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Habit Formation and the Misallocation of Labor: Evidence from Forced Migrations

We examine the impacts of resettling 11% of the Finnish population after WWII. Farmers were given land and assistance to continue farming in areas resembling the origin regions. Nevertheless, a quarter of a century later, they were 10–16 percentage points more likely to hold a non-agricultural job and earned 11–28% more than plausible control groups. These effects suggest that farmers could increase their long-term income by 70–80% by leaving agriculture. Yet, almost three quarters of the non-displaced farmers stayed in their farms. We rationalize these findings with a simple habit formation model and provide further evidence supporting it.