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Working Paper

Are the losers of communism the winners of capitalism? The effects of conformism in the GDR on transition success

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Are the Losers of Communism the Winners of Capitalism? The Effects of Conformism in the GDR on Transition Success

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Abstract. Following the fall of the Iron Curtain it was important for the acceptance of the new economic and political system that the former Communist elites did not maintain their privileges, and that protesters, who helped to overturn the old system, improved their situation. With newly available panel data on East Germany’s socialist past, the *German Democratic Republic*, we analyze how former Communist elites, dissidents, and the “silent majority” were affected by the transition from socialism into today’s market-based democracy. Applying random effects models, the results reveal that the transition reduced economic outcomes for former Communist elites in terms of life satisfaction, income, and employment. The transition had a positive impact on political dissidents and victims of repression. The transition success of the “silent majority” depended on the inner support of the system, that is, low support of the GDR predicts better outcomes in capitalism. Individual preferences for economic liberalism, risk, and trust in others can partly explain selection into Communist elites and dissidents, as well as differences in outcomes of the change from socialism to capitalism for these two groups.

Keywords: East Germany, Communist elites, political resistance, autocracy, labor market, life satisfaction

JEL Codes: H10, N44, P20, D31

Compliance with Ethical Standards: This article does not contain any studies with human participants or animals performed by any of the authors.

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1 Introduction

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, 2020a). 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 (Popplewell, 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 random 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.

The paper is set up as follows. In the next section, we discuss theory and literature, followed by a section in which we present the data and methodology. In section 4 outcomes after reunification are analyzed, and in section 5 the role of preferences. The final section offers some conclusions.

2 Theory and Literature

2.1 The GDR System

Shortly before the end of World War II, the Allies allocated the East German states of Brandenburg, Mecklenburg-Western Pomerania, Saxony-Anhalt, Saxony, and East Berlin to the Soviet occupation zone that developed quickly into a highly authoritarian and repressive regime. The GDR was designated by Soviet authorities to become a role model for the Socialist system, with the Wall surrounding the country from 1961 to 1989.

East Germany had a command economy, in which virtually all decisions were made by the governing party, the SED. Power, influence, and personal connections drove economic decisions (Encyclopedia Britannica, 2020). The Nomenklatura in the GDR system consisted mostly of members of the one-rule party, the SED, and included bureaucrats, managers, military and police services, as well as the secret service (Atkinson, Micklewright, & Micklewright, 1992). In a population of about 12 million adults, 2.3 million were members of the SED in 1989, a further 500,000 joined the block parties that supported basically every decision of the SED (Stern, 2009). Of the twelve million eligible voters, about 10 million participated in the local election in May 1989, with a large majority voting for the SED.

Thus, the reality of dictatorship includes that millions of people supported and carried the system.

The many members of the SED signified that it was not a party in a strict sense, but rather a community of political conviction and a career ladder. Party leaders estimated that they could rely only on one tenth of its members, a number that was confirmed when after the fall of the Berlin Wall in 1989, only 285,000 of its original members remained in the party (Kowalczyk, 2019). Although many SED members were opportunists, opposition to the SED's official political direction came usually from within the party, represented by convicted Communists. Extensive outside party opposition arose only in 1989, when demonstrations against the system started to unravel.

The Ministry of State Security (MfS), *Stasi* for short, functioned as the intelligence agency, the official “Shield and Sword” of the party. The primary tasks of the MfS included spying on the population and fighting any opposition by overt and covert psychological destruction of dissidents, the so-called *Zersetzung*. The extent of government surveillance conducted by the MfS was historically unprecedented, with the ministry keeping files on 6 million individuals, although not all of them were observed constantly. In addition to 91,015 official MfS employees in 1989, more than 174,000 civilians monitored politically incorrect behavior as unofficial collaborators (IM, *Inoffizielle Mitarbeiter*) for the *Stasi* (Koehler, 2008). The MfS even tried to recruit now-Chancellor Angela Merkel as IM, but she refused (Focus, 2013).

In the GDR, basic human rights, such as freedom of speech, press, and religious conviction, were repressed. Between 170,000 and 280,000 citizens were sentenced for political reasons. The country had one of the highest suicide rates in the world (Hensel et al., 2009).

2.2 The Peaceful Revolution

Almost exactly 200 years after the French Revolution, a series of totally unexpected political and popular movements in Eastern Europe overturned the hitherto uncontested power of

Communist parties (Hirschman, 1993). In East Germany, despite the atmosphere of fear generated by the MfS, from September 1989 onward, opposition groups became visible in the public after the discontent with the obviously forged local election in May: the SED officially declared an unrealistic voter turnout of almost 99 percent. Until the public protests, citizens in the GDR only asked themselves whether they should join refugees fleeing to the West or not; now, in September 1989 before the fall of the Berlin Wall, they had the alternative of either interfering in politics or remaining silent. Most people chose to await passively, watching the fight of one minority group, demonstrators, against another, the political elites (Kowalczyk, 2019).

The goal of the opposition was to reform the GDR system and to find a self-determined way to freedom and social justice. However, the majority of the population after years of deprivation in an extremely authoritarian regime favored quick reunification with the democratic West. Demonstrating in the streets in 1989 was a dangerous endeavor. The SED leadership openly supported the Tianmen Square massacre in Communist China, where thousands of demonstrators were shot dead by the police. The so-called “Chinese solution” was a possible scenario for East German demonstrations as well, but the SED leaders decided at the last moment not to intervene demonstrations in Leipzig and Berlin. When the protesters reached numbers of half a million (and Hungary opened its borders with Austria), the SED leadership decided to finally allow migration to West Germany on November 9, an act that unintendedly signified the end of Communism in Germany (Rödger, 2009). The fall of the Berlin Wall and the reunification one year later is as close to a “natural experiment” as can be experienced in economics, as it came as a total surprise for the majority of the East and West German population (Frijters, Haisken-DeNew, & Shields, 2005).

