

Uprooted: How post-WWII Population Transfers Remade Europe

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| Introduction

Mass uprooting of population is extremely common worldwide. In the last decade, the number of forcibly displaced people has grown by over 50%, surpassing 80 million in 2020.² States have routinely moved citizens within their territories – to exploit their labor, to crush resistance, or to create ethnically homogeneous societies. Interstate wars and civil conflicts have produced displacement on an even greater scale, as warring parties deported “enemy” populations or forced civilians to flee their homes. Mass migration is likely to further increase in the future, as climate change and weather-related crises make some regions uninhabitable.

It was in the twentieth century, dubbed the century of the refugee, that the world first began to deal systematically with mass uprooting. As shown in Figure 1, the Second World War and its aftermath was the largest single cause of forced migration in recent history, displacing more than 60 million people. In years leading up to the conflict, one million Germans, including two thirds of German Jews, fled Nazi persecution. In 1939-45, German occupation policy in Central and Eastern Europe displaced Jews, Poles, Karelians, Swedes, Bulgarians, Romanians, Hungarians, Croats, Serbs, Lithuanians, Ukrainians, and Russians. Around the same time, Joseph Stalin deported three million people, including Crimean Tatars, Chechens, and Germans, from the Soviet Union’s western borders to Siberia and Central Asia.

Mass uprooting continued after the war’s end. In 1945, the United States, the Soviet Union, and the United Kingdom revised German and Polish borders, sanctioning an even larger uprooting of civilians in order to match ethnic groups to new geopolitical realities. The victorious powers’ ostensible goal was to reduce interstate conflict by creating ethnically homogeneous nation-states. Winston Churchill described the transfer as a “clean sweep” after which there would “be no more mixture of populations to cause endless trouble.” Altogether, nearly 20 million Europeans, including 12 million Germans and 5 million Poles, were expelled, resettled or exchanged between states in 1944-1951 (Schechtman 1953). As this book will show, the legacies of this mass displacement continue to shape social and economic outcomes in contemporary Europe.

²UNHCR, “Forced displacement passes 80 million by mid-2020 as COVID-19 tests refugee protection globally.” December 9, 2020. <https://www.unhcr.org/en-us/news/press/2020/12/5fcf94a04/forced-displacement-passes-80-million-mid-2020-covid-19-tests-refugee-protection.html>

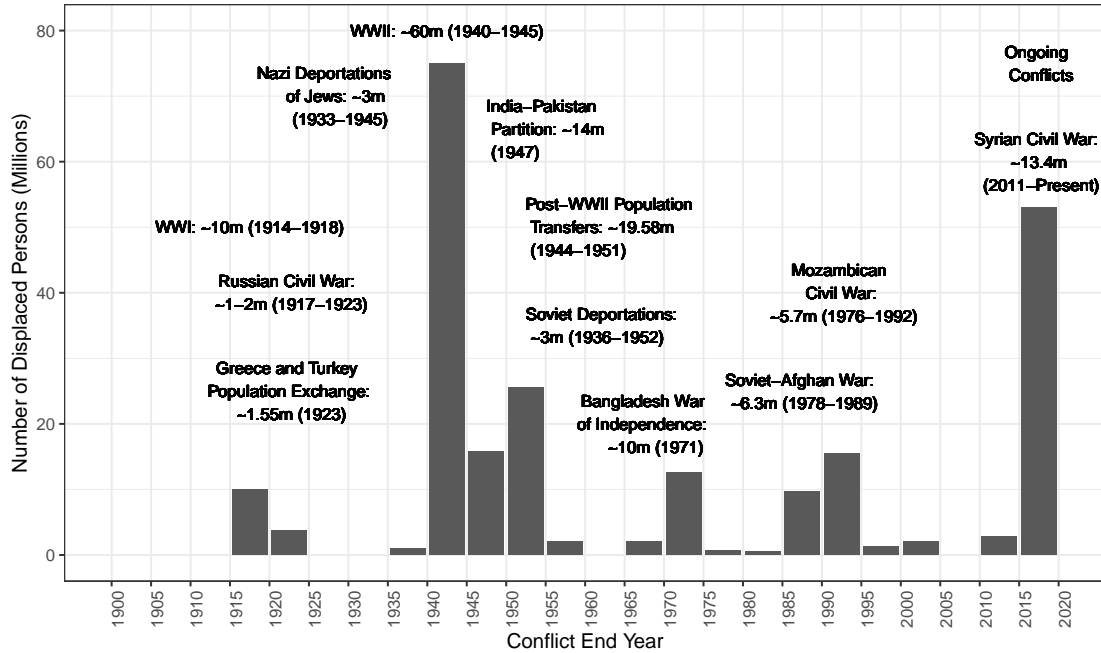


Figure 1: Major episodes of forced displacement in 1900-2021.

Mass displacement of Germans and Poles was precipitated by the westward shift in Poland’s borders, ratified by “The Big Three” at Potsdam in August 1945. The country ceded 46% of its prewar territory to the Soviet Union³ and received an equivalent 26% of its prewar territory from Germany east of the Oder-Neisse line as well as the region of the Free State of Danzig, as shown in Figure 2. The redrawing of borders displaced approximately two million Polish citizens whose homes were suddenly located outside of Poland, in the newly created Lithuanian, Belarusian, and Ukrainian Soviet Socialist Republics. It also uprooted approximately eight million ethnic Germans, who accounted for 90% of the population in Germany’s annexed eastern provinces.

One third of contemporary Poland, equivalent to 39,000 square miles, thus experienced a nearly complete turnover of population in a span of just a few years. With the exception of a few counties in Upper Silesia (southwest Poland) and Mazuria (northeast Poland), regions settled by ethnic minorities that the Polish government considered assimilable enough, the area was repopulated from scratch. Its new inhabitants, at over five million, included forced migrants from the territories annexed by the Soviet Union as well as voluntary migrants from central Poland and southern and western European states. These migrants took over the formerly German property and sought to erase all of the traces of the region’s prewar inhabitants by renaming towns and villages, tearing down German monuments, and removing German inscriptions and swastikas.

³This territory is divided today between Lithuania, Belarus, and Ukraine.

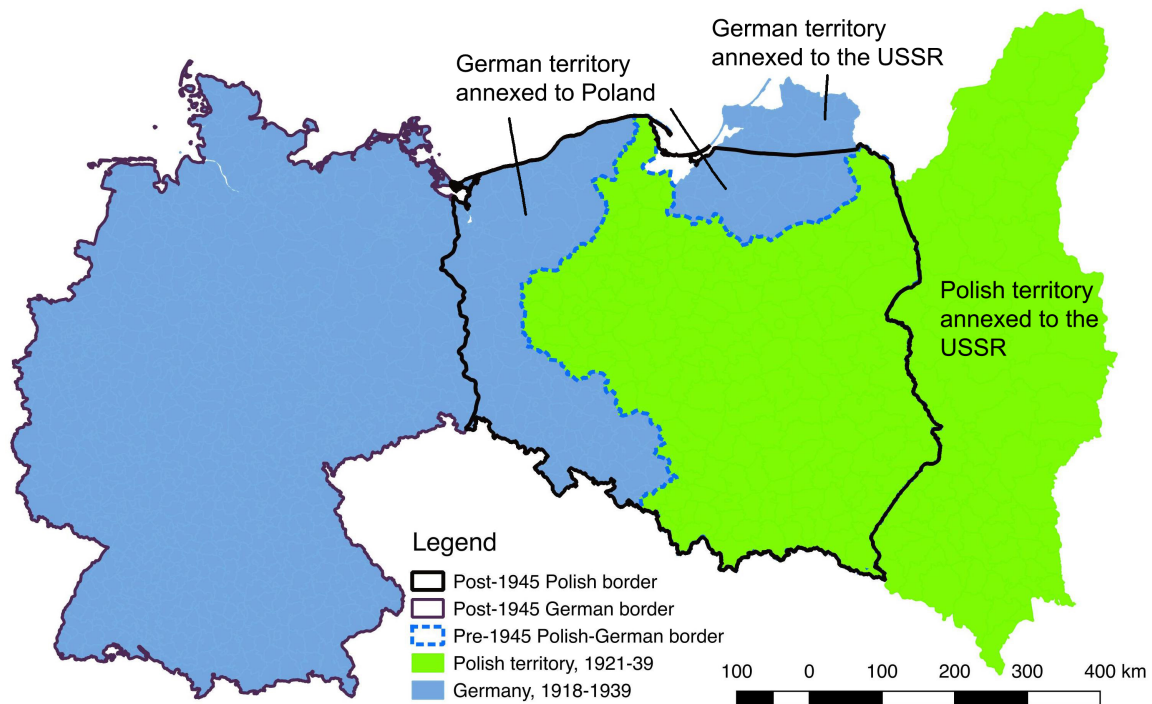


Figure 2: Changes in the borders of Poland and Germany after the Second World War.

As a result of these planned transfers as well as genocide and ethnic engineering implemented by Nazi Germany during the war, Poland became one of the most ethnically homogeneous states in Europe. This was a remarkable outcome, considering that ethnic minorities made up nearly a third of the country's population in 1931.⁴

At the same time, the population transfers considerably diversified the previously homogeneous towns and villages *within* Western Poland. Its postwar residents spoke different dialects and occasionally different languages, belonged to different religions, followed different religious rites within the same denomination, had dramatically different wartime experiences, and challenged each other's claims regarding Polish citizenship and identity. If one were to go by the terminology settlers used in daily life, she would conclude that after the resettlement was completed, the region was populated not only by Poles, but also by Germans, Ukrainians, Russians, Lithuanians, French, Greeks, Roma, Jews, and other ethnic groups. In particular, settlers from Central Poland often perceived migrants from eastern territories annexed by the USSR as Ukrainians or Russians and the autochthonous population as Germans (Halicka 2013, 270-274; Thum 2011, 178-181). A migrant from USSR recalled in a memoir that he and his family were repeatedly told by other settlers to "go back to Ukraine, where they belonged" (Koniusz 1971, 38). As Thum (2011, 180) observes in his study of Wrocław (Breslau), "Not until the individual groups were suddenly thrown together in the western territories did it become evident that Poland had been a multiethnic state all along."

Population movements in even higher absolute numbers occurred in Germany, reduced in size by approximately 25% compared to its 1937 borders. Devastated from the war and divided into four occupation zones, the country received 12.5 million forced migrants, including expellees from the territories lost to Poland and the Soviet Union as well as ethnic German minorities who were no longer welcome in Eastern and Central Europe.⁵ By 1950, roughly eight million refugees were resettled in West Germany and another four million in East Germany. Forced migrants comprised approximately one fifth of the German population. Due to housing constraints, most were allocated to small rural communities, which had no prior experience with immigration and perceived expellees as a cultural and economic threat. Some refugees wound up in overcrowded refugee camps instead. The German expellees lost most of their

⁴According to the 1931 Census, which undercounted ethnic minorities in the east of the country, only 68.9% of the population was Polish. Poland's three million Jews were murdered during the Nazi occupation. Most members of Poland's Ukrainian, Lithuanian, and Belarusian minorities were now located east of the new Polish-Soviet border, in their ethnic republics. The fate of Poland's German minority as well as the *Volksdeutsche* settled in Poland during the war was similar to the fate of Germans who lived east of the Oder-Neisse line.

⁵Aside from the *Reichsdeutsche*, who originated in the territories that belonged to Germany before WWII, the largest group of forced migrants was some 3 million ethnic Germans from Sudetenland in Czechoslovakia.

property; many struggled to rebuild their lives in the unfamiliar and often hostile environment.

Even though “Germanness” was a key reason for their uprooting, 43% of refugees had not been German citizens before the war. Most were perceived as outsiders or even foreigners by the indigenous population. No matter where they came from, they were insulted as “Polacks”⁶, Russians, Gypsies, have-nots, and backward people from “the East” more broadly (Connor 2007, 83; Kossert (2008, 75-77); Ther 1998, 290-91). A US-administered opinion poll in Baden-Württemberg in November 1946 found that only half of the native respondents viewed expellees as fellow citizens. Even more strikingly, that 40% of expellee respondents disavowed German identity and described themselves as Hungarians, Czechs, Romanians, and so on (Merritt and Merritt 1970, 20). In the north of the country, the population petitioned the English field marshal Montgomery for the administrative separation of Schleswig and Holstein on the ground that “[t]he flow of refugees from the eastern regions threaten[ed] to wipe out [...their] ancestral Nordic character ...” (Kossert 2008, 74). In the south, at the 1947 rally of the Bavarian Party, its founder called for local farmers to throw out the refugees and likened marriages between Bavarian farmers and refugee women to “incest.”⁷ In short, the vague notions of shared nationality espoused by policymakers in Germany and Poland had less meaning on the ground, where ethnic borders were fluid. Previously minor differences became salient markers once people from different regions became neighbors.

How did the uprooted populations form ties to their new states and societies? What were the long-run social and economic consequences of migration for the receiving communities? Did it matter where migrants came from or how poor they were? The two cases of Poland and Germany provide a unique opportunity to reexamine existing theories about the consequences of mass migration and resulting social heterogeneity for state building, public goods provision, and economic development.

Existing research on migration, diversity, and social networks

Existing research suggests that forced migration can weaken states and societies, particularly when migrants come from different cultural background than the native population. The arrival of refugees strains state resources, provokes intergroup tensions, and disrupts the balance of power in the receiving communities. In developing countries, forced migration has been linked to civil war,

⁶Derogatory term for ethnic Poles.

⁷“Bekannte Ängste”. Oct 12 2015. *Bayerische Staatszeitung (BSZ)*.
URL: <https://www.bayerische-staatszeitung.de/staatszeitung/politik/detailansicht-politik/artikel/bekannte-aengste.html#topPosition>.

