

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, 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

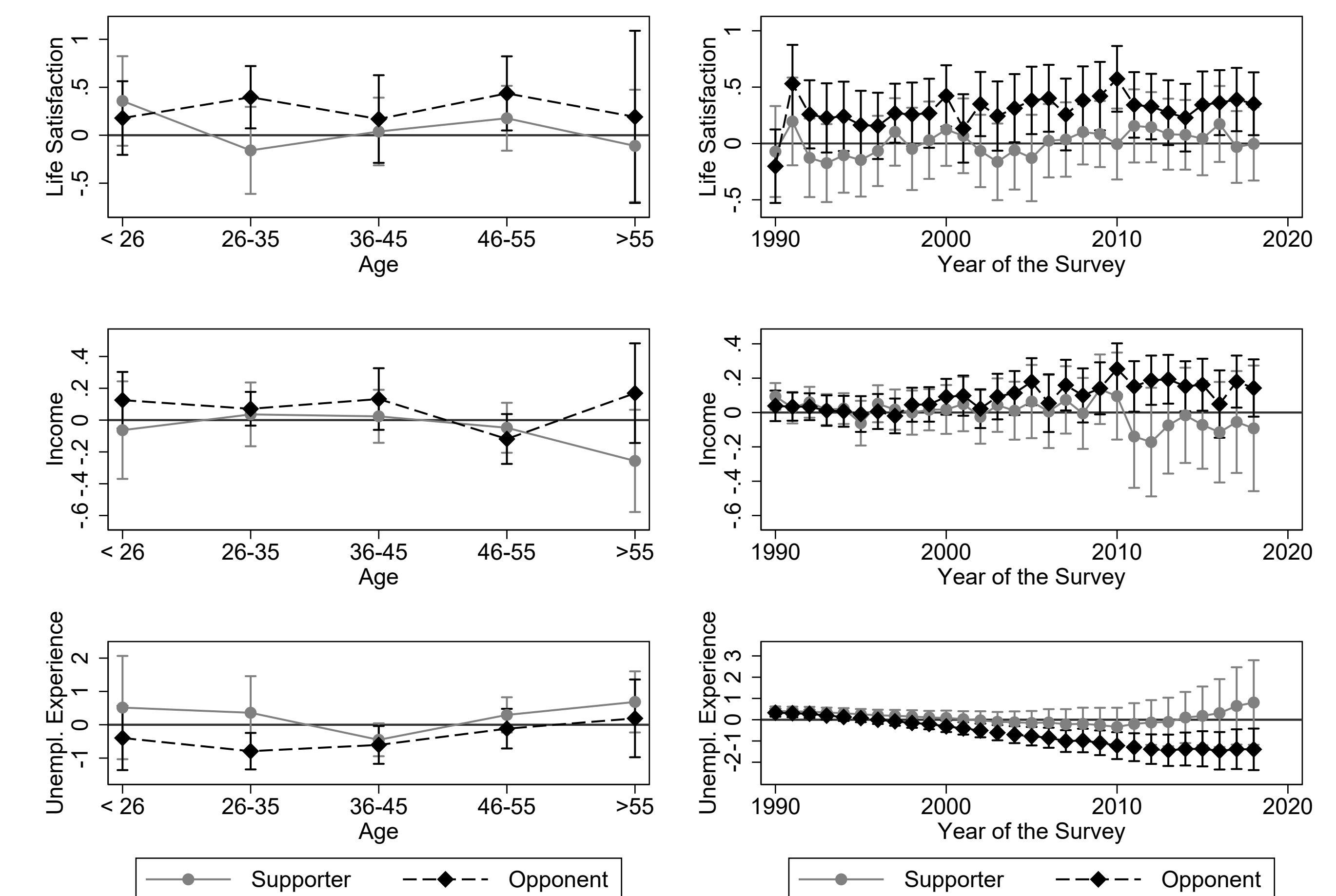
Results

Table 1: Post-Transition Outcomes for Supporters and Opponents

	Life Satisfaction		Labor Income		Unempl. Experience	
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Levels						
Supporter	0.088 (0.117)	0.008 (0.107)	0.129** (0.050)	0.047 (0.047)	-0.162 (0.249)	0.086 (0.244)
Opponent	0.361*** (0.107)	0.298*** (0.097)	0.134*** (0.043)	0.062* (0.038)	-0.698*** (0.182)	-0.557*** (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 ²	0.026	0.087	0.510	0.593	0.140	0.187
Panel B: Changes from Autocracy to Democracy						
Supporter	-0.989*** (0.250)	-0.962*** (0.251)	0.072 (0.071)	-0.013 (0.068)		
Opponent	0.744*** (0.253)	0.682*** (0.251)	0.161*** (0.054)	0.082* (0.049)		
Additional Controls	No	Yes	No	Yes		
Individuals	678	678	618	618		
Obs.	19,415	19,415	10,776	10,776		
R ²	0.042	0.060	0.587	0.613		

