



Conflict displacement and labor market outcomes in post-war Bosnia and Herzegovina

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ABSTRACT

The war in Bosnia and Herzegovina of the early nineties displaced 1.3 million people. This study uses longitudinal data to document the effects of this displacement on labor market outcomes. To account for endogeneity in displacement, I exploit the fact that the level of violence affected the decision to leave and that pre-war economic performance is orthogonal to local violence levels. I find that displaced Bosnians are less likely to be working relative to the people who stayed. Displaced men experience higher unemployment levels, and displaced women are more likely to drop out of the labor force.

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1. Introduction

A direct consequence of armed conflict is population displacement. The individuals who are uprooted from their original place of residence are likely to experience stark socio-economic vulnerability (CIET International, 1997). The unique characteristics of the 1992/95 Bosnia and Herzegovina (BiH) conflict and its devastating consequences on the Bosnians¹ present an analytical opportunity with academic and policy relevance. First, the path of the war was determined by the desire of the Serbs to spatially separate the ethnic groups. Second, the Bosnian civilian population suffered the brunt of the war with 64,036 casualties (or about 3% of the pre-war Bosnian population), of whom only 52% were soldiers; in contrast, 24,905 Serbs were killed, of whom 84% were soldiers (Ball et al., 2007). Finally, displacement was widespread — approximately 1.3 million people were displaced and over 1.1 million resettled in BiH after the conflict.

The present study documents the labor market effects of displacement in the context of the 1992/95 BiH war. I use longitudinal post-conflict household survey data containing rich information on labor market outcomes, migration status and other individual characteristics to estimate the effect of displacement on labor market

outcomes of the Bosnians who left relative to those who stayed.² I account for potential endogeneity between displacement and individual labor market outcomes by using instrumental variable (IV) estimation.

This analysis contributes to the growing literature on the cost of conflict at the microeconomic level. A number of studies have proposed to measure this cost using micro data.³ For instance, Blattman (2006) and Shemyakina (2006) find that civil conflicts, in Uganda and Tajikistan respectively, significantly reduced school attendance and grade completion.⁴ Bellows and Miguel (2006) empirically explore the link between collective action and exposure to conflict in Sierra Leone. Kondylis (2008) assesses the cost of conflict

² This study does not measure either the extent of ethnic discrimination in BiH or the process of cultural assimilation by any of the main ethnic groups represented on the territory. For a contribution on the topic of cultural assimilation of foreign immigrants and language in the US context, see Lazear (1999).

³ A large body of literature also establishes the link between civil conflicts and a country's socio-economic performance at a macroeconomic level using cross-country comparisons. Miguel et al. (2004) find a positive causal relation between economic under-performance and the likelihood of civil strife in Africa. Collier (2003) finds supportive evidence of a 'conflict trap', whereby low aggregate levels of physical as well as human capital correlate to the likelihood of conflict resurgence.

⁴ Blattman's (2006) study uses arguably random abduction of children by the militia to measure the long-term costs of child soldiering for boys in Northern Uganda. Shemyakina (2006) finds significant and negative effects on girls though, interestingly, her results suggest no effect for boys.

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¹ By Bosnians, I refer to Muslim Bosnians, as opposed to Serb and Croat Bosnians to whom I refer to as Serbs and Croats respectively.

at the household level with regard to agricultural productivity in Rwanda.⁵

This is the first study to assess the effect of conflict-induced displacement on the labor market outcomes of displaced individuals accounting for potential selection issues. Displacement status is defined using the date of the last migration: a person who reports having migrated during the period of the conflict or soon after – while resettlement and returns were still occurring on a large scale – is considered a displaced person, regardless of whether or not she resettled in her municipality⁶ of origin. Hence, the effect of displacement is averaged over those who returned to their municipality of origin and those who did not. Displaced individuals (refugees) who did not return to BiH by 2001/04 are not observed in the data. I discuss the implication this might have on the estimates of the effect of displacement on labor market outcomes in the next sub-section.

Typically, displacement as such is contaminated by problems of self-selection that might create endogeneity issues when displacement is used as a regressor in a labor market specification. Therefore, using OLS to estimate the effect of displacement would likely produce inconsistent estimates.

I exploit spatial variations in the level of violence against Bosnians during the 1992/95 war to provide consistent two-step estimates of the cost of displacement on labor market outcomes. Indeed, the pattern of the Serb invasions in the 1992/95 BiH war was governed by the will to create an ethnically homogenous and contiguous Serb territory (UN, 1994; UNHCR, 1998; Burg and Shoup, 1999; Nation, 2003; Toal and Dahlman, 2004); consequently, pre-war economic performance and the level of violence endured in a given municipality are unlikely to be systematically associated. In addition, local violence is likely to accurately predict displacement. Therefore, local violence can be used as an instrumental variable to purge the estimates of the impact of displacement of potential inconsistency. An attractive feature of the data is that municipality of residence before the war, or “municipality of origin”, is recorded for all adults. Individuals can, therefore, be matched to their municipality of origin and can be assigned the corresponding level of violence using municipality level population loss data (RDCS, 2007). Since the exclusion restriction assumption of zero correlation between economic performance and the level of violence is central to this analysis, I perform a number of robustness and falsification exercises to assess its validity. All results suggest that this is a reasonable assumption.