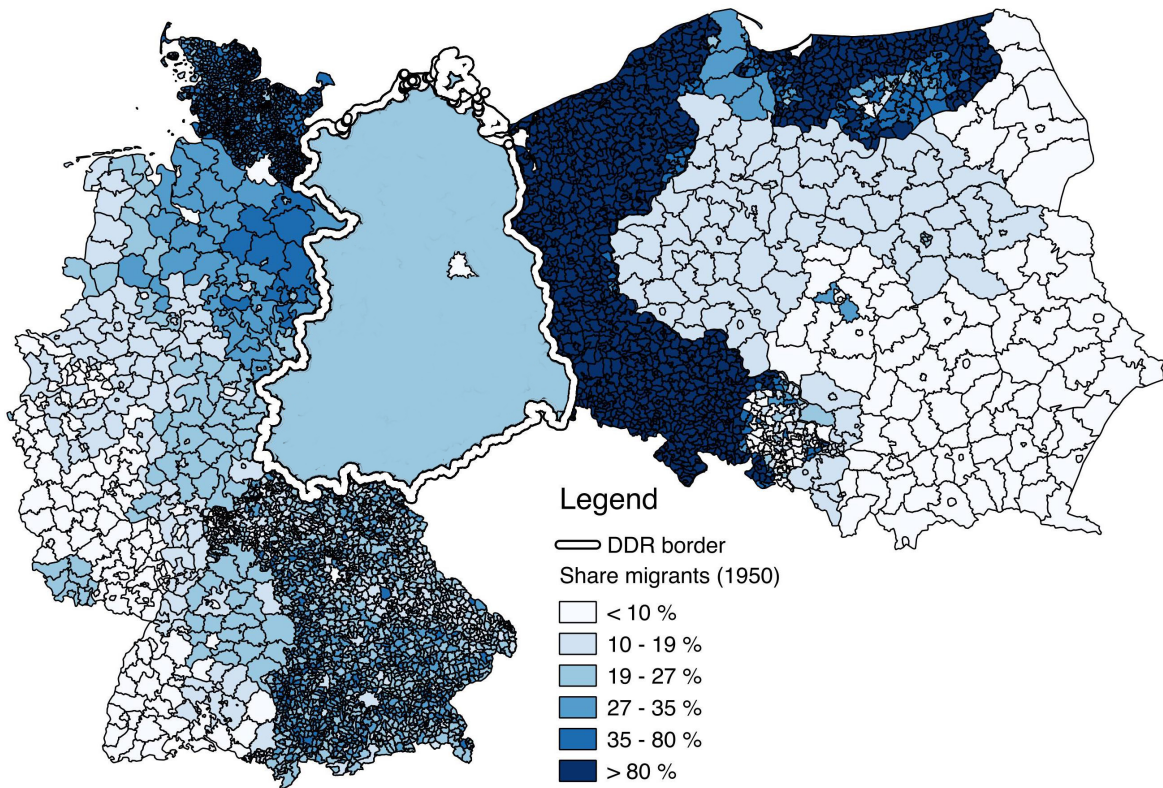


Figure 3: The extent of uprooting in Poland and Germany after the Second World War. Data for the GDR (DDR) are at the country level. Data for regions that were in Poland before 1945 are at the province level.

interstate conflict, and terrorism (Salehyan 2008; Salehyan and Gleditsch 2006; Rügger 2019; Choi and Salehyan 2013; Choi and Piazza 2014). In contemporary Europe, scholars and pundits fear that immigration will increase political radicalization – among forced and voluntary migrants, who experience economic deprivation and social marginalization, as well as among the natives, who perceive immigration as a cultural or economic threat (Rooduijn 2017; Visser et al. 2014; Burgoon et al. 2019; Gidron and Hall 2019; Sachweh 2020).

Even when large-scale immigration does not lead to violence and radicalization, it may breed interpersonal distrust and antisocial behavior (Keefer and Knack 2005; Sonderskov 2011) and reduce societal willingness to contribute to public goods (e.g., Knack and Keefer 1997; Zak and Knack 2001; Putnam 2007; Stolle, Soroka, and Johnston 2008; Costa and Kahn 2003). The underprovision of public goods and low interpersonal trust, in turn, produce negative economic externalities (e.g., Knack and Keefer 1997; Zak and Knack 2001; Putnam 2007; Stolle, Soroka, and Johnston 2008; Costa and Kahn 2003). The claim that diversity undermines economic development, in particular, is considered “one of the most powerful hypotheses in political economy” (Banerjee, Iyer, and Somanathan 2005, 636). This “diversity development deficit” resonates with rising public concern over the economic impact of immigration.⁸

To some extent, existing literature offers conflicting predictions for the consequences of post-WWII displacement in Poland and Germany because this episode of displacement produced ethnically homogeneous states. On the one hand, accommodating millions of disgruntled and impoverished individuals in the aftermath of a destructive war could increase social instability and undermine economic development. On the other hand, the achievement of ethnic homogeneity could prevent future intergroup conflict and pay off economically, just as the Allies intended. After all, scholars generally agree on the benefits of ethnic homogeneity, even though they no longer accept forced population transfers as a legitimate means to this end.

In the book, I challenge both of these perspectives. I show that mass displacement, a traumatic event, can strengthen states and benefit local economies by increasing cultural heterogeneity at the subnational level. More specifically, I argue that forced migration creates new cleavages based on the experience of displacement and the region of origin even when migrants and natives share ethnic identity. The negative effects of displacement and resulting heterogeneity on cooperation and public goods provision are real, but short term. Indeed, by weakening migrants’ ability for self-help collective action, mass displacement can strengthen state institutions, binding the uprooted population to the incumbent regime. Finally, uprooting and mixing of people from different cultures increases entrepreneurship and investment in human capital, benefiting local economies in the long run.

⁸Esipova, Neli, Julie Rray and Anita Pugliese. World Grows Less Accepting of Migrants. Sep. 23, 2020. <https://news.gallup.com/poll/320678/world-grows-less-accepting-migrants.aspx>

The argument

To gain a better understanding of the prospects of post-migration societies, I propose tracing their trajectory of social and economic development over a longer timeframe. To that end, I study the impact of mass displacement at a critical juncture – “time zero,” the period of fundamental institutional and social transformation in Western Poland and West Germany – on social and economic development at various points in time. I ask not only how first-generation migrants learned to live together in their shared communities, but how their presence transformed formal and informal institutions and thus shaped the social and economic outcomes of subsequent generations.

First, I argue that forced migration can create new social cleavages based on migration status and place of origin. This is the case even when the displaced population belongs to the same ethnic group as the native population. To develop the insight, I build on the theoretical perspective articulated in Barth (1969) that emphasizes the role of contact in defining contrasting group identities. This view privileges “self-ascription and the ascription of others” over “objective cultural traits” that characterize different ethnic groups. It focuses on the boundaries that define groups rather than on the “cultural stuff” that groups enclose (Barth 1969, 15).

Mass uprooting creates new cleavages through two related processes. One is the accentuation of cultural differences between groups through intergroup interaction and physical proximity. Most cultural traits, as language, dialect, religion, dress, customs, and strength of national attachment, vary across space. As large numbers of people from one region move to another, their distinctiveness from the locals is more easily observable. Other traits that produce migration-based cleavages are created by the experience of forced displacement itself. Refugees are subjected to violence and discrimination and their legal status at destination is often uncertain. These traumatic experiences unite individuals that may have had little in common prior to migration and at the same time set them apart from the native population and voluntary migrants (Schwartz 2019).

Another process is increased competition over resources in communities on the receiving end of displacement. The arrival of refugees may create strains on local economies, particularly in the aftermath of protracted conflict. The native population acquires an incentive to defend their access to land, housing, and jobs and mobilizes around its indigenous status. Refugees also have an incentive to coordinate on their group identity to overcome native resistance and obtain more resources. As group membership becomes increasingly important for preserving or acquiring material goods, group boundaries become solidified (Caselli and Coleman 2012; Pengl, Roessler, and Rueda 2021; Bates 1974). Such competition is more likely when migrants settle in densely populated places and when intergroup inequality is high, but they may be unrelated to objective cultural differences between refugees and natives. In this way, local-level interaction and

competition generates new divisions between individuals who may belong to the same ethnicity or nationality.⁹

Migration-based cleavages will have important implications for cooperation in affected communities. I expect them to operate in ways similar to ethnic cleavages by increasing the heterogeneity of preferences and reducing willingness to invest in public goods. Multiple studies have shown that ethnic heterogeneity reduces agreement on which public goods should be provided and lowers willingness to sacrifice for the wellbeing of others (Kymlicka and Banting 2006; Lieberman 2003; Rueda 2018; Alesina, Baqir, and Easterly 1999; Lieberman and McClendon 2013; Habyarimana et al. 2009). Salient group identities will undermine cooperation at the local level regardless of whether they are based on ethnicity or migration status.

Where I depart from existing literature on ethnic diversity is by proposing that by creating new divisions and weakening cooperation at the subnational level, mass displacement can shore up the role of the state. Conflicts that inevitably arise between migrants and natives necessitate state intervention. Uprooted heterogeneous communities have more to gain from relying on centralized state authority than tight-knit homogeneous communities because they are less successful at organizing collectively and providing local public goods. Relatedly, individuals in such communities are more likely to turn to the state or other formal organizations for credit, insurance, and protection because they cannot turn to their family or community.

If the state can meet this increased demand, it expands its societal reach and integrates the uprooted populations politically and economically. State-builders' priorities vary, but they are typically motivated by internal and external threats (Tilly 1990; Herbst 1990; Wimmer 2012; Darden and Mylonas 2016). Concerns about intergroup conflict and political stability incentivize states to allocate more resources to investment in uprooted and culturally heterogeneous communities, where the risks of conflict are higher, relative to the more self-sufficient homogeneous communities (Tajima 2014; Distelhorst and Hou 2017). The more resources the government invests, the stronger ties develop between the migrant population and nascent political institutions. Over time, more frequent and encompassing state-society interactions in heterogeneous uprooted communities enhance the state's ability to monitor private economic activity and collect revenue. In this way, mass displacement may contribute to the formalization of social relationships and the accumulation of state capacity, provided the centralized state already exists and allocates sufficient resources to incorporating the displaced populations. The dynamic is self-reinforcing: Higher state capac-

⁹This part of the argument relates to the literature on the sons of soil conflicts, understood as conflicts between members of an indigenous ethnic group ("sons of soil") and recent immigrants from other regions (e.g., Fearon and Laitin 2011), but does not rely on ethnic differences. Instead I expect that migration itself will produce cleavages between natives and newcomers. Indeed, there are cases where displacement generates new ethnic groups, such as the Mohajirs or Muslims who migrated from India to Pakistan after the Partition of India (Chandra 2006).

ity increases the state's ability to collect revenue and to provide public goods, and reduces the incentives to rely on community-provided substitutes, which facilitates the buildup of state capacity.

I further argue that the mixing of culturally diverse populations may increase private entrepreneurship and produce superior economic outcomes in the long run. Several related mechanisms contribute to this outcome. One is the greater reach of state institutions and increased supply of centrally-provided public goods, which have been shown to increase the returns to productive economic activity and lower the costs of economic exchange (Besley and Persson 2014; Dincecco 2017; North 1990). While many public goods can be provided endogenously through informal norms and networks, this latter solution is only "second-best," as it limits the gains from specialization and economies of scale, lowers competition, and can result in market segmentation (Fafchamps 2004; Robinson 2016). Importantly, the accumulation of state capacity advances private economic activity only in states with "good" formal institutions. Such states are variously categorized as inclusive or common interest because they protect property rights and enforce contracts of all citizens (Acemoglu and Robinson 2012; Besley and Persson 2014). An increase in the administrative capacity of a predatory state may lower the returns to productive economic activity by increasing the risk of expropriation.

Second, skill complementarity, innovation, and competition that come with migration and cultural heterogeneity are more conducive to economic growth. Uprooted populations may be more productive economically because they have fewer assets and are less reliant on preexisting networks, which creates a more flexible and mobile labor force, with positive economic externalities for local markets. People who come from different cultures bring new ideas and experiences, which results in complementarities in production and stimulates entrepreneurship and innovation (Alesina, Harnoss, and Rapoport 2016; Peri 2012; Brunow, Trax, and Suedekum 2012). These benefits of migration and diversity are again more likely to pay off in states with high-quality institutions.

To summarize, mass displacement creates new cleavages by rearranging groups in space and increasing competition for local resources. Migration-based cleavages operate in ways similar to ethnic cleavages by increasing tensions and reducing cooperation for the provision of local public goods. At the same time, by weakening cooperation between individuals in the affected communities, an influx of heterogeneous migrant populations can shore up the role of formal state institutions in the provision of public goods. An important scope condition for this first part of the argument is that the state already exists and has sufficient baseline capacity to govern. Greater reliance on formal state institutions, in turn, creates more opportunities for predictable and enforceable arm's length transactions and facilitates private economic activity. Migration and diversity may also increase economic productivity by diversifying skills, increasing competition, and encouraging occupational changes and entrepreneurship. Counterintuitively, mass uprooting in the aftermath of a destructive conflict can advance economic development in the long run. This second part of the argu-

ment requires that formal state institutions protect private property rights and enforce contracts.

Evidence from displacement in Poland and West Germany

I evaluate this argument using qualitative and quantitative evidence from communities affected by forced population transfers in Poland and West Germany, countries with different regime types, economic systems, and policies toward the uprooted population. If mass uprooting had comparable social and economic consequences in such contrasting environments, then we can be more certain that posited theoretical mechanisms operate regardless of these contextual factors.¹⁰

Although both countries received millions of refugees, the logistical challenges they faced were different in some important respects. Poland faced a gargantuan task of repopulating one third of its territory and building Polish institutions where none existed. The newly acquired provinces were a frontier to be settled and integrated with the rest of the country. The state would nationalize formerly German property and redistribute some of it to forced and voluntary migrants. The Polish case thus amounts to a quasi-natural experiment that created artificial communities from migrants who varied in their regional origins and postwar experiences, but received comparable amounts of property. By contrast, West Germany had to accommodate millions of refugees in an already densely populated territory, where local institutions remained largely intact. The immediate concerns of the German government were to provide housing, food, and employment to the newcomers. Some refugees were initially accommodated in camps, but most were quartered in the homes of the disgruntled native population. Refugees received financial assistance from the state, but remained considerably poorer than the native population for decades after the resettlement. The uprooting in postwar West Germany thus more closely resembles contemporary cases of forced displacement, where refugees arrive into communities with preexisting population and institutional structures.

Studying the consequences of mass displacement in Poland and West Germany side-by-side is particularly informative because the two countries had different economic and political institutions and adopted divergent approaches to integrating their refugee populations.¹¹ Poland was a Communist autocracy that suppressed political organization and independent civil society. Expellees from

¹⁰The case of East Germany, on the other hand, shares many parallels with Poland. Both countries were communist autocracies that refused to acknowledge refugees' suffering and treated them on par with other needy citizens. (Ther 1996).

¹¹I chose to focus on West Germany because its political and economic system offers a greater contrast to Poland than that of East Germany and because is significantly less data available on forced migration and social and economic development in East Germany.

the Polish Kresy were considered “repatriates,” a term that denied their victimhood and obscured the circumstances of their emigration. The government imposed homogenizing educational policies on both migrants and the indigenous population. By contrast, West Germany held democratic elections, and both refugees and natives were able to organize politically and make claims on the state through democratic channels.¹² Refugees received state funding for cultural and educational activities necessary to preserve their culture.

The two countries’ economic systems were also fundamentally different, which is important for evaluating the effects of migration and cultural diversity on economic activity. Poland adopted a command economy; the government nationalized most of the industrial sector, pursued forced collectivization of agriculture, and suppressed private economic activity until the 1980s. By contrast, West Germany adopted a market economy already in the 1940s; private economic activity was encouraged and state ownership and intervention were limited.