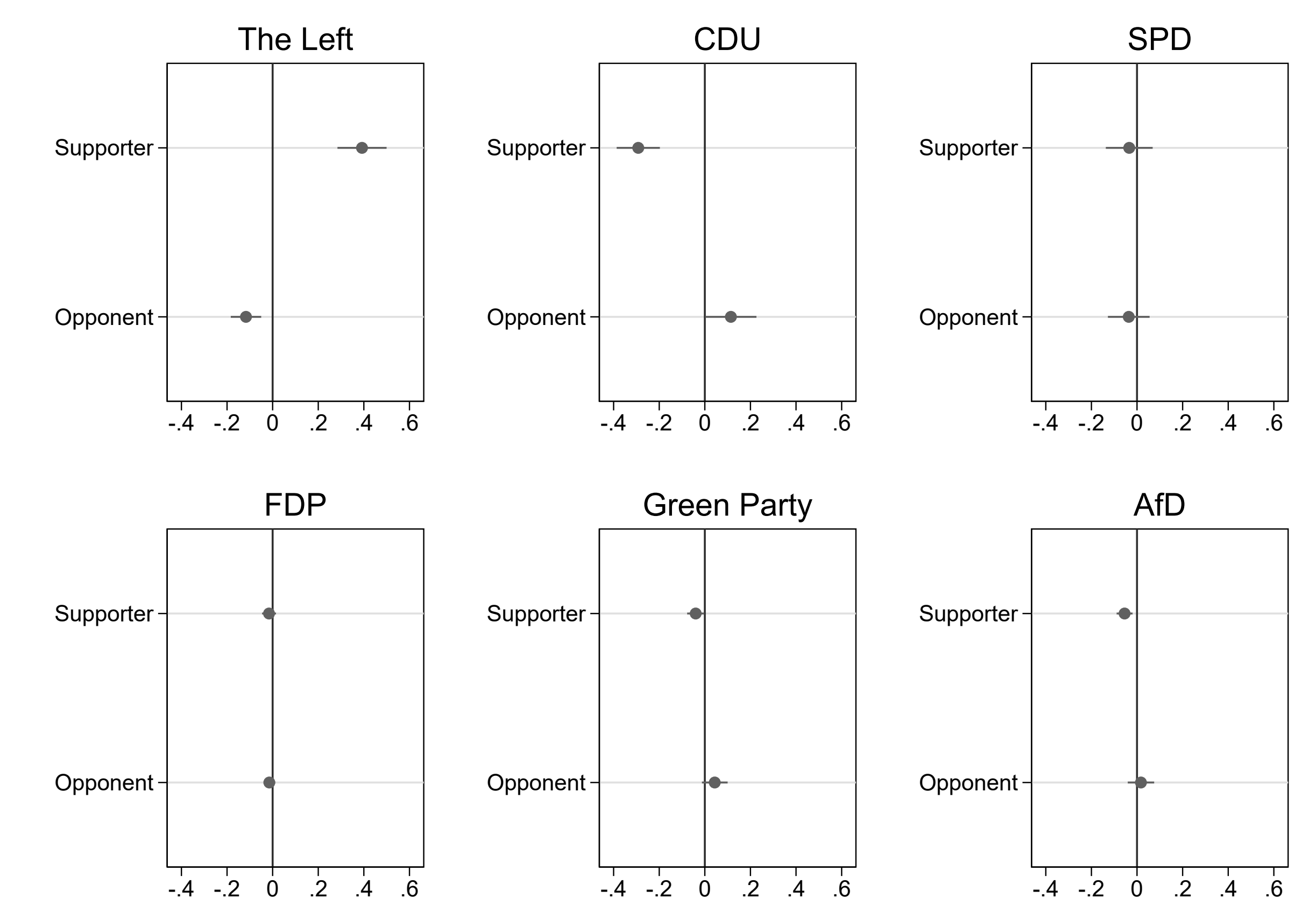
- Supporters: no significant advantages in democracy after all controls applied (A), but large loss in life satisfaction (B)
- Opponents: higher LS, income, employment (A) and **increases** compared to socialism (B)

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