

# 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 autocracy
- 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; 1990: 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

## 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 ( $y_{it} - y_{iGDR}$ )
- $\text{Supporter}_i/\text{Opponent}_i$ : dummy, set for an individual over time, control group: politically inactive *silent majority*
- $X_{it}$ : age, age<sup>2</sup>, age<sup>3</sup>, 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

## Results

Table 1: **Post-Transition Outcomes for Supporters and Opponents**

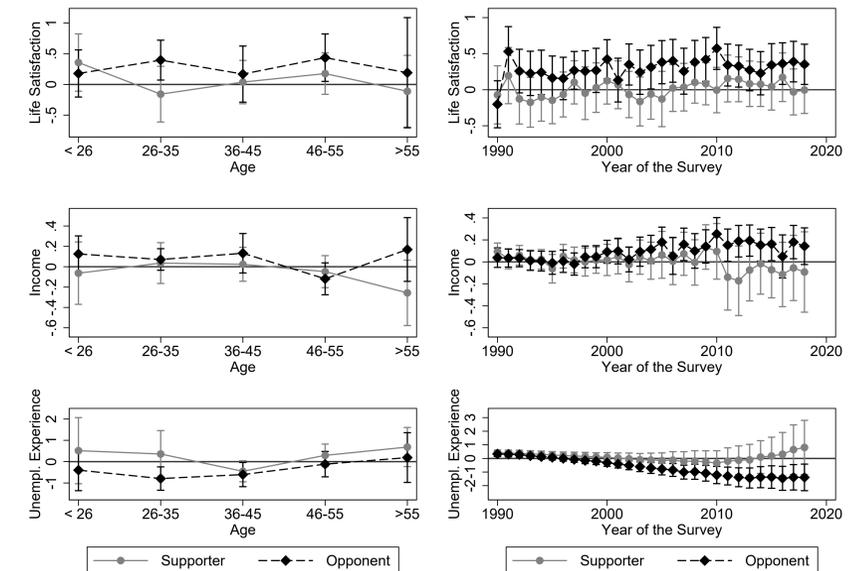
|                        | Life Satisfaction   |                     | Labor Income        |                   | Unempl. Experience   |                      |
|------------------------|---------------------|---------------------|---------------------|-------------------|----------------------|----------------------|
|                        | (1)                 | (2)                 | (3)                 | (4)               | (5)                  | (6)                  |
| <b>Panel A: Levels</b> |                     |                     |                     |                   |                      |                      |
| Supporter              | 0.088<br>(0.117)    | 0.008<br>(0.107)    | 0.129**<br>(0.050)  | 0.047<br>(0.047)  | -0.162<br>(0.249)    | 0.086<br>(0.244)     |
| Opponent               | 0.361***<br>(0.107) | 0.298***<br>(0.097) | 0.134***<br>(0.043) | 0.062*<br>(0.038) | -0.698***<br>(0.182) | -0.557***<br>(0.177) |
| Additional Controls    | No                  | No                  | No                  | Yes               | No                   | Yes                  |
| Individuals            | 678                 | 678                 | 618                 | 618               | 678                  | 678                  |
| Obs.                   | 19,415              | 19,415              | 10,776              | 10,776            | 16,169               | 16,169               |
| R <sup>2</sup>         | 0.026               | 0.087               | 0.510               | 0.593             | 0.140                | 0.187                |

**Panel B: Changes from Autocracy to Democracy**

|                     |                      |                      |                     |                   |
|---------------------|----------------------|----------------------|---------------------|-------------------|
| Supporter           | -0.989***<br>(0.250) | -0.962***<br>(0.251) | 0.072<br>(0.071)    | -0.013<br>(0.068) |
| Opponent            | 0.744***<br>(0.253)  | 0.682***<br>(0.251)  | 0.161***<br>(0.054) | 0.082*<br>(0.049) |
| Additional Controls | No                   | Yes                  | No                  | Yes               |
| Individuals         | 678                  | 678                  | 618                 | 618               |
| Obs.                | 19,415               | 19,415               | 10,776              | 10,776            |
| R <sup>2</sup>      | 0.042                | 0.060                | 0.587               | 0.613             |

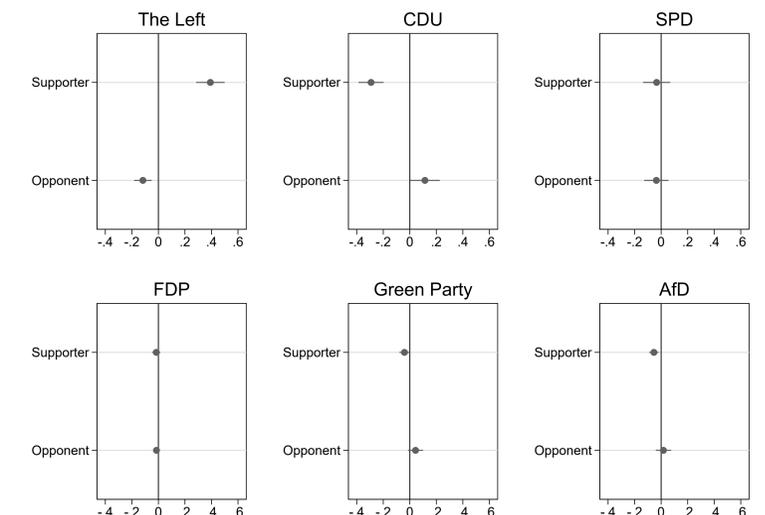
- Supporters: no significant advantages in democracy after all controls applied (A), but large loss in life satisfaction (B)
- Opponents: higher LS, income, employment (A) and **increases** compared to socialism (B)

## Outcomes by Age and Year



- 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



- political persistence: supporters still vote for ex-communist party *The Left* after 28 years