Evaluating the argument requires explaining variation in social and economic outcomes over both space and time *within* each case. In particular, I need to account not only for the micro-level variation in the provision of public goods across migrant communities, but also for the changes in the fortunes of these communities over time. To do so, I use a mixed methods approach. My quantitative analysis relies on four original datasets: hand-collected archival data on the composition of population in over a thousand municipalities (*Gminy*) in the Polish territories acquired from Germany in 1945; village-level data on the birthplaces of Polish migrants resettled to Upper Silesia in 1945-46; a survey of the descendants of forced migrants conducted in 2015 in Upper Silesia; and commune (*Gemeinde*) and county (*Kreise*) level data on refugees in northwest Germany from the 1946 and 1950 censuses. My qualitative evidence comes from archival sources, memoirs, newspapers, and secondary literature in Polish and German and is based on fifteen months of field research.

Using data from Western Poland, I show that uprooted communities initially struggled to provide basic public goods and services, as migrants coming from different regions viewed each other with suspicion and distrust. Migration status and regional origin became a powerful marker of group membership, particularly because the interests of the locals and the newcomers were sometimes zero-sum. At the same time, societal dislocation facilitated the expansion of the Polish state in the west: the newly acquired Polish territories accumulated greater state capacity than other parts of Poland. During the Communist period, there were no significant differences in levels of wealth and private economic activity between the resettled communities that varied in the heterogeneity of migrant population. However, following the transition to a market economy, communities settled by more heterogeneous migrant population reached higher rates of private entrepreneurship and income levels. The descendants of postwar migrants are

¹²Last restrictions on refugee political activity were lifted in 1950. Parties representing refugee and native interests participate in the government alongside the traditional parties based around class cleavages.

wealthier and better educated than the population in the regions they had left.

The integration of the refugee population in West Germany was also largely successful. This seemed all but certain in the aftermath of expulsions, as the receiving communities reacted to the inflow of expellees by tightening fiscal policy and supporting nativist parties. Excluded from local institutions, expellees relied on democratic means to channel their demands on state (*Land*) and federal levels. The measures taken to address refugees' economic and social needs, in turn, contributed to the expansion of administrative capacity. Although parties on both the far left and the far right courted the expellee vote, expellees endorsed the Social Democrats in the first federal election, in line with their preferences for a more active and redistributive state policy. Moreover, the expellees' presence wound up benefitting the receiving communities in the long run. By the late 1980s, counties that received larger and more diverse refugee population not only caught up with counties that received a smaller or more homogeneous refugee population, but also reached higher entrepreneurship rates and education levels. In the 2000s, higher-inflow counties had greater incomes and registered more enterprises per capita, particularly in the professional, scientific and technical activities sectors, which depend on high-skilled workers and drive innovation.

Altogether, these findings indicate that uprooting and social heterogeneity generate superior institutional and economic outcomes in the long run, even as they create short-run challenges.

Contribution

The book advances our understanding of institutional and economic development in societies diversified by immigration and contributes new empirical knowledge and data on post-WWII population transfers.

I show that group boundaries can be formed out of ethnically homogeneous populations, with real consequences for the provision of public goods at the community level. Although shared identity motivated policymakers' decisions to uproot millions of German and Poles after the change of international borders, the resettlement created new cleavages and conflicts that proved detrimental to communal cooperation and political stability in the short run.

At the same time, the book challenges the conventional view that migration and resulting social heterogeneity are detrimental to institutional development and economic performance. Instead, I show that heterogeneity can shore up the importance of formal institutions in curbing free riding in public goods dilemmas, facilitating the accumulation of state capacity over time. I further argue that the state's enhanced ability to regulate economic and social behavior may create more opportunities for economic exchange, resulting in greater entrepreneurship rates and higher incomes, provided state institutions protect property rights of all societal groups. This insight corrects the perception of informal social capital as unambiguously favorable for economic performance. While informal norms

and networks may play a vital role when state institutions are absent or dysfunctional, they provide a poor substitute to formal institutions in developed market economies such as post-1989 Poland and West Germany.

The project also makes an empirical contribution. Whereas previous research has treated post-WWII refugees in Germany and Poland as internally homogeneous populations and focused on macro-level comparisons, my more fine-grained approach accounts for denominational and cultural differences among different groups of refugees as well as between the refugees and natives. In order to explore heterogeneity within refugee populations, I compiled historical data on their origins at the level of communities.¹³ This administrative unit is much smaller than the level of county or region, used in the previous analyses of post-WWII population transfers in Poland and West Germany. I also created cross-walks for aggregating historical to contemporary administrative units, which will enable scholars to study the consequences of post-WWII population transfers over a longer time frame than previously possible. I find that the assumption that the population transfers homogenized Polish and German societies breaks down when we zoom in to this level. While the governments adopted homogenizing policies toward the migrant population, mass migration created new identity cleavages that shaped political and economic behavior for several generations. The ethnic homogeneity of contemporary Poland and Germany is thus a product of active state and nation building policies adopted by each country in response to mass uprooting of their populations.

In the 1950s, the indigenous communities' reaction to refugees who shared their nationality was not unlike the anti-immigrant backlash currently observed in European communities coping with the arrival of refugees from the Middle East.¹⁴ Indeed, these are often the exact same communities. Looking back in time suggests that these integration challenges are temporary. Another, more important lesson from the postwar period is that active state presence is essential for enforcing cooperation in communities undergoing rapid demographic changes and for enabling refugees to contribute to local economies.

Organization of the book

Chapter 1 presents a historical account of how border changes and migration in the aftermath of WWII reshaped the ethnic landscape in Poland and Germany. It briefly discusses when and how the decision to move millions of Germans and Poles formed and provides background on the characteristics of affected population and the resettlement process. I emphasize three key points. First, the population groups displaced after the war were extremely heterogeneous; the policymakers' assumption of singular ethnic attachments did not reflect the

¹³These are *Gminy* and, for some analyses, villages, in Poland and *Gemeinde* in Germany.

¹⁴Indeed, the book shows that even though refugees came from the same ethnic community, there were widespread fears that they would change local identity and culture.

complexity and ambiguity of group identification on the ground. Second, the vast majority of migrants did not select into migration; they were either expelled based on their ostensible nationality or forced to relocate following the revision of borders that assigned their settlement to a foreign state. Third, the share of migrants and the regional composition of the migrant population in a given locality were determined by an arbitrary assignment process and thus uncorrelated with economic development and state capacity at the local level.

The rest of the book traces the short and long-run consequences of population transfers for the receiving states and societies.

Part I. Social cohesion and contributions to public goods

The first part of the book asks how population transfers affected social cohesion and contributions to public goods in the receiving communities. Researchers generally agree that identities are constructed and endogenous to their economic and political environments, but the process of construction and maintenance of group boundaries remains understudied (Darden and Mylonas 2016; Singh and vom Hau 2016; Posner 2005; Wimmer 2013). Instead, most scholars take a given subset of politically relevant groups and examine their effects of various outcomes. The literature using this approach has concluded that people are less willing to contribute to the welfare of individuals from different ethnic or racial groups (Alesina, Gennaioli, and Lovo 2019; Kymlicka and Banting 2006; Lieberman 2003; Rueda 2018; Putnam and Goss 2002) and that the overlap between group boundaries and income levels is particularly detrimental to the provision of public goods (Baldwin and Huber 2010; Alesina, Michalopoulos, and Papaioannou 2016). However, economic inequality is often itself a source of new cleavages, as individuals invent and police intergroup differences when doing so benefits them in the distribution of scarce resources (Bates 1974; Caselli and Coleman 2012; Pengl, Roessler, and Rueda 2021; Wimmer 2013).

The decision to uproot millions of Poles and Germans after the war was based on then widely held assumption that ethnic identities were paramount. The policymakers who sanctioned the population transfers sought to create homogeneous states by concentrating all Germans in Germany and all Poles in Poland. They believed that slotting Poles and Germans into their own states would reduce ethnic conflict. How well post-war migration achieved this goal, however, is ultimately an empirical question. This book shows that by rearranging ethnically homogeneous populations in space, population transfers created new intergroup divisions instead. These new boundaries – based on migration status and regional origin – undermined the provision of collective goods at the community level.

In **Chapter 2**, I focus on the differences *within* the territory Poland acquired from Germany. I compare communities settled by migrants from different regions to more homogeneous resettled communities. I draw on migrants' memoirs and archival sources to trace the process of "boundary-making" in the newly formed communities. I find that although the native-migrant cleavage was par-

ticularly salient, given conflicting economic interests of these two groups, migrants also used regional markers to order social relations between each other. Next, I study the consequences of these newly created boundaries using an original village-level dataset on population origins. I show that volunteer fire brigades, which provide a local public good and have a long tradition in Poland, were less likely to form in heterogeneous migrant villages, relative to both homogeneous migrant villages and villages dominated by the indigenous population.

Chapter 3 examines how the allocation of expellees into tight-knit rural communities affected intergroup relations and contributions to municipal budgets in West Germany. In this case, forced migration amounted to a real-world shock to subnational economic inequality, as the refugees lost most of their property during the expulsions and were distributed into communities that suffered the least during the war. Using qualitative evidence, I show that the native population policed group boundaries between themselves and expellees in order to defend their economic status and that expellees likewise coordinated on their shared postwar identity to secure political power and shape resource distribution in their new communities. I then analyze the effects of intergroup boundaries on public goods provision using an original historical dataset of municipal tax rates in 1950-1970. I find a U-shaped relationship between the share of refugees and the tax on land: tax rates are lowest when refugees make up nearly half of the local population (i.e. when political polarization between refugees and natives is high) and increase with the share of the dominant group (refugees or natives). Although refugees had greater demand for public investment, they were able to influence tax rates only when they outnumbered the natives in the local council.

Part II. State building in the wake of mass displacement

Mass uprooting coincided with a critical juncture in state development in both Poland and West Germany. In territories east of the Oder-Neisse line, Polish institutions did not exist before 1945 and the new order was established from scratch. Institutional continuity was greater in West Germany, which nevertheless experienced a regime change, denazification of state administration, and significant decentralization of the economy and governance structures. Did the inflow of forced and voluntary migrations help or hinder postwar state building? How did the new migrants form connections to their new state institutions?

Scholars have argued that rapid social change breeds violence and instability (Huntington 1968, 4). The arrival of refugees strains state resources, provokes intergroup tensions, and may disrupt the interethnic balance of power. At the same time, “massive societal dislocation” is one of the most common historical conditions to have produced strong states (Migdal 1988, 269). How do we reconcile these contradicting perspectives? I argue that forced migration and resulting cultural heterogeneity can increase both the demand for state presence and the supply of state resources. On the supply side, states have strong incentives to prioritize regions and populations with greater risks of instability and conflict. Concerned about communal violence, they may seek greater control and deliver

more public goods to uprooted and culturally heterogeneous communities to allay social tensions. On the demand side, uprooted communities have more to gain from relying on centralized state institutions capable of coordinating between opposing interests and curbing free-riding in collective action dilemmas than tight-knit homogeneous communities. Uprooted individuals are also more likely to turn to the state or other formal organizations for credit, insurance, and protection since they cannot turn to their extended family and community. At the same time, the state can penetrate and govern uprooted populations more easily because such communities lack effective collective action mechanisms to oppose state encroachment. I expect migrants to form stronger connections to new political institutions when the state was able to meet their needs, i.e., when the supply of state-provided resources matched the demand.

In **Chapter 4**, I show that postwar displacement was an integral part of state creation in Poland. The resettlement of Polish migrants in the west made them more dependent on state institutions by rupturing communal ties, depriving them of land and property, and placing them in culturally heterogeneous environment. At the same time, the uprooting of the native German population allowed for immediate nationalization of all land and property in the frontier region, providing the Polish government with resources to distribute to Polish migrants. As a result, the Polish Communist Party had an easier time establishing control over the formerly German region than over the more settled parts of the country as it was the only authority able to provide order and allocate resources. The newcomers' attachment to state institutions was strengthened as they credited their economic advancement in the West to the new regime. To support these claims, I compare the resettled provinces to the Polish territory just east of the pre-WWII border, which shares the legacy of German rule but did not experience large-scale uprooting of the population. I show that the state accumulated higher administrative capacity and assumed bigger role in the economy in the resettled (western) region during the communist period. After the democratic transition, the resettled region demonstrated higher support for the communist-successor party, the SLD, than the neighboring territory that did not experience uprooting.

Chapter 5 examines the process of state building in West Germany. Whereas the Polish state suppressed political organization, West Germany held elections at the local, state, and federal levels. Expellees and natives could channel their demands on the state through democratic institutions. I show that expellees depended on the government for the enforcement of their rights vis-à-vis the native population and for the provision of social services. In the first federal election, they were more likely to vote for the Social Democrats, who endorsed greater state planning and redistribution than competing parties. The chapter shows that considerable administrative and fiscal resources were mobilized to facilitate refugee integration through one-off payments, business loans, tax incentives, and state-sponsored resettlement programs. West Germany also offered partial compensation for expellees' property losses, funded through a levy on capital. Just as in Poland, the presence of expellees increased administrative capacity

at the county level. However, the center-right government prioritized economic reconstruction and was reluctant to impose significant taxes on native business owners to finance refugee integration.

Part III. Long-run economic consequences of uprooting

Part III explores the long-run economic consequences of uprooting and resulting cultural heterogeneity. Forced migration is generally considered a development challenge: the displaced populations lose their assets and livelihoods and impose a significant burden on the receiving communities. Whereas voluntary migrants choose destinations based on the availability of jobs and preexisting support networks, forced migrants frequently end up in places with limited resources, where their occupational skills are useless and where their presence provokes native opposition. Relatedly, the claim that diversity undermines development is sometimes considered “one of the most powerful hypotheses in political economy” (Banerjee, Iyer, and Somanathan 2005, 636). It seems uncontroversial that a high inflow of impoverished refugees from diverse places of origins may strain local economies. And yet, empirical studies on the economic impact of forced migration on the host communities have produced mixed results. A meta-analysis of 59 studies on the impact of forced displacement on employment and wages in the host communities shows that 6 in 10 results are not significant. Among the significant results, negative effects on wages and employment predominate, but they are short-term (defined as one-year or less). Furthermore, the probability of observing a decrease in household wellbeing among the receiving population, which is a more comprehensive indicator, is lower than one in five (Verme and Schuettler 2020).

