

Are the losers of Communism the winners of Capitalism?

The effects of conformism in the GDR on transition success

Max Deter, University of Wuppertal

Supervisor: Prof. Ronald Schettkat

Autocracies are the dominant form of government in history. Currently, former solid democracies becoming weaker and autocracies more repressive (Freedom House Index, 2020; Bertelsmann Transformation Index, 2020). In Germany, the socialist autocracy, the *German Democratic Republic* (GDR), also called East Germany, existed for more than 40 years next to the democratic West, the *Federal Republic of Germany* (FRG), until their reunification in 1990. East Germany had one of the most rigid systems of former Communist states, with the one-rule party, the SED (Socialist Union Party) and the Ministry of State Security (MfS), the so-called *Stasi*, repressing any opposition by extensive observation, imprisonment, and psychological destruction (*Zersetzung*) (Rainer & Siedler, 2009). In 1989, the Peaceful Revolution led to the fall of the Berlin Wall and the subsequent reunification with its democratic twin one year later.

Today, 17.8 % of the German population lives in the former East Germany (Statista, 2020). Here, it remains a controversial topic whether the former GDR should be called a *Unrechtsstaat*, a lawless state, with the relatively strong ex-Communist party *The Left* rejecting the label (The Economist, 2009). However, also the new system is perceived with increasing skepticism, with the right-wing and anti-establishment party, the AfD (Alternative for Germany) winning the most or second most votes in all former East German federal states in the latest European election. Perceptions of the new system depend on its ability to choose different winners and losers than the old socialist system (Bird, Frick, & Wagner, 1998). If former Communist elites have continued to hold privileges after the transition, the new economic and political system might be less accepted by the former East German population. Also, if protesters, who helped to overturn the old system in the Peaceful Revolution, did not improve their life situation afterwards, the general incentive to protest in an autocracy in the first place becomes weak. Moreover, if transition success of the "silent majority" (Gieseke, 2015), who were not involved in any political actions, is larger than for dissidents, it would pay off to remain silent in an autocracy, if the system is overthrown nevertheless.

The economic literature on the GDR analyzes especially long-lasting effects of the system by comparing the former East German to the former West German population. German socialism persistently increased selfishness, preferences for state redistribution, the preference to act in a riskier manner, as well as career intentions of women (Becker, Mergele, & Woessmann, 2020; Necker & Voskort, 2014; Ockenfels & Weimann, 1999; Alesina & Fuchs-Schündeln, 2007; Heineck & Süßmuth, 2013; Campa & Serafinelli, 2019). Moreover, socialism significantly reduced individual trust toward other citizens, present bias, and self-

reliance, that is, the intention to become self-employed (Heineck & Süßmuth, 2013; Friehe & Pannenberg, 2020; Bauernschuster et al., 2012). Thus, German socialism affected several aspects of the lives of its former citizens, and differences to the West often persist.

Fewer studies have looked into the heterogeneous effects of socialism on individual outcomes *within* East Germany. More years of education in the GDR lowered individual college intentions, and individuals living in East German regions with higher government surveillance show lower post-transitional trust, engagement in civic society, and even income (Fuchs-Schündeln & Masella, 2016; Lichter, Löffler, & Siegloch, 2020). Using rarely available telephone access in the GDR as a proxy for belonging to the socialist upper class, Bird, Frick, & Wagner (1998) found that incomes after reunification continued to be higher for this group, even when controlling for various measures of ability. The authors conclude that the networks and privileges of the Nomenklatura were carried over into the new system. Using Communist party membership as a proxy for elite status, also Geishecker & Haisken-DeNew (2004) for Russia and Večerník (1995) for the Czech Republic found that Communist elites maintain their advantages and privileges.

We analyze with new data on East Germany’s socialist past how the transition from socialism to capitalism affected life satisfaction and economic outcomes of Communist elites, protesters, and the “silent majority”. From the literature we expect heterogeneous effects for former Communist elites. In addition to potentially maintained privileges, studies for Russia and China suggest that Communist elites have a higher productivity than the average (Geishecker & Haisken-DeNew, 2004; Bishop & Liu, 2008; McLaughlin, 2017), both factors that might have helped them to succeed after the transition. However, the German public often denied former Communist elites jobs in the new system, due to the creation of the *Federal Commission for the Records of the State Security Services* that reviewed the extent to which an individual was involved in GDR malfeasance.

The expected effects for political dissidents are also ambiguous. Although life satisfaction should have improved after their liberalization and the recognition of their basic rights, the discrimination on the labor market and psychological *destruction* in the GDR might have resulted in long-term economic and psychological scars (Poppowell, 1992). The opposition movement was, moreover, marginalized in the first free elections in 1990, and became politically insignificant. For the “silent majority”, transition is expected to result in rather positive outcomes, as they favored, after years of deprivation in an extremely authoritarian regime, the quick reunification to the West and a harmonization of economic conditions: a goal they reached when the *Alliance for Germany* won in the first free elections by a large margin, and the GDR became a second West Germany in political and economic terms.

Using panel data from the German Socio-Economic Panel (GSOEP) and applying ran-

dom effects, regressions reveal that the transition reduced economic outcomes for Communist elites in terms of life satisfaction, labor income, and employment. Communist elitism is measured by SED membership, and complementary by employment in the *Stasi* supervised sector, telephone access, and official business travel opportunities in the GDR. Political dissidents are captured by participation in the 1989/90 demonstrations, and complementary by an *engagement* in opposition groups, and the frequency of watching West TV. Additionally, victim status of the system is measured by *Stasi* observation and religion. Political dissidents and victims of the system, were, different from elites, positively affected by the transition. The transition success of the “silent majority” depended on the inner support of the system. Individuals who were politically inactive, but thought during the Communist era about fleeing or emigrating the country show the largest improvement of their life situation among all groups. Individual preferences for economic liberalism, risk, and trust in others can partly explain selection into Communist elites and dissidents, and also the difference in outcomes of the change from socialism to capitalism for these two groups.

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Appendix