Non-random sorting of displaced individuals into their municipality of destination also poses a potential threat to the consistency of the regression estimates. In the absence of a credible instrument for the assignment of individuals to their municipalities of destination, I use municipality of destination fixed-effects to capture the potential non-random location of individuals within BiH. This allows me to exploit variations in the level of violence across municipalities of origin for identification while accounting for heterogeneity across municipalities of destination.

The results show that displacement negatively impacted the labor market outcomes of Bosnian men and women, particularly in terms of access to employment. Interestingly, the effect of lower employment on participation in the labor market varies by gender. Whereas low employment entirely translates into higher unemployment for men, it implies lower participation for women. The results obtained when displacement is instrumented substantially exceed the one-step estimates, suggesting that Bosnian men and women positively selected into displacement, *i.e.* that the more “able” were more likely to leave. I

also test for assimilation of displaced men and women into the labor market over the 2001/04 period and cannot reject that the effect of displacement is invariant across waves of the panel. In all gender groups, I find no additional effect of education on labor market outcomes for the displaced. The informality of the labor market in BiH and the destruction of networks are plausible candidates to explain the high cost of displacement in terms of labor market outcomes and also help rationalize the lack of an effect on participation for displaced men.

The next sub-section introduces some background on the war and the post-war reconstruction in BiH. In the second section I present the data and some descriptive evidence. The empirical strategy is detailed in the third section. The econometric results are presented in the fourth section and discussed in the fifth section. A sixth section briefly concludes.

1.1. Background on the war in Bosnia and Herzegovina

BiH is a former territory of ex-Yugoslavia that became independent with the fall of the communist regime in 1992. Just before the war, in 1992, 4.4 million people lived in BiH, of which 40% were Bosnians, 37% Serbs, and 17% Croats. Six years after the war, in 2001, 3.9 million people lived in BiH, of which 48.3% were Bosnian, 34% Serb, and 15.4% Croat. Most Bosnians are Muslim, whereas the Serbs are essentially Orthodox Christian and the Croats Catholic.

Shortly after independence, in 1992, war broke out among the Serbs, the Bosnians and the Croats. The Bosnian–Croat war lasted from 1993 to 1994. In contrast, the Bosnian–Serb and Croat–Serb conflicts lasted from 1992 to 1995. In 1994, NATO used its air force to bomb Serb strongholds; in December 1995, the Dayton Peace Agreement ended four years of ethnic conflict in BiH. This agreement initiated the partitioning of the territory into 2 distinct entities: the Bosnian and Croat–led Federation of Bosnia Herzegovina (FBH) and the Serb-led Republika Srpska (RS). Each entity makes up for roughly a half of the total territory and the new borders were established essentially on the 1995 front lines (Burg and Shoup, 1999; Toal and Dahlman, 2004). Fig. 1 shows a map of BiH and its post-1995 entities and municipalities.

1.1.1. Displacement

The conflict and partitioning created widespread displacement. Reports by the International Criminal Tribunal for former Yugoslavia (ICTY) estimate that 102,000 people went missing or dead⁷, and the UNHCR reports that 1.3 million people were displaced either internally or abroad. Between 1996 and 2004, over 1.1 million of the displaced resettled in BiH. The displaced were free to resettle anywhere in the territory; however, most displaced Bosnians resettled in the FBH while most Serbs chose the RS. Some displaced did not return: in 2002, the UNHCR (2003) estimated to 160,000 the number of refugees from BiH who did not return, with 121,000 residing in Yugoslavia, 24,000 in Germany and 7400 in Croatia. As documented by Angrist and Kugler (2003), the Balkan wars resulted in an important wave of “permanent” immigration from former Yugoslavia to western Europe.

The data used in this study is limited to displaced persons who have, by 2001/04, returned to BiH. As the displaced persons who resettled in BiH might consist of a selected sample, it is of interest to understand how this could affect the estimates proposed in this study. I use the 2001/04 Living in BiH (LBiH) panel and the data compiled by Angrist and Kugler (source: Eurostat; 2003)⁸ to compare the educational attainment of the displaced who returned to BiH to that of migrants from ex-Yugoslavia to western Europe. This is not a perfect check, as the data on immigration from the Balkans to Europe

⁵ In addition, a number of microeconomic studies suggest a causal link between poverty, the lack of economic prospects in particular, and the likelihood of joining a militia (Deininger, 2003; Bigombe et al., 2000; Verwimp, 2005).

⁶ Municipalities are the fourth and last level of political division, below entities, districts, and cantons. There were 115 municipalities in 1991 BiH, and some were divided after the war to form 137 municipalities. In 1991, the median population in the municipalities was 31,577, and the mean was 44,439, with a maximum of 195,139 and a minimum of 4162.

⁷ Most estimates did not previously take into account possible overlapping of the casualties data and had, therefore, a tendency to overestimate the number of deaths. The municipality level population losses data used in this study is in line with the ICTY estimate.

⁸ These data only contain information on gender, age and education.

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