Building on this literature, I ask how the share and the composition of migrant population matter for economic outcomes and why some communities affected by forced migration are more economically successful than others today. I trace the economic effects of forced migration and heterogeneity of migrant population over an extended period of time and across different institutional contexts. I consider several channels that may result in beneficial economic outcomes in the long run in communities diversified by the inflow of forced and voluntary migrants. One is greater state presence in places with more heterogeneous population, which may increase the returns to productive economic activity. Another is the benefits of diverse skills, experiences, and ideas that come from the heterogeneity of the migrant population and increase economic productivity and innovation (Alesina, Harnoss, and Rapoport 2016; Peri 2012; Brunow, Trax, and Suedekum 2012; Hong and Page 2001, 2004). I also examine the change in occupation structure and human capital that may result from the loss of property in the aftermath of displacement (e.g., Becker et al. 2020; Lüttinger 1989).

Chapter 6 compares the economic performance of homogeneous and heterogeneous migrant communities *within* the resettled region in Poland. I start by showing that homogeneous and heterogeneous communities were economically similar during the communist period. In some respects, homogeneity even paid

off. I then show that the fortunes of heterogeneous and homogeneous migrant communities diverged after 1989, with heterogeneous communities registering higher levels of private entrepreneurship and income per capita than homogeneous communities. I conclude that greater reliance on formal state institutions played a decisive role in contributing to this positive outcome.

In **Chapter 7**, I evaluate the economic consequences of forced migration in West Germany using county-level data from the four postwar censuses. I show that communities that received more refugees experienced higher unemployment and lower entrepreneurship in the first two decades after the war. Over time, however, refugee presence benefited the receiving communities because refugees who lost income from land and real estate were forced to invest in human capital and create their own businesses. I show that by the late-1980s, counties that received larger numbers of refugees had higher entrepreneurship rates and education levels than counties that were less exposed to postwar migration. Similar to the Polish case, the heterogeneity of refugee population had a consistently positive effect on economic activity: conditional on the share of the refugee population, entrepreneurship and education level were higher in counties where refugees came from more diverse origins. Furthermore, districts that received a more heterogeneous mix of refugees had higher incomes and registered more enterprises per capita, particularly in the knowledge industries, in the 2000s.

The final chapter reviews the theoretical and empirical contribution of the book and the implications of the analysis for broader debates in the fields of comparative politics and political economy. I conclude by discussing the lessons from Europe's first wave of forced migration for the ongoing refugee crisis on the continent.

A note on terminology

Throughout this book I often use value-neutral terms from social science research as well as the terms adopted by the Polish and German governments for political reasons. This approach is not unproblematic from the normative standpoint. Yet as Carpenter (2012, 366) argues, terms disconnected from “the real human beings and their struggles” are sometimes necessary as they “protect the scientific community and the idea of research for its own sake from the kind of politicization that can undermine the scientific enterprise.” In this specific case, terminology used during the historical period under study also facilitates interpretation, reflects the historical context and differences across different groups of refugees more accurately, and is consistent with the secondary literature on the subject. I briefly discuss some of the issues with the specific terms used in the book here.

The term “population transfers” is used to refer to the large-scale resettlement sanctioned at the Potsdam Conference; it is helpful for separating state-sponsored relocation programs from voluntary migration. The more affective term of “ethnic cleansing” is less precise and currently politicized, so it is gen-

erally avoided in the book.¹⁵ I use the term “expulsion” to describe the forced removal of ethnic minorities by the government or majority population and “re-settlement” to describe the distribution of forced and voluntary migrants in a new area. Some of these terms are “value-neutral,” but it is important to remember that the majority of those caught up in post-war population transfers were refugees. They had no choice but to leave home once the state borders were moved; they were transported in inhumane conditions to new, arbitrarily assigned destinations, where they were unwelcome.

The book also uses historical terms applied to different types of migrants by contemporary policymakers, even though these terms fail to represent migrants’ experiences. For example, forced migrants from the territories east of the Curzon line are sometimes named repatriates (*repatrianci*), the term adopted in the 1940s to hide the involuntary nature of the resettlement process and to portray these migrants as returning “home, to the ancient Polish lands.” In reality, these migrants were uprooted from their homes to the areas that historically belonged to Germany and for a long period lived in uncertainty about the future of their new towns and villages. The occasional use of official terminology in this case facilitates transparency and interpretability, because census data and other official documents use these terms.

The standard term used for German forced migrants from outside post-1945 Germany is expellees (*Vertriebene* or *Heimatvertriebene*). Before 1953, a number of different terms were used, including *Aussiedler*, *Vertriebene*, *Flüchtlinge*, *Ostvertriebene*, *Heimatvertriebene*, *Ausgewiesene*, *Heimatverwiesene*. The term *Vertriebene* was first adopted in the American Zone, to signal that the expulsion was final and the return was impossible. The expellees were defined in the 1953 Law on Expellees (*Bundesvertriebenengesetz*) as “Germans who, as citizens of the former German Reich or as ethnic Germans living in other lands, [...] had to leave their homes as a consequence of World War II” (Ther 1996, 782). The term refugee (*Flüchtling*) was reserved to Germans fleeing the Soviet zone of Germany. In reality, both *Flüchtlinge* and *Vertriebene* were forced migrants. In the Soviet zone, the terminology was more euphemistic: German refugees from the east were first considered “resettlers” (*Umsiedler*) and later, even more optimistically, “new citizens” (*Neubürger*) (Connor 2007, 8). These official terms concealed the reality of expulsion and violence that accompanied relocation. Yet they also reveal important differences in state policies toward the same population. West Germany allowed expellees to organize and express political demands (after a brief ban lifted by 1950) and refused to recognize the new border on the Oder-Neisse line until 1970. East Germany, on the other hand, aimed to emphasize that the Germans from the east were resettled in an orderly and legal manner, that the border was final, and that the newcomers should assimilate.

Expellees were also defined by their origin as National Germans (*Reichsdeutsche*), who came from areas that formed part of pre-1937 Germany, and Ethnic Germans (*Volksdeutsche*), who had for generations lived as ethnic mi-

¹⁵See Rieber (2000, 3) for a similar approach.

norities in other states. The latter term was first introduced by the Nazi government to identify people who had German origins but not German citizenship. I generally avoid the term because of these associations, but it is used in recent historical work on post-war population movements (e.g., Connor (2007)).

3 | Forced Migration and Public-Goods Contributions in West Germany

In this book, I argue that mass resettlement after WWII undermined social cohesion and reduced public goods provision at the community level. This chapter evaluates the argument in the context of high intergroup inequality in West Germany. Recall that having lost everything, German expellees were allocated to tight-knit rural communities that survived the war relatively unscathed. The expulsions thus increased not only cultural diversity, but also economic inequality in the receiving communities. Research in ethnically diverse countries tells us that the overlap of group boundaries with economic status is particularly detrimental to the provision of public goods (Baldwin and Huber 2010). However, migrants and natives shared German ethnicity and had just survived a brutal war in which their fortunes were closely intertwined. Indeed, the “shared experience of war and defeat” appeared to have “strengthened [German] nationalism and sense of community” (Hughes 1999, 39). Studies show that people exposed to violence behave more cooperatively and altruistically toward ingroup members (Bauer et al. 2016; Barr 2004; Gilligan, Pasquale, and Samii 2014).

Were expellees perceived as ingroup members in the receiving localities? How did their presence affect the provision of local public goods and welfare?

In the first part of the chapter, I show that population transfers created a new cleavage between natives and refugees in West Germany. Expellees were easy to spot because of their accents, dress, and general poverty. The natives generally perceived newcomers as a political and cultural threat and sought to exclude them from local associations. The expellees largely stuck together, organizing mutual aid societies and asserting their rights. Intergroup inequality exacerbated tensions: native property owners were reluctant to pay more taxes to support the expellees. The expellee-native cleavage dominated, while divisions between expellees from different regions were less salient. Indeed, as soon as the restrictions on their political organization were lifted, the expellees founded their own political party, the Bloc of Expellees and Dispossessed Persons.

In the second part of the chapter, I analyze municipal data on tax rates and local elections in Schleswig-Holstein, a northwestern state that received most expellees per capita. West German municipalities (*Gemeinde*) had considerable autonomy over their budgets and funded much of local spending through prop-

erty taxes, determined by elected local councils.¹ Since the expellees owned virtually no land and few businesses in the immediate postwar period, the local tax disproportionately fell on the native population, while spending benefited both groups. Tax rates can thus be used as a proxy for the willingness to contribute to public goods in communities with different shares of refugees.

By analyzing tax rates and election results, I am able to test several implications of my argument. If forced migration reduces contributions to public goods, then these locally determined tax rates should be lower in communities that received more refugees after the war. In addition, we should observe polarization of preferences along group lines rather than income alone, with rich and poor natives voting together against fiscal policies preferred by the expellee group. Because local budgets were set by elected representatives, the refugee share at the community level should influence tax rates by changing the composition of the local councils.

I find that the rate of taxation on residential property depends on which group dominates the local community. When natives are in the majority, tax rates decrease with the share of expellees. This pattern is consistent with the reluctance of native property owners to contribute to the municipal budget in response to the changes in the demographic structure of their community. However, when expellees are in the majority, the relationship reverses; tax rates increase with the share of expellees. These effects are present not only in the 1950s, when intergroup inequality was particularly high, but appear to have endured into the 1970s, 25 years since the end of the war. This empirical pattern affirms the two seemingly contradictory claims: forced migration increases the demand for public spending, but communities affected by forced resettlement reduce contributions to public goods. The results are most consistent with polarization across group lines, whereby refugees and natives vote as cohesive blocs and hold divergent preferences on the level of public spending.

3.1 The emergence of the refugee-native cleavage

The majority of expellees (57%) were German citizens already before the war, as they came from the eastern provinces of the former Reich. Expellees originating from other countries also received German citizenship shortly after arrival. More broadly, membership in German community was traditionally based on shared blood and culture. Institutionalized in 1913 law, the *jus sanguinis* principle allowed Germans outside the Reich to retain their citizenship, passing it down to their children indefinitely (Brubaker 1992, 168). Expellees thus had the same legal rights as other Germans under pre-1945 legislation. Indeed, expellees' German identity served as grounds for their expulsion, as discussed in Chapter 1.

¹A similar system was introduced in Poland after the decentralization reforms in the early 1990s.

When expellees arrived in Germany, however, they wound up on the margins of the German community. As Demshuk (2006) puts it, they were “citizens in name only.” Reacting to expellee presence, the native population in rural areas mobilized to protect their own culture and identity, reviving and accentuating old traditions and excluding the expellees from civic associations (Connor 2007, 84). Differences in dialect, religion, and customs contributed to expellees’ isolation, and for this reason *Volksdeutsche*, who had for generations lived outside Germany, felt particularly unwelcome. However, tensions between natives and expellees cannot be explained by cultural traits alone, as even the expellees from the territory east of the Oder-Neisse line who were culturally similar to the local population were perceived as outsiders and suffered discrimination. The loss of homeland and resulting social and economic challenges set the *Reichsdeutsche* expellees apart from the native population from the same pre-war state. In this way, forced migration created a new cleavage within postwar Germany, which would influence political behavior and public investment in the receiving communities.

In this section, I rely on expellee memoirs, media reports, public opinion polls, and rich secondary literature to substantiate these claims.² Because West Germany was democratic and did not try to suppress expellee identity, in contrast to Poland, post-war texts are relatively more open about the existence of exclusionary social boundaries between refugees and the natives.

3.1.1 Foreigners in their own land

Even though German ethnicity was the key reason for their uprooting, expellees were often perceived as foreigners in their new communities. Intergroup tensions were exacerbated by the allocation of refugees to the countryside, into the tight-knit and culturally homogeneous communities that had less experience with outsiders. A US Officer described the salience of refugee and native identities as follows: “[T]here is no difference between a Nazi and Anti-Nazi, Black and Red, Catholic or Protestant. The only difference is between natives and refugees” (quoted in Erker (1990, 384).). Forced displacement thus created a new cleavage within the ostensibly homogeneous community of Germans that would remain salient for decades.

According to the 1946 survey in the US zone of Baden-Württemberg, only 49% of the native population considered the expellees to be German citizens (Merritt and Merritt 1970, 20). By the end of 1947, this proportion increased to 67%, which still means that one third of native Germans did not acknowledge the expellees as compatriots. Taking natives at their word in the immediate postwar

²In October 1945, the Office of Military Government of the United States for Germany (OMGUS) created a public opinion survey unit with the aim of understanding German preferences to facilitate democratization. Thanks to the administration of the food ration card system, the unit had access to a regularly updated list of all persons living in each community in the US zone and could therefore design “a practically ideal sample under nearly worst possible conditions” (Merritt and Merritt 1970, xviii).

period would mean imagining that postwar Germany was inundated by Poles, Russians, Prussians, and Gypsies. These were some of the ethnic terms natives applied to the refugees, often in more derogatory forms (Kossert 2008, 49).

Indeed, expellees' legal equality was not immediately assured. Local and state governments were initially reluctant to enfranchise the expellees and grant them full access to the formal labor market welfare benefits. Expellees received full citizenship rights only on the insistence of the occupation authorities (Demshuk 2006; Carey 1951). For instance Carey (1951, 196) observes that residence requirements at the state level "prevent[ed] many refugees from actually beginning to vote or to run for office in local communities or for election to the state legislatures until 1948." Erker (1988, 47–48) notes that only repeated urging of the Military Government forced the Bavarian administration to extend welfare benefits to refugees beyond the emergency aid.

Literature on ethnic politics has emphasized that some ethnic markers are more effective in enforcing group membership than others because they are easily observed (Caselli and Coleman 2012). Ethnic cleavages based on a shared history and "linked fate" alone, without additional differences of skin color, religious denomination, or language are sometimes considered less powerful (but see Posner (2004a) for a contrasting view). From this perspective, cultural distance between natives and expellees who lived within pre-1937 Germany was modest. However, it appears that refugees were seen as "foreign" and dangerous regardless of where they came from. Ingetraud Lippmann, whose family fled Königsberg (East Prussia) to Kehdingen (Lower Saxony), recalls: "When the arrival of a few more refugees was announced, [the locals] said: 'More Polacks are coming.' But we were also Germans and came from Germany. . ." (Lippmann 2001).

Strikingly, anti-refugee sentiment was often expressed in racist terms. For instance, the Landrat of Griesbach claimed that refugees were culturally inferior to the Bavarian people (Connor 2007, 67). In Schleswig-Holstein, political satire depicted the social democratic Prime Minister Hermann Lüdemann as a "Prussian" pied piper, who brought the tens of thousands of "Slavic" refugees into the "Germanic" Southern Schleswig (Kossert 2008, 71–75).

