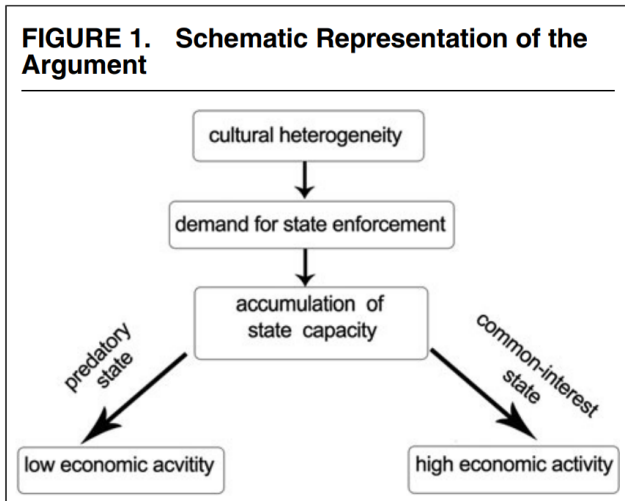


Figure 1: The Theory

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- ③ Higher state capacity facilitates economic activities only in common-interest states.
- ④ Changes in the quality of state institutions have a more significant influence on outcomes in heterogeneous communities.

The Polish Case

- The Case of Post-WWII Poland:
 - Considerable border changes after WWII with sizable population transfers and domestic migration
 - The emergence of as-if random regional variation in heterogeneous communities due to arbitrary and indiscriminate settlement and population decisions
 - Prevalence of salient social identities within heterogeneous migrant communities, with many intergroup conflict reports

A Tale of Two Cities

- The Homogeneous Communities:
 - Homogeneous German groups in West Poland with little the Polish state capacity
 - Shared norms, strong social ties, and networks allowing successful social coordination, public goods provision such as fire brigade, and facilitation of private economic activities.
 - Future state institutions had to compete with informal social and economic structures

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 - Future state institutions had to compete with informal social and economic structures
- The Heterogeneous West Polish Migrant Localities:
 - Diverse norms, weak social ties, and little state capacity lead to frequent group conflicts.
 - The following communist era institutions got quickly entrenched as popular demand for welfare and little social resistance

Data and Empirical Analyses:

- Data of 1,217 municipalities of the former German territories
 - Municipality-level (with legislative and self-governing bodies today)
 - Four major groups: repatriates from the USSR, Central Polish migrants, emigrants from Western Europe, and the autochthonous population
 - 1948: Diversity of migrants ($Div_{Migrant}$) (as-if random) and Population share of migrants ($Div_{Resettled}$) (historical control)

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- Dependent Variable
 - Volunteer Fire Brigades
- Model Specification:
 - The main model and further analysis with nonparametric covariate balancing generalized propensity score analysis:

$$y_i = \alpha + \beta \cdot Div_{Mig,i} + \gamma \cdot Div_{Resettled,i} + \theta \cdot X_i + D_j + \epsilon_i$$

Dependent Variables:

TABLE 1. Theoretical Concepts, Measurement, and Hypothesized Effects of *Migrant Diversity*

Concept	Measurement	Hypothesized effect
Reliance on informal enforcement	Volunteer fire brigades	—
Demand for formal enforcement	Presence of a municipal guard	+
Investment in fiscal capacity	Property tax rate and revenue	+
Economic activity under predatory state institutions	<i>State socialism (1980s)</i>	
	Shops	—
	Phones	—
	TVs	—
	Employment in socialized economy	+
	Employment in private handicrafts	—
Economic activity under common-interest state institutions	<i>Market economy (1990s onward)</i>	
	Personal incomes	+
	Entrepreneurship rates	+

Figure 2: The Dependent Variables

Empirical Findings:

FIGURE 4. Predicted Probability of Establishing a Municipal Guard at Different Levels of *Migrant Diversity* (Left) and Density of *Volunteer Fire Brigades* (Right). Based on Models 2 and 3 from [Table 2](#)

