

"Cultural Diversity and Economic Growth: Evidence from US during the Age of Mass Migration" (joint with Markus Brückner)

During the 1850-1920 period the US experienced a mass inflow of immigrants: more than 30 million people migrated from Europe to the US, with the average annual immigration inflow rate measuring about 0.75 percent of the total US population. We exploit in this paper this historically unique inflow of immigrants to the US to study the effects that changes in the cultural composition of the US population had on output growth. Because immigrants came from different European countries, the mass immigration wave not only affected the overall share of foreign-born in the US. It also affected significantly the diversity of the working and voting-age population.

We construct measures of fractionalization and polarization to distinguish between the different effects of cultural diversity and address the issue of identifying the causal effects of cultural diversity by using the supply-push component of immigrant inflows as an instrumental variable. Our first main finding is that increases in cultural fractionalization led to significant increases in output per capita during the 1870-1920 period. Focusing on within-county changes in cultural fractionalization to eliminate fixed county-specific characteristics, we find that a 1 percentage point increase in counties' cultural fractionalization increased output per capita by up to 2 percent. To link this result more closely to the cultural economics literature where a key argument for a positive effect of cultural fractionalization on output per capita is an increase in skill variety (e.g. Alesina and La Ferrara, 2005), we show that within-county increases in cultural fractionalization were associated with significant within-county increases in the occupational diversity of workers.

Our second main finding is that increases in cultural polarization had a significant negative effect on output per capita. Our fixed effects instrumental variables estimates yield that a 1 percentage point increase in cultural polarization decreased output per capita by nearly up to 3 percent. The political economy literature has linked polarization to voracious redistribution (Tornell and Lane, 1999; Lane and Tornell, 1996), a large government sector and distortionary taxation (Azzimonti, 2011), as well as violent conflict (Esteban and Ray, 1999, 2010; Montalvo and Reynal-Querol, 2005a,b). In line with this literature, we document that during the 1870-1920 period increases in polarization led to a significant increase in the tax quote and the number of public sector employees. We also provide some anecdotal evidence for conflict tensions among European immigrants.