Different group markers became salient in different parts of Germany, but there is consistent evidence that first-generation expellees were easy to spot because of how they looked and spoke. One signifier was dialect, which applied not only to German minorities coming from abroad, but also to the population of the annexed eastern territories resettled to Southern Germany, where the native population had strong regional accents. In some regions, denominational differences also played a role. The distribution of Protestant expellees into predominantly Catholic regions and of Catholic refugees into predominantly Protestant regions diversified the denominational map of Germany that had remained stable since the 1555 Peace of Augsburg. For example, in Bavaria the number of exclusively Catholic or Protestant parishes fell from 1,564 in 1939 to just nine in 1950 as a result of refugee influx (Menges 1959, 13). Northern German states experienced similar trends. For instance, in Lower Bavaria, the

Catholic natives sometimes referred to Protestant Reichsdeutsche as “Lutheran bloodhounds” (Spiegel-Schmidt 1959, 75). Even within the same denomination, religious customs and traditions seemed irreconcilable. Catholic Germans from Silesia did not recognize the Catholic hymns and rites in Westphalia, where they were settled (Connor 2007, 77). In Bavarian Viechtach, Protestant refugees refused to join the Bavarian Protestant State Church due to strained relations with the natives (Spiegel-Schmidt 1959, 49).

Contact between expellees and natives initially reinforced cultural differences between these two groups. For instance, some Bavarian villages moved to revive old customs to emphasize their difference from the newcomers by reintroducing annual carnivals and county fairs that were long forgotten. They also policed group membership and sought to prevent refugees from wearing traditional Bavarian costumes (Erker 1990, 404).

The cleavage between refugees and natives became formalized with the founding of new identity-based political parties. The native population organized first, as its political activity was less restricted during the military occupation. In Bavaria, the grievances of the locals led the 1946 founding of the Bavarian Party, which ran on a violently anti-refugee platform. At a 1947 rally the party’s co-founder Jakob Fischbacher argued that “[t]he refugees have to be thrown out, and the farmers have to help vigorously” and likened the marriage between Bavarian farmers and refugee women to “incest.”³ The party won 17.9% of the vote in the 1950 state election. In Schleswig-Holstein, the native population supported the Schleswig-Holstein Community (*Schleswig-Holsteinische Gemeinschaft, SHE*).

Expellees also organized to advance their interests. Because there was a ban on their political activity until 1950, they invested in economic and cultural endeavors, drawing on associational models from their home region. By 1948, refugees in Bavaria organized a hundred Emergency Associations (*Notgemeinschaften*) to coordinate their activity.⁴ Some associations catered to refugees from specific places of origin, such as the Aid Office for Sudeten Germans (*Sudetendeutschen Hilfsstelle*, banned by the US Military government in 1946), the Emergency community of East Germans in Bavaria (*Notgemeinschaft der Ostdeutschen in Bayern*), and the “Interest Group of the People Displaced from the East” (*IGO*).⁵ Beginning locally, refugee associations spread across West Germany and coalesced into two umbrella organizations, the Central Association of

³“Bekannte Ängste.” Oct 12 2015. *BSZ. Bayerische Staatszeitung*. URL: <https://www.bayerische-staatszeitung.de/staatszeitung/politik/detailansicht-politik/artikel/bekannte-aengste.html>topPosition

⁴The German Emergency Association in Munich managed to secure a political party license by omitting refugees and emphasizing the establishment of a committee to support war veterans and victims of the currency reform (Carey 1951, 197).

⁵For instance, IGO was constituted as a political advocacy group for refugees, but also took care of their cultural needs by hosting annual gatherings that were closed to the natives, presenting Heimatfilms, and organizing dance parties.

German Expellees (*Zentralverband Vertriebener Deutschen, ZvD*), focused on political influence, and Homeland Societies (*Landsmannschaften*), organized based on regional origins for the purpose of the preservation of regional culture and the right of return to the lost homeland. Once the ban on their political organization was lifted, the refugees established the Bloc of Expellees and Dispossessed Persons (*Block der Heimatvertriebenen und Entrechteten, BHE*). The BHE campaigned by activating expellee identity and promised to address the various injustices expellees suffered in Germany.

While their minority status in West Germany encouraged expellees to work together regardless of their regional origins, there were many divisions within this group as well, albeit less salient than the native-refugee cleavage. While the desire to return home was overarching for all expellees, expellees from different regions disagreed on how to achieve this goal. Germans from the territories annexed to Poland and the Soviet Union campaigned for the return of lost territories. By contrast, the Sudeten Germans were advocating the formation of a new government Bohemia, Moravia, and Silesia that would be blind to ethnic divisions. Expellees from Danzig (now in Poland) formed a government in exile, advocating the return of the Free Status of this city. Expellees from other Central and Eastern European countries advocated for negotiations with their countries of origin to secure their return (Carey 1951). More broadly, 40% of the expellees disavowed German identity and described themselves as Hungarians, Czechs, Romanians, etc (Merritt and Merritt 1970, 20).

3.1.2 The limits of German solidarity

The overlap of refugee status with poverty exacerbated tensions. German expellees had lost most of their possessions and were purposefully allocated to parts of Germany with minimum wartime damage. As Philipp M. Raup of the Food & Agriculture Organization wrote in October 1946: “The people who lost the most were suddenly in close contact with farmers who lost the least” (quoted in Kossert (2008, 79)). This was by design. As noted in Chapter 1, housing availability – not occupational structure, cultural affinity, or local preferences – ultimately determined the number of refugees settled in a particular locality, and the housing stock in cities was destroyed by wartime bombing.⁶

Opinion polls indicate that native Germans did not feel responsible for supporting the impoverished expellees and had little empathy for the refugees’ plight. In November 1946, only 28% of respondents said that Germans should “care for the expellees,” while 46% placed the main burden on the state expelling them and another 14% on the Allies (Merritt and Merritt 1970, 19). The chairman

⁶Nationwide statistical surveys at the end of 1949 showed that of the refugees who had lived in municipalities with more than 5,000 inhabitants before the expulsion, only around 13% had found accommodation in places of comparable size in West Germany (Pellengahr 2002, 123). Many expellees were initially settled in camps, including those used for forced labor during the Nazi Period.

of the home and landowners association of Heidenheim at a meeting in October 1950 claimed that the refugees “who hadn’t been Germans five years ago” now lorded over the native population and were the winners, whereas the native population were “treated like the Jews in the Third Reich” and were the real losers of the war (quoted in Kossert (2008, 105)).

Natives resented having to share their homes and supplies with the newcomers. A shocking headline from a 1952 newspaper offers a taste of how unhappy some of them were: “Quadruple suicide because of lodgers. Two rooms were to be given to a refugee family.” The article reports that an elderly couple and their two daughters committed suicide on the day they had to vacate two rooms to expellees, having lost after almost two years of fighting with the local authorities.⁷ This was an isolated incident and most of the time, the native population retaliated by charging excessive rent or requiring refugees to work on their farm in return for board and lodging.

Altruism did not cross group boundaries, even in communities where expellees and natives had similar economic needs. For example, in Greven, a 15,000-person town located in Westfalen, not only the expellees but also many natives lost homes and thus needed housing assistance. It would seem that the two groups shared an interest in rebuilding the community. Yet they failed to come together to address this problem. The network of mutual aid mobilized immediately to assist the natives in rebuilding their damaged homes. Grottendieck (1999, 265-67) writes: “From the pulpits, pastors called for help, farmers cut wood free of charge for those in need, and furniture collections were initiated. Anyone planning a new building or an extension in the village was put under moral pressure to stop their construction activities, so that all bricklayers and other building workers could be deployed in the north quarter [where the damaged houses were located].” Meanwhile, the expellees continued to live in crowded and squalid conditions in the surrounding countryside, spending their allowances on paying local farmers and struggling to get to the city for work. Refugee plight was of concern to the Refugee Committee in Greven, but the local population was conspicuously absent from its meetings. Frustrated at the inaction of the municipal government, the refugees formed the “Community of interests of the expellees from the East” to assist one another (Grottendieck 1999, 267).

Qualitative research indicates that refugees were excluded from voluntary associations dominated by the natives (Pellengahr 2002; Grottendieck 1999). Interviews with refugees conducted by Schulze (2002, 43) in Celle (Lower Saxony) a half-century after the resettlement, reveal that “admission to the natives’ associations, in particular to the prestigious volunteer fire brigades, village church choirs, rifle associations and bowling clubs which were important in the social life of rural areas, was only granted hesitantly, and that in some places these traditional bastions of native rural elites often remained closed to them for decades.”

⁷“Vierfacher Selbstmord wegen Untermieter. Zwei Räume sollten einer Flüchtlingsfamilie überlassen werden.“ 1952. *Eutiner Kreis-Anzeiger* (March 13).

Exclusion was often accompanied by physical separation. As refugees were able to find their own housing, they often lived on the outskirts of the original settlements. Traces of such segregation are visible to this day in street names such as the "Königsberger Straße" or the "Breslauer Straße" located away from historical town centers.⁸ Physical separation often led to administrative divisions down the road. Ingetraud Lippmann recalled a particularly shocking sign of exclusion, burying expellees on the edge of the cemetery, "namely in the dog cemetery" (Lippmann 2001). This is not an isolated occurrence; creating separate graveyards for the newcomers was reportedly a common practice in Bavaria, leading the authorities to request the end of this discriminatory practice in 1947 (Connor 2007, 79).

A constant theme in expellees' accounts is the lack of support from the better-off natives at the time of extreme deprivation. One of most basic problems with employing expellees in the immediate postwar years was not simply the lack of jobs, but refugees' lack of the change of clothing and shoes (Bauer 1982, 207). There were reports of refugee children missing school in winter because of the lack of adequate clothing: in Oldenburg (Schleswig-Holstein) 12.9% of refugee schoolboys had no socks and 25% – no waterproof shoes (Connor 2007, 24).

Expellees were overrepresented among the recipients of various forms of social assistance in 1949-1952 (see Table 3.2). Due to the mismatch between newcomers' skills and local conditions as well as discrimination in the labor market, unemployment rates were much higher among the expellees than among the natives (see Table 3.1). Economic inequality persisted for decades. In 1964, the average value of refugees' household wealth and savings amounted to 26,000 DM, just over half of that of the native population (47,000 DM), according to a nationwide survey (Kossert 2008, 108). As late as 1970, the first- and second-generation refugees still had lower earnings and home ownership rates than natives (Falck, Heblich, and Link 2012; Thomas K. Bauer and Kvasnicka 2013; Kossert 2008).

High intergroup inequality between expellees and the natives in West Germany is a key difference from the situation in postwar Poland, where forced and voluntary migrants took over property abandoned by the expellees and the communist government reduced disparities in wealth through nationalizations, expropriations, and redistributive policies. There was no shortage of jobs in the west and although life was not easy, even forced migrants from the Eastern Borderlands acknowledged that their economic situation improved after the resettlement.

⁸Königsberg is now Kaliningrad (Russia) and Breslau is now Wrocław (Poland).

Table 3.1: Unemployment rates among refugees and natives in 1949.

State	Unemployed (N)	Unemployed refugees (N)	Unemployed refugees (%)	Refugee share (%)
Schleswig-Holstein	221184	129365	58.49	34.90
Hamburg	71874	1441	2.00	5.90
Niedersachsen	367701	159514	43.38	26.80
Nordrhein-Westfalen	196107	25514	13.01	9.10
Bremen	17457	1448	8.29	6.90
Hessen	132977	36304	27.30	15.40
Württemberg-Baden	68298	23818	34.87	18.40
Bayern	406295	162129	39.90	21.00
Baden	11227	1691	15.06	5.60
Württemberg-Hohenzollern	12229	5426	44.37	8.00

Source: Connor (1989, 190).

Table 3.2: Share of refugees among the recipients of various forms of social assistance in 1949-1952.

	Immediate Aid (1949-1952)			Public Welfare (1950)
	Subsistence benefits (%)	Household help (%)	Housing (%)	On welfare (%)
Schleswig-Holstein	81	90	80	40.9
Hamburg	17.3	31	10	2.1
Niedersachsen	79.7	89	75	34.1
Bremen	19	38	20	9.8
Nordrhein-Westfalen	51	55	26	13.6
Hessen	72.2	80	65	25.5
Rheiland-Pfalz	40.2	45	-	12.5
Baden-Württemberg	63.3	81	65	39.4
Bayern	67.9	76	70	41.2

Source: *Statistisches Taschenbuch über die Heimatvertriebenen* (1953, 89-94).

3.2 Tax rates as indicator of public goods preferences

Although they had full rights of German citizens at the national level, expellees were perceived as outgroup members in the receiving communities. How did their presence influence the provision of local public goods and welfare?

To address this question, I use municipal tax rates, a good proxy for the local willingness to contribute to public goods. German municipalities had considerable fiscal autonomy almost immediately after the war.⁹ All residents (including the expellees) elected representatives to the local council, who, in turn, decided on tax rates and spending.¹⁰ The federal government (established in 1949) set the legal definition and the valuation procedure as well as the uniform minimum rate (*Steuermesszahl*), while the local council decided on an additional rate (*Hebesatz*) on agricultural land (*Grundsteuer A*), residential and commercial land (*Grundsteuer B*), and business capital stocks and profits (*Gewerbesteuer*). Although municipalities also received additional transfers from the state and federal levels in relation to their population size and economic situation, and could incur debt to finance their expenditures, their own tax revenues made up a considerable share of total revenue.¹¹ Local tax revenues were spent on a range of public goods and services. In 1950, some of the most important expenditures were schools, hospitals and healthcare facilities, social welfare, infrastructure building and maintenance, public safety, and the maintenance of public amenities.

Ideally, I would have combined the data on tax rates with information on spending on specific public goods. However, information on spending was available only for cities, which received virtually no expellees and are therefore less helpful for the analysis of the consequences of forced displacement.¹²

⁹Municipal control over local taxes and spending was briefly curtailed during the period of National Socialism. During this period, mayors and local council members were appointed and tax rates were set by the appointed mayor. Guided by the aims of decentralization and democratization, the occupation authorities sought to make the local government more responsive to the population, introducing some democratic innovations. The mayor and local councils were now elected. By the end of 1946, municipal elections were allowed in all western occupation zones. This system has remained in place to this day.

¹⁰In addition, some communities could levy taxes on entertainment, beverages, dogs, and hunting, but these were very small amounts.

¹¹For instance, in 1950 in Schleswig-Holstein's 13 largest municipalities, land tax amounted to 31% of tax revenue; business tax – 40% of revenue, and financial allocations from the state government – for 19%. Detailed data on municipal transfers and debt are available only for larger municipalities, above 20,000 residents, from the Statistical Yearbook of German Municipalities (*Statistisches Jahrbuch Deutscher Gemeinden*). This figure was calculated based on the 1952 Yearbook. Table 1. *Steuereinnahmen nach Steuergruppen und allgemeine Finanzausweisungen*, pp. 263-64.

¹²Chevalier et al. (2018), who analyzed city-level data, conclude that the arrival of refugees

Most of the municipal tax obligations fell on the native population, as few expellees owned land in the immediate postwar period.¹³ However, expellees disproportionately benefited from public spending because they were more reliant on social welfare and public housing than the native population. This remained the case even after the passing of federal laws that shifted some of the welfare burden from municipalities to states and the federal government (see Chapter 5). The preferences of the native population were more heterogeneous: landless agricultural workers also benefited from social welfare, while native land and business owners were more concerned about protecting their property.

