Are the Supporters of Socialism the Losers of Capitalism? Conformism in East Germany and Transition Success

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Abstract

- empirical literature inconclusive whether democratization → reallocation of economic resources
- here: how supporters and opponents of East Germany’s socialist system performed within market-based democracy after dissolution of autocrv.
- Protesters who helped to overthrow the socialist regime show higher life satisfaction and better labor market outcomes in the new economic system
- Former members of the ruling socialist party and employees in state-supervised sectors become substantially less satisfied
- Additional results: conformism in the GDR also explains political preferences over the almost three decades after reunification

Background

- East Germany: One-party system of SED; Stasi spying
- 1989: Revolution and reunification with West
- democratic transition → often no redistribution, but persistence of elite favoritism (Acemoglu et al., 2015)
- studies from FSU and CEE countries: Communist Nomenklatura with wage premium (5-15%) that persisted after transition (Geishecker and Haisken-DeNew, 2004)
- this study: East G. special in historical reappraisal, occupation of elite positions by Western professionals (language, culture)
- analysis of supporters and opponents of system, long-term analysis (29 years) to see persistence

Data

- German Socio-Economic Panel 1990-2018; first survey of East population before reunification; 2018: questions about GDR
- 678 individuals and 19,415 person-year observations
- Outcome variables: life satisfaction (0-10 scale); labor income, unemployment experience; for change from socialism to capitalism: life satisfaction and income measured in 1990
- Explanatory variables: supporter (member of Communist party or employment in X-area = Stasi supervised areas crucial for state security); Opponent: participation in Peaceful Revolution 1989-90

Results

Methodology

\[ y_{it} = \alpha + \beta_{1} \text{Supporter}_{i} + \beta_{2} \text{Opponent}_{i} + X_{it} + \delta_{t} + \epsilon_{it} \]

- OLS regression with robust standard errors, clustered at individual level (panel data)
- \( y_{it} \): level in life satisfaction, log labor income, unemployment experience 1990-2018; second regression: change in outcomes from socialism to capitalism (\( y_{it} - y_{it}^{0} \))
- \text{Supporter}_{i}/\text{Opponent}_{i}: dummy, set for an individual over time, control group: politically inactive silent majority
- \( X_{it} \): age, age², age³, gender, year dummies (baseline), education and qualification dummies for 1990, Big 5 Personality Traits, observation by Stasi (additional)
- including ability, Big 5, and repression eliminates alternative explanations for differences in outcomes and selection into groups

Orthographic Preferences

- results cannot be explained by differences in age (left-hand)
- opponents’ advantage in income and unemployment reveal only after some years in new system (right-hand)

Political Preferences

- supporter | Opponent | The Left | CDU | SPD | FDP | Green Party | AFD

- supporters: no significant advantages in democracy after all controls applied (A), but large loss in life satisfaction (B)
- Opponents: higher LS, income, employment (A) and increases compared to socialism (B)

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