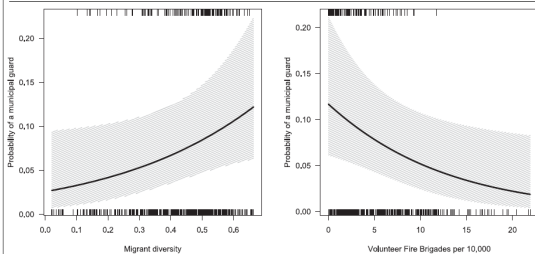
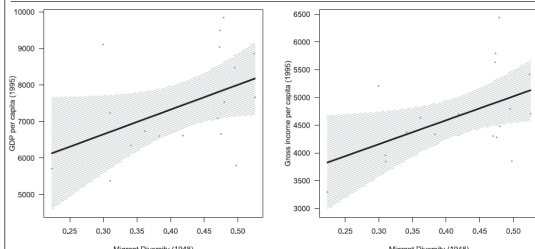


FIGURE 5. Gross Income and GDP in Provinces Affected by Population Transfers



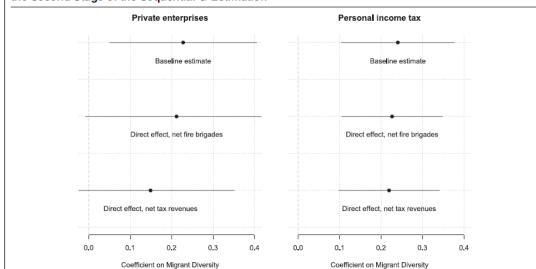
Empirical Findings:

TABLE 4. Diversity and Personal Income Tax per Capita (1–4) and Private Entrepreneurship (5–7). OLS Regression

	ln(Personal income tax)				ln(Private enterprises per 1,000)		
	1993 (1)	1995 (2)	1998 (3)	2000 (4)	1995 (5)	1998 (6)	2000 (7)
Migrant diversity	0.08 (0.25)	0.21** (0.05)	0.24** (0.07)	0.27** (0.07)	0.30** (0.11)	0.23* (0.09)	0.22** (0.08)
Share migrants	-0.03 (0.18)	-0.20** (0.04)	-0.09+ (0.05)	0.04 (0.05)	-0.05 (0.08)	0.06 (0.07)	0.10 (0.06)
Covariates	✓	✓	✓	✓	✓	✓	✓
District fixed effects	✓	✓	✓	✓	✓	✓	✓
Moran eigenvectors	✓	✓	✓	✓	✓	✓	✓
N	607	611	611	611	611	611	611
Adjusted R ²	0.02	0.68	0.57	0.66	0.69	0.67	0.68

+ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$.

FIGURE 6. Coefficient on *Migrant Diversity* and 95% Confidence Intervals from the Baseline Models and the Second Stage of the Sequential G-Estimation



Alternative Explanations:

- Persistent Cultural Differences:
 - District Fixed Effects, inconsistent effect of the migrant shares on social and economic outcome
- Human Capital and Skills:
 - No statistically significant differences in education across different levels of heterogeneity in 1978 or 1988, but the coefficient on Migrant Diversity is a positive and significant predictor of education levels in 2002
- State Policies and Disproportionate State Resource Allocation:
 - Heterogeneity not predicting higher prevalence of public schools and libraries, employment in the state sector, or the size of municipal budgets and compensatory subsidies during the Communist Rule
- Sorting:
 - More people are moving into heterogeneous communities than sorting into homogeneous communities.

Questions:

- Can the lessons from the Polish case apply elsewhere?
- To what degree could the 20th century-specific nation-building case apply today?
- Considering the massive influx of immigrants, could we argue whether the opposite could happen? The fear of immigrants leading people to bestow more authority to the state?
- Can we argue whether the salient partisan identities could lead to a similar effect?

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