All residents participated in local governance on an equal basis, which meant that expellees, too, could vote on tax rates on land and businesses owned by the native population. Agreeing on a tax rate was no easy matter and local interest groups were active in petitioning municipal councils for tax reductions. Tax rates were often discussed in public meetings and tax changes for the fiscal year were published in local newspapers. Local property owners were active in home and landowners' associations, which lobbied against raising taxes. Taxes on real estate were often passed on to apartment rents, as homeowners argued that taxes were too high.

3.3 Case study of Schleswig-Holstein

The discussion above demonstrates that population transfers created a new political cleavage, between the impoverished expellees and the better-off native population. These two groups had conflicting preferences with respect to public investment. Expellees paid little tax and relied on public services, whereas the native population contributed to the budget and resented supporting the newcomers. In the rest of the chapter, I examine the implications of this dynamic for local tax rates in Schleswig-Holstein, which received the largest number of refugees per capita.

In 1950 every third resident of this northwestern state was a refugee. In six districts – Eckernförde, Eutin, Lauenburg, Segeberg, Steinburg and Stormarn – refugees outnumbered the natives. At the same time, the proportion of refugees in Schleswig-Holstein varied considerably across municipalities, from 5% to 88%, with a standard deviation of 9%, which allows for an effective comparative analysis (see Figure 3.2). As shown in Table 3.1 above, refugees in this state had the highest unemployment rates in West Germany. Schleswig-Holstein was the state where the Bloc of Expellees first emerged, securing 23.5% of the vote in the 1950 state election.

According to a survey carried out in December 1948 and January 1949, refugees in Schleswig-Holstein came predominantly from the northern territo-

reduced spending on infrastructure and housing, but raised welfare spending.

¹³The disparity in tax burdens was particularly stark at the local level because of the importance of land tax in local finances. At federal and state levels, income tax played a bigger role.

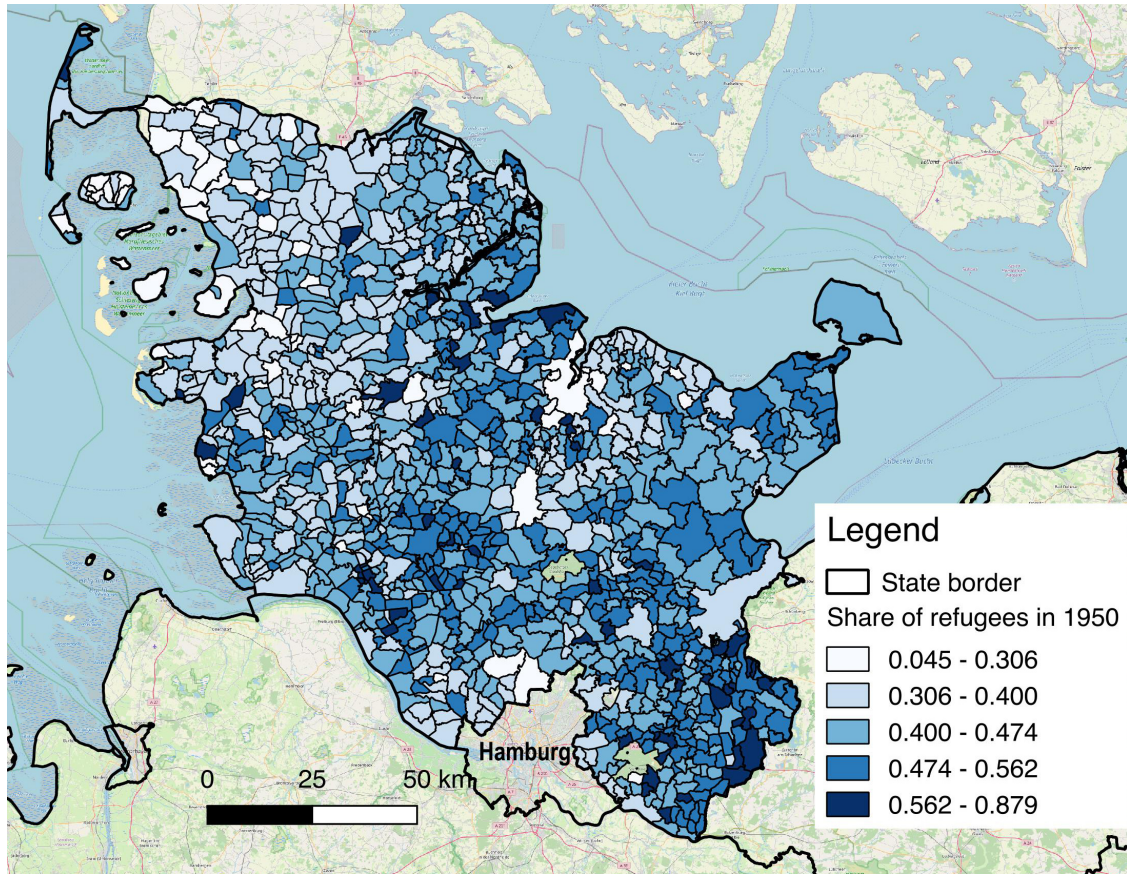


Figure 3.1: Municipal variation in refugee share in 1950. The map represents borders of contemporary municipalities.

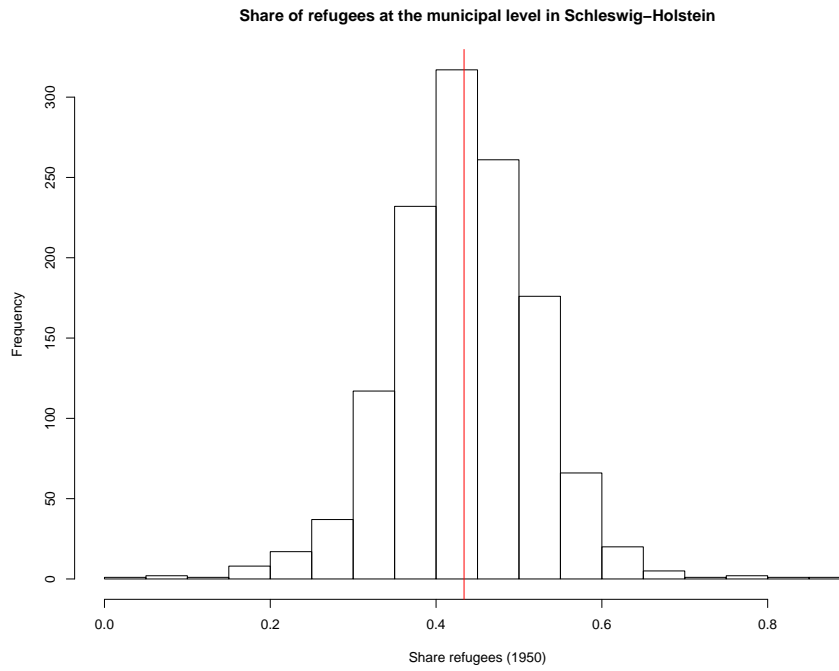


Figure 3.2: Distribution of refugees at municipal level in 1950. Median marked in red.

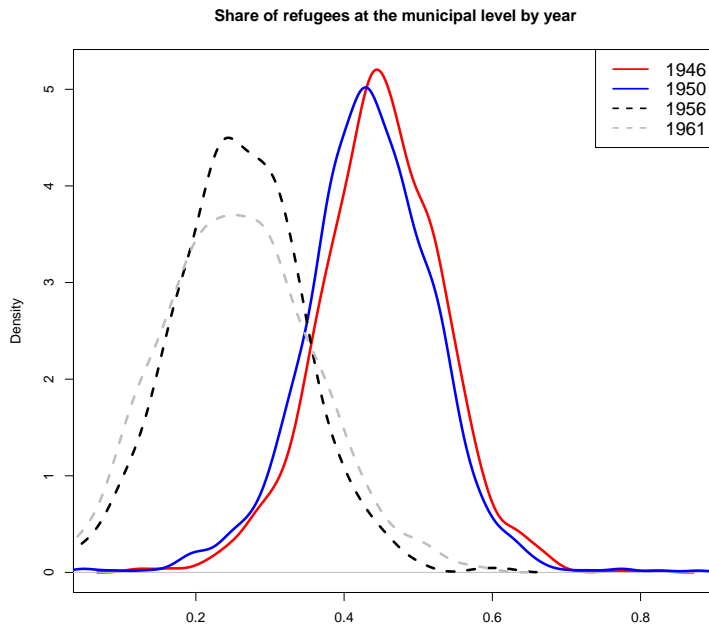


Figure 3.3: Changes in the municipal share of refugees over time.

ries annexed to Poland, East Prussia (35%) and Pomerania (36%). These regions and Schleswig-Holstein itself historically belonged to Prussia, a historically prominent state with distinct culture and institutional legacies. The sending regions had high levels of landholding inequality, like Schleswig-Holstein, and were predominantly agricultural. Like Schleswig-Holstein, they were the mainstay of the conservative party (DNVP), and eventually, the NSDAP. The population in this region was thus culturally, occupationally, and politically similar to the natives of Schleswig-Holstein. Refugees who were not German citizens before the war, at 20% of the total, originated from the parts of Poland annexed to the Reich in 1939, which were also historically located in Prussia. The state also received refugees from the Soviet occupation zone (Prussian territories southeast of Schleswig-Holstein), who made up 13% of the total immigrant population in 1950. Protestant expellees made up 84.5% of all newcomers, which is nearly identical to the prewar denominational composition of Schleswig-Holstein. The gender ratio and age structure between refugees and natives were also similar. In short, expellees assigned to Schleswig-Holstein municipalities were not that different from the indigenous population in dialect, religion, occupation, familiarity with German institutions, and prewar political preferences.¹⁴ This presents a harder test for the argument that their arrival weakened social cohesion and reduced public goods provision.

I digitized data on the demographics and tax rates in Schleswig-Holstein at the municipal (*Gemeinde*) level (N=1,271) from four historical censuses, implemented in the first two decades after WWII. The fiscal and political impact of refugees has not been previously analyzed at this fine-grained level, as the majority of studies of forced migration in West Germany use county (*Kreis*) data (e.g., Braun and Kvasnicka 2014; Braun and Dwenger 2020; Menon 2020).¹⁵

I also digitized the results of the 1951 municipal election. This is the first local election in which the Bloc of Expellees (*Der Block der Heimatvertriebenen und Entrechteten*, *BHE*) participated, securing more than 50% of seats in 52 municipalities (4%). Its average share was 16%, i.e. significantly lower than the average share of expellees (43%). In 72 municipalities (5%) the BHE secured seats as part of a coalition, typically with the CDU or SPD.¹⁶ Support for the BHE understates refugee influence in the local councils because many refugees ran as

¹⁴This is in contrast to other states that received significant proportions of refugees from outside German borders or that experienced changes in denominational structure as a result of refugee allocation.

¹⁵Chevalier et al. (2018) focus on 400 German cities, which are smaller than counties but still significantly larger than an average municipality in Germany, an important limitation given that most refugees were allocated to small rural localities. Another micro-level study by Schumann (2014) exploits geographic regression discontinuity design to isolate the impact of refugee presence on population density, comparing municipalities on the opposite sides of the former border between the US and French occupation zones in Baden-Württemberg.

¹⁶These election results were published by the *Statistisches Landesamt Schleswig-Holstein* in *Die Kreistags- und Gemeindewahlen am 29. April 1951*.

independent candidates or as candidates from other political parties, including the SPD and the CDU. In 5% of municipalities, the BHE also won seats in a coalition with other parties.¹⁷ The Bloc likely represented the segment of refugee voters who were particularly disaffected with class-based parties because of their lower economic standing, i.e. the group whose fiscal preferences differed from the natives' preferences the most. These limitations aside, the BHE vote share is the best available indicator for the refugee influence in the local councils for this time period.¹⁸

The dates for measuring tax rates (1950, 1956, 1961, and 1970) were determined by data availability, but they also allow me to examine the significance of refugee political organization for fiscal policy. The 1950 tax rates were decided prior to the emergence of the refugee party (BHE), when the refugees were limited to supporting mainstream class-based parties, such as the SPD and the KPD. The 1956 and 1961 tax rates were set when the BHE was politically active. By 1970, refugees were more economically integrated, though still poorer than the natives, and the BHE was dissolved. The timing of the BHE founding in 1950 was determined by the Allied High Commission rather than by local preferences.¹⁹

In addition to noting the size of the refugee population, I collected data on local economic characteristics that influenced refugee allocation and fiscal policy. In particular, I measure share of male population (1950), agricultural employment (1950), post-war destruction (available only for counties in 1946), landholding inequality (1950), total population (1950), and distance to Hamburg and the Soviet Zone. Cross-sectional analyses also include Kreis dummies and the latitude and longitude of each municipality, to account for spatial autocorrelation and north-south gradient in economic activity.

Figure 3.4 presents the distribution of municipal tax rates in Schleswig-Holstein in 1950 and 1970. At 100%, the tax rate in the municipality does not exceed the base rate established by the federal government (i.e. the municipality chooses not to levy additional taxes). The figure shows that tax rates increased considerably between 1950, the period of high unemployment and poverty, and

¹⁷I exclude these units from the analysis because data do not allow estimating how many of the coalition's seats went to the BHE.

¹⁸In the 1949 Federal election, the SPD included the most expellees and refugees within its faction, 33 (25% of all seats), which is significantly higher than refugees' share in the population and the share of refugee representatives in the CDU faction, at 15 (13% of all seats) (Schoenberg 1970, 135). Even after the founding of the BHE, the SPD and CDU had many expellee representatives in their ranks.

¹⁹There were some changes in tax rules during this period. The 1969 municipal finance reform transferred a share of the business tax revenue (*Gewerbesteuerumlage*) from municipalities to the federal and state governments and in exchange allowed municipalities to receive a share of their residents' income tax (*Gemeindeanteil an der Einkommensteuer*). The reform sought to create a more balanced and stable system of municipal income by correcting for that fact that most of the business tax came from larger industrial companies rather than small business owners. It was estimated that 77% of the business tax was paid by around 5% of taxpayers.

1970, the height of the economic miracle. The figure also indicates that business taxes were set significantly higher than taxes on real estate and agricultural land.

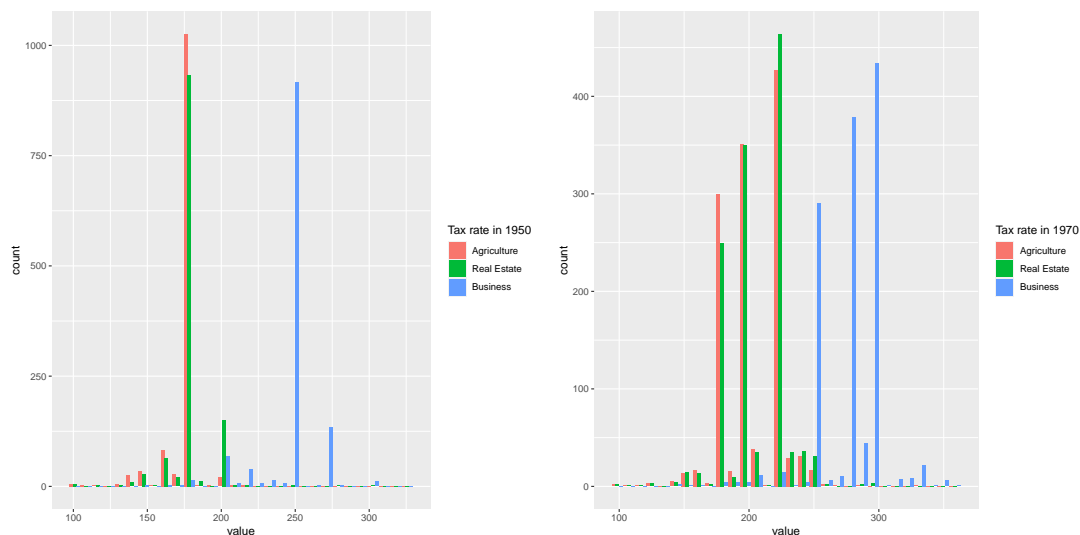


Figure 3.4: Local tax rates in Schleswig-Holstein by type of asset in 1950 and 1970.

Empirical strategy

When estimating the effect of refugees on fiscal policy it is important to consider selection bias. A potential concern is that refugees settled in municipalities with higher tax rates and thus more generous public services. Importantly, most expellees were assigned to specific locations by the allied military administration. Housing availability, which was the product of wartime destruction and postwar population density, determined refugee allocation. Local preferences, fiscal resources, and patterns of landownership played no role in the *initial* distribution of the refugee population within Germany.

Although geographic mobility of both natives and expellees was initially restricted, the ban on relocation was relaxed in 1947 and removed entirely in May 1949, following the foundation of West Germany. In the subsequent period, expellees could resettle to more welcoming or economically well-off areas. In addition, the government itself began to move expellees to regions with better employment opportunities. In Schleswig-Holstein, expellees made up 45% of the population in October 1946, 33% in 1950, and only 28% in 1970.

To account for the bias introduced by the reallocation of expellees over time, I use two alternative empirical strategies. My first approach is to use the share of refugees from 1946 as an instrument for the distribution of refugees in subsequent periods, after the relocation became possible (see Braun and Dwenger (2020) for a similar approach). The instrument isolates the variation in the share

of refugees that is due to their initial allocation rather than refugees' subsequent movements. There is a strong first-stage relationship between the 1946 and 1950 share of refugees ($F=1870$, $p<0.001$).²⁰ The key identifying assumption of the IV regression is that no unobserved variable affects both tax rates and the refugee share in 1946 and that the share of refugees in 1946 affects tax rates only through its effect on the share of refugees in subsequent periods. I expect these assumptions to hold after conditioning on factors known to have influenced the allocation of refugees and local economic conditions: the prevalence of agriculture, the level of wartime destruction, and the distance to the Soviet Zone (in km).²¹ In addition to these variables, I also control for distance to Hamburg (in km), the logarithm of population, the share of male population, latitude and longitude, and unobserved time-invariant characteristics at the district level. In the second stage, I estimate the following model, where i stands for municipalities and k stands for districts:

$$Y_{ik} = \beta_1 (\text{Share refugees}_{ik}) + X'_{ik}\beta_2 + \gamma_k + \epsilon_{ik}, \quad (3.1)$$

My second approach is creating a panel dataset from the repeated tax and demography measurements for each municipality and studying the effect of the *reduction* in the share of expellees in the mid-1950s. As noted above, during this period, the share of refugees changed as a result of state-sponsored relocation programs. Figure 3.3 shows this change and indicates that the largest shift in refugee share occurred between 1950 and 1956. We can thus evaluate whether the outflow of refugees corresponds to tax increases while holding time-invariant municipality characteristics constant in a fixed-effects regression framework. The empirical model in this setup is below, with i representing municipalities and t representing years. In this model, Y_{it} is the tax rate in municipality i in year t and $\gamma_i + \nu_t$ are vectors of district and year fixed effects, respectively.

$$Y_{it} = \beta_1 (\text{Share refugees}_{it}) + X'_{it}\beta_2 + \gamma_i + \nu_t + \epsilon_{it}, \quad (3.2)$$

3.4 Results: The effect of refugee presence on tax rates

I expect that uprooting increased the demand for public investment among the expellees but reduced willingness to contribute to the municipal budget among the natives. Because refugees and natives had conflicting preferences, tax rates should vary based on which group had the upper hand in the local

²⁰The F statistic is so high because the 1946 and 1950 shares are strongly correlated; restrictions on refugee movement were loosened only in 1949.

²¹Destruction is measured as a share of destroyed residential housing to total residential housing in 1946. It is available only at the district level.

council. Do these predictions hold up in empirical analysis?

First, I show that there is only a weak linear relationship between tax rates and the share of the refugee population in Figure 5.2, which is based on regression analysis with a full set of covariates presented in Table A.4 in the Appendix. The coefficient on *Share Refugees* changes sign across models and reaches statistical significance only for the 1950 tax on non-agricultural property. It is less precisely estimated for tax rates in the 1960s and 1970s, which are more temporally removed from the period in which expellee share is measured.²²

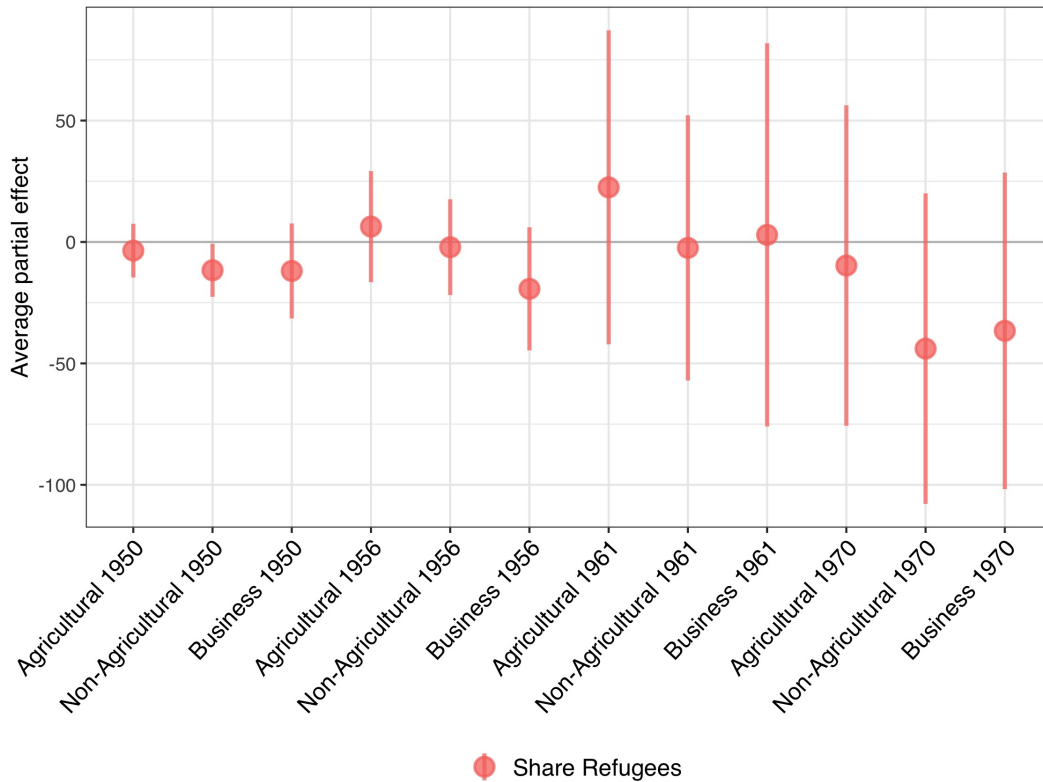


Figure 3.5: Predicted linear effect of share refugees on tax rates. (Results based on Appendix Table A.4).

Next, I consider a curvilinear relationship between refugee share and tax rates. Expellees and natives not only had divergent preferences over which public goods and services should be provided, but also over how high the tax should be. The expellees were not liable for land tax and, initially, business tax, because they were less likely to own these assets, but they had higher demand for social spending and benefited equally from public spending on infrastructure, schools,

²²The coefficient on *Share Refugees* does reach significance in an alternative two-way fixed effects specification, which suggests that the outflow of refugees over time produced increases in tax rates (see Appendix Table A.5).

and other public facilities. By contrast, the natives, who contributed disproportionately to the fisc, were opposed to tax increases that would benefit all community members and felt no obligation to support the newcomers. Taking into account divergent fiscal preferences that stem from high intergroup economic inequality suggests that the effect of refugee presence on tax rates should vary depending on whether refugees or natives dominate the local council. Tax rates should decrease with the share of refugees when natives make up the majority, but increase with the share of refugees when refugees are in the majority instead. Taxes should be lowest when refugee share is just below 50%, i.e. when the natives' willingness to pay is at its lowest and refugees lack political power to override opposition to tax increases.

This is the pattern I find when a squared term of refugee share is included in the model (see Table 3.3). The coefficient on the quadratic term is positive and statistically significant for non-agricultural property tax in 1950, all three forms of taxation in 1956, and property and business tax in 1970. The coefficient does not reach significance for tax rates in 1961, but its sign indicates a similar curvilinear pattern. An important difference between the tax on agricultural and the tax on non-agricultural property is that the latter could be passed on to renters: it is possible that this tax was easier to raise because as renters refugees also indirectly contributed to the tax payments. For example, the *Eutiner Kreis-Anzeiger* in a February 1950 article covered the decision of the city council to retain a higher tax rate "given the difficult financial situation of the city of Eutin" but noted that "the tax difference can be passed on to the apartment rents."²³ Similarly, an article about tax increases in Bad Schwartau from July 1954 explained that the local council set the date for a retroactive tax increase in consultation with the Home and Landowners Association to ensure that the local homeowners would be able to transfer some of the property tax to the tenants.²⁴ In the postwar German countryside, tenants were predominantly refugees.

The regression estimates and confidence intervals for significant coefficients in 1950-1956 are plotted in Figure 3.6. Taxes are highest when the share of the refugees or the share of the natives is low, i.e. communities are relatively homogeneous socially and economically. Tax rates are lowest when the two groups are almost equally balanced, i.e. when polarization between refugees and natives is high. The threshold at which the direction of the refugee effect reverses is just under 50% and decreases slightly over time. This indicates that refugees are not entering into political alliances with the landless natives, i.e. group identity rather than shared economic interest guides tax preferences. The effect sizes are substantively meaningful: in 1956, as the refugee share increases from 13% to 45%, the estimated decrease in tax rate on agricultural land is 10%, in tax on

²³Eutiner Kreis-Anzeiger. 15.2.1950. Außerordentliche Sitzung der Stadtvertretung. "Beschluß über Grunsteuersenkung aufgehoben." Finanzielle Belastung für die Stadt nicht tragbar.

²⁴Eutiner Kreis-Anzeiger. 21.7.1954. The increase in property tax from April 1. (*Grundsteuererhöhung bereits ab 1. April.*)

Table 3.3: 2SLS. Curvilinear relationship between refugee share and tax rates (*Hebesätze*) in 1950-1970. Kreise dummies, constant, latitude and longitude are omitted from the table. Robust SEs in parentheses.

Panel A	Tax rates in 1950			Tax rates in 1956		
	Agriculture	Real estate	Business	Agriculture	Real estate	Business
	(1)	(2)	(3)	(4)	(5)	(6)
Refugee Share (50)	21.58 (27.56)	-137.73*** (29.75)	-99.70 (69.42)	-114.62* (69.26)	-172.87*** (61.84)	-139.98** (70.81)
Refugee Share Squared (50)	-29.48 (31.80)	147.84*** (34.12)	100.71 (76.00)	141.81* (85.40)	197.74*** (71.95)	140.08* (82.49)
Covariates	✓	✓	✓	✓	✓	✓
Observations	1,237	1,233	1,225	1,234	1,228	1,221
Adjusted R ²	0.15	0.42	0.25	0.15	0.24	0.21

Panel B	Tax rates in 1961			Tax rates in 1970		
	Agriculture	Real estate	Business	Agriculture	Real estate	Business
	(1)	(2)	(3)	(4)	(5)	(6)
Refugee Share (50)	-30.43 (77.34)	-103.42 (69.38)	-117.41 (92.68)	-126.04* (74.45)	-203.92*** (73.72)	-225.17*** (82.60)
Refugee Share Squared (50)	46.47 (94.46)	118.27 (81.12)	137.70 (108.42)	142.82 (90.50)	217.29** (87.34)	246.13** (101.04)
Covariates	✓	✓	✓	✓	✓	✓
Observations	1,236	1,226	1,222	1,236	1,237	1,237
Adjusted R ²	0.26	0.27	0.23	0.16	0.17	0.14

Note:

*p<0.1; **p<0.05; ***p<0.01

non-agricultural land – 19% and in tax on business – by 17%. Conversely, when the share of refugees increases from 45% to 70%, tax rates increase by 10% on agricultural land, by 13% for non-agricultural land, and by 5% on business. The analysis indicates that refugees who benefited from higher tax rates had greater influence on local fiscal decisions as their population share exceeded 50%, and favored higher levels of taxation, particularly because they had a higher demand for public services but owned little property themselves. In 1961, the estimates are noisy but the statistically significant pattern returns in 1970.

The results are similar in an alternative two-way fixed effects specification (see Table A.5 in the Appendix). Altogether, the results suggest that greater demand for public spending resulted in tax increases only when the size of the refugee group is large enough to override the natives' fiscal preferences. As long as the natives dominate local politics, which was the case in most German municipalities, the presence of refugees reduced contributions to public goods, despite cultural similarity between the two groups.

3.5 The electoral mechanism behind fiscal policy

Next, I use electoral data to demonstrate that the U-shaped pattern presented above stems from the opposing fiscal preferences between refugees and natives. As noted above, refugees and natives influenced fiscal policy by par-

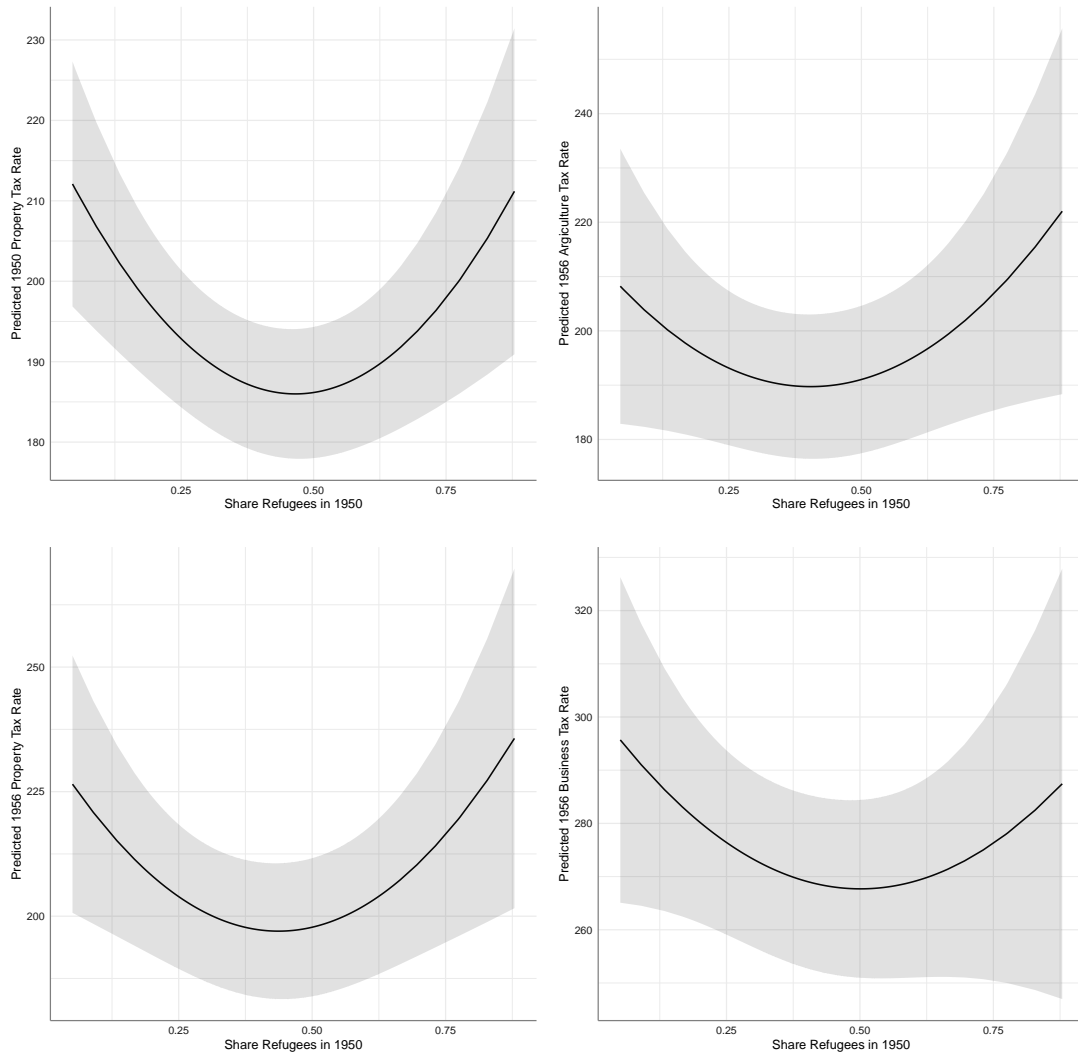


Figure 3.6: Predicted changes in 1950–56 tax rates on agricultural and non-agricultural property and business based on Table 3.3.

ticipating in municipal elections and electing their representatives to the local councils, which set tax rates and spending priorities. Qualitative researchers have argued that the presence of refugees with conflicting interests disrupted the informal consensus-oriented politics and contributed to the formalization of decision-making processes in the local councils (Kossert 2008, 131). Previously fluid neighborhood relationships were formalized as economic associations and cooperatives were created to defend the interests of local property owners and the have-nots (Erker 1990). Tax increases were contentious and attracted a lot of attention and lobbying efforts from both sides. The challenges of reaching agreement on local budgets in highly polarized communities are well illustrated by the stand-off between refugees and native councilmen of Stockelsdorf (where refugees made up 49% of the population), where in July 1951 the representatives of the refugee party withdrew from all honorary council posts to signal displeasure with local affairs and stalled the discussion by debating at length the most trivial items on the agenda (Lattimore 1974, 53).

If the hypothesis concerning the effect of expellee presence on tax rates holds, the share of refugees at the community level should affect the composition of the local councils, which, in turn, should influence tax rates.

I first examine whether the share of expellees predicts the electoral performance of the BHE in the 1951 municipal election, the first in which the BHE competed at the local level, and increases overall increased political participation. Figure 3.7 shows that a 25% increase in refugee share at the municipal level translates into 10% of additional votes for the BHE and a 3% increase in turnout, controlling for socio-economic characteristics of municipalities, their geographic location, and county-fixed effects. These estimated relationships are linear (see full regression results in the Appendix Table A.6). The analysis confirms that expellee presence secured seats for the BHE in the local councils and increased political competition, mobilizing both the expellees and the natives to turn out in order to defend their economic interests.

Next, I examine whether the BHE's electoral performance predicts tax rates.²⁵ I find a statistically significant quadratic relationship between the BHE vote shares in 1951 and all three forms of municipal tax in 1956 (see Table A.6). Marginal effects are presented in Figure 3.8. The analysis indicates that tax rates begin to increase as the BHE vote exceeds a certain threshold, which varies slightly across agricultural and non-agricultural taxes. For all outcomes, there is a significant positive relationship between the BHE vote share and tax rate once the party dominates the electoral council, though the estimates are imprecise given the small number of observations in this category. The analysis supports the conclusions that the refugees were able to shape fiscal policy in their favor, overriding the opposition of the native population, by electing their representatives to the local councils. This pattern is in line with my argument

²⁵Note that because the tax rates are measured only in 1956, after the election of new councils in 1955, using this dataset biases against finding a strong correlation between the composition of the local councils and tax policy.

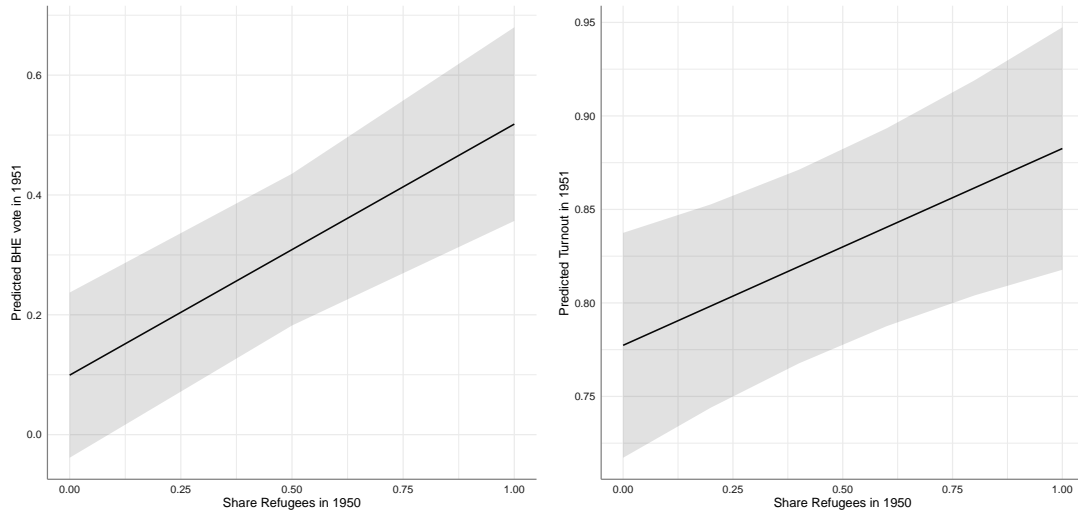


Figure 3.7: Marginal effects of the refugee presence on the BHE vote (left) and on turnout (right) in the 1951 municipal election.

that the arrival of expellees created obstacles for public investment even though the demand for public spending was high among the expellees themselves.

Discussion

This chapter has shown that forced migration created a new cleavage in West Germany. Even though the refugees were German on paper and their plight was a consequence of WWII, they received a cold welcome upon arrival to the west. The native population did not perceive refugees as compatriots and resented having to support them financially. Previously minor differences became sources of intergroup conflict when people from one region were uprooted and forced to share public resources with people from another region. Thus, the population transfers designed to homogenize states and reduce interethnic conflicts wound up increasing socio-economic heterogeneity and exacerbating tensions in the affected communities.

Using an original dataset from Schleswig-Holstein, I demonstrate that fiscal policy varied as a function of the size of the expellee population relative to the natives. Tax rates increased with the share of refugees in communities where refugees predominated, but decreased with the share of refugees in communities dominated by the indigenous population. The two groups held opposing fiscal preferences, which made tax increases challenging to pass. My analysis of the 1951 election results sheds light on the political process that produced these patterns: identity rather than class determined political choices, as refugees voted for their own party, the Bloc of Expellees, as soon as it was founded. The BHE supported higher tax rates, but was powerful enough to influence fiscal policy

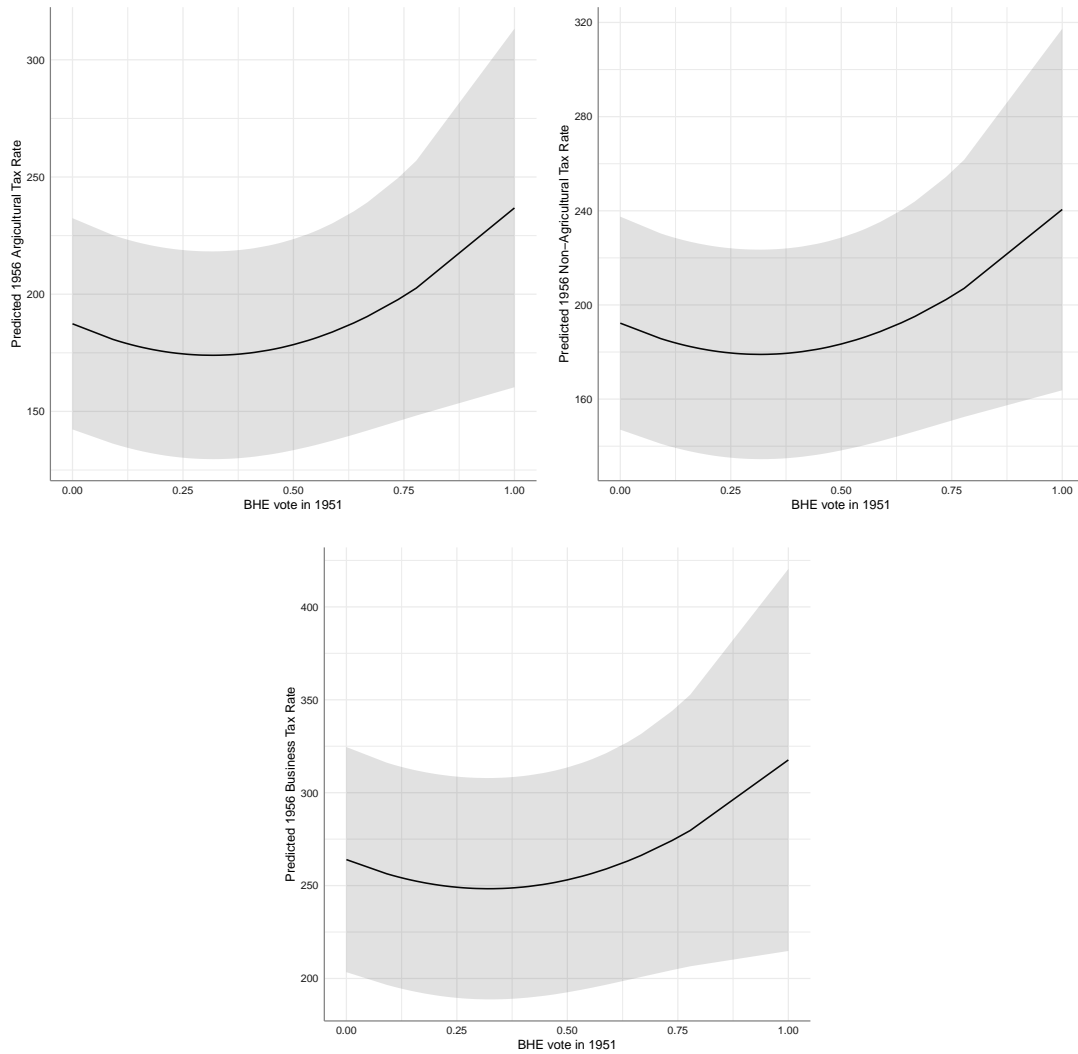


Figure 3.8: Predicted tax rates in 1956 at various levels of BHE support in the 1951 municipal election based on OLS analysis with a full set of covariates.

only in communities where the refugees outnumbered the indigenous population. The case of Schleswig-Holstein is extreme in that there were many communities where refugees outnumbered the natives, but disagreements between the two groups over public spending were common in other parts of Germany too.

These results are interesting in light of the expectations from the political economy models on redistribution in economically unequal societies. The arrival of expellees changed the proportions of the rich and poor at the local level, as refugees lost most of their assets and were allocated to communities that suffered little damage during the war. This shock to local economic inequality was largely uncorrelated with prewar economic and social structure, conditional on wartime destruction and the resulting housing availability. In a system with universal suffrage and majority rule, such a shift in the income of the median voter has been argued to increase taxation and public spending (Meltzer and Richard 1981).²⁶ I find that although refugees shifted political preferences to the left, their presence did not uniformly increase tax rates in the receiving communities. The reason for this is that noneconomic cleavages were more politically important, with expellees – and in some localities also the native population – voting for group-specific political parties and policies.

The finding aligns with the evidence in other contexts that social heterogeneity reduces support for redistribution and public goods provision, particularly in the presence of intergroup economic disparities (Baldwin and Huber 2010; Alesina, Harnoss, and Rapoport 2016; Suryanarayan and White 2020). For instance, Alesina and Glaeser (2004) contend that when the poor belong to a different ethnic or racial group, the wealthy are less supportive of redistribution and public spending. Also relevant here is Huber's (2017) argument that when the share of the poor is too large relative to the minimum winning coalition, it is in voters' economic interest to elect parties that represent noneconomic identities, such as ethnicity or religion (or, in this case, refugee status), since they will receive a greater share of government pie as members of a smaller winning group. In this way, inequality increases the success of parties based on noneconomic identities, which reduces the aggregate levels of taxation and redistribution. This seems to be the case in Germany, as the refugees switched from the Social Democrats, a class-based party, to the newly founded Bloc of Expellees in 1950. The Bloc championed refugees' interests at the expense of other socioeconomically disadvantaged groups and promised to deliver more to the refugees at the expense of the natives.

²⁶Key assumptions of this model are universal suffrage, majority rule, balanced budget, and fully informed voters.

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