2.3 Outcomes after Reunification

As an exception among post-Communist countries, East Germans had almost no time to adapt to the new political and economic system. Expectations in East Germany were high

that after reunification and the transition into the *Federal Republic* “flourishing landscapes” would occur and “nobody would be worse off than before”, as then-Chancellor Helmut Kohl promised (Mitteldeutscher Rundfunk, 2004). However, the transition was accompanied by an economic collapse in the former GDR, with mass unemployment and GDP per capita falling from 55 % to 33 % of levels in the West until 1993 (Kurz-Scherf & Winkler, 1994). Wages, however, were significantly raised for public and union jobs in order to prevent mass emigration to the West (Frijters, Haiken-DeNew, & Shields, 2005). After two decades of structurally high unemployment in East Germany, the unemployment rate today is approaching relatively low levels, comparable to the West, and GDP per capita stands at about two thirds of levels in the West (Statista, 2020b). Overall satisfaction with life has followed the V-shaped pattern of GDP (Shleifer, 1997), and in 2018 has almost reached levels in the West, a pattern that is observable for all post-Communist countries (Easterlin, 2009; Guriev & Melnikov, 2018).

2.4 Expected Effects of Elites and Dissidents

Has the fall of the Iron Curtain affected winners of Socialism and, thus, Communist elites, in the same way as it has affected political dissidents?

Elites. Economically, in socialism, Communist party membership can be a device to hand out benefits, such as leadership positions, to favored groups. It could therefore be the case that former political elites carried over privileges into the new system (Bird, Frick, & Wagner, 1998). Alternatively, it can be that the state-party recruits high-ability individuals to maintain its political power. Studies from Communist Russia and China show that party membership is both a rent-seeking device and a screening for talent that is comparable to the education system in the West (Geishecker & Haiken-DeNew, 2004; Bishop & Liu, 2008; McLaughlin, 2017). Both arguments suggest that members of the SED have benefited from transition into the market-based economy, as productivity is remunerated more highly in capitalist systems, as Andren, Earle, & Săpătoru (2005) showed for Romania. Anecdotal

evidence suggests that many former elites in East Germany found their place in society, working in real estate, finance, and the insurance sector, as they showed work experience that was useful for employers in capitalism (Der Spiegel, 2008).

However, many former Communist elites from the East were denied jobs in the public (and, to a much lesser extent, private) sector in the FRG, as their past as MfS officials or IMs was usually known to potential employers. The information was provided by the *Federal Commission for the Records of the State Security Services*, an agency that could use the majority of *Stasi* files, thanks to the citizen's storming of *Stasi* headquarters in 1989-90.

Today, only about one third of high and middle elite positions in the public service, scientific institutions, and the justice system are filled by East Germans, as they needed to be performed by individuals with a democratic and market-based background. This is why historians state that the carriers of the system lost more from the transition than opponents of the system (Kowalczyk, 2019).

Dissidents and Silent Majority. Dissident behavior in the GDR was punished by the denial of basic rights, observation by the *Stasi*, imprisonment, and limited job opportunities. The MfS had the “primary duty of ensuring that only those loyal to the Party got good or important jobs, and that those disloyal got the worst ones” (Poppewell, 1992, p.41). Although many demonstrators protested for reformation of the GDR system, a goal they have not reached as the West German system was adapted in its entirety, they freed *themselves* from the autocratic system, an important aspect of self-esteem and prediction of success. Moreover, transition meant a significant improvement of their civil rights and job opportunities. On the other hand, repression and psychological “destruction” might have caused long-term psychological scars, with negative effects on economic outcomes and overall life satisfaction. Rehabilitation of former victims of the system was rather small after transition.

The “silent majority” have not fought for their freedom and might therefore be less satisfied with life in the new system. On the other hand, they also have not suffered to that extent from the old system as dissidents have, and might therefore be more productive as

they deal less with long-term scars of repression. Moreover, the political will of the “silent majority”, the “takeover” of the GDR by the West (Kowalczyk, 2019) prevailed, a sign for a positive effect of transition on outcomes of this group.

3 Data and Empirical Strategy

3.1 Data

In the empirical analysis, we use unbalanced data from the 1990-2018 German Socio-Economic Panel (GSOEP), an annual survey representative of the German population (Goebel et al., 2019). In 2018, a survey on the GDR past was added for individuals who lived in 1989 in the GDR and were then at least 18 years old. Questions concerning the GDR included life satisfaction, employment status, participation in protests, and relationship to the MfS. The sample covered 2,295 individuals who were surveyed altogether 42,295 times between 1990 (before October 3, when the GDR was still in place) and 2018, including questions regarding biographic characteristics, life satisfaction, employment, and income in the social market economy.

Measures of Elites of the Communist System. For the measure of Communist elites SED membership is considered. In the sample, 19.7 % answered that they were members of the SED. This corresponds to official statements. Therefore, the measure for SED membership appears to be valid. For the SED measure in the regression, we exclude individuals that have left the party until 1989. Another measure of Communist elite status is whether an individual has mostly worked in the GDR in the *Sensitive Public Sector*, also called *X-area*, thus, the sector that was supervised by the MfS as it was important for national security. It included the NVA (National Army), police, penal system, fire brigade, customs duty, border troops, the MfS itself, political parties, mass organizations, and the AG-Wismut (uranium producer). Official business travel is used as an additional proxy for Communist elite status. Telephone access of a household in 1990 is taken as a measure of political and economic

Table 1: Operationalization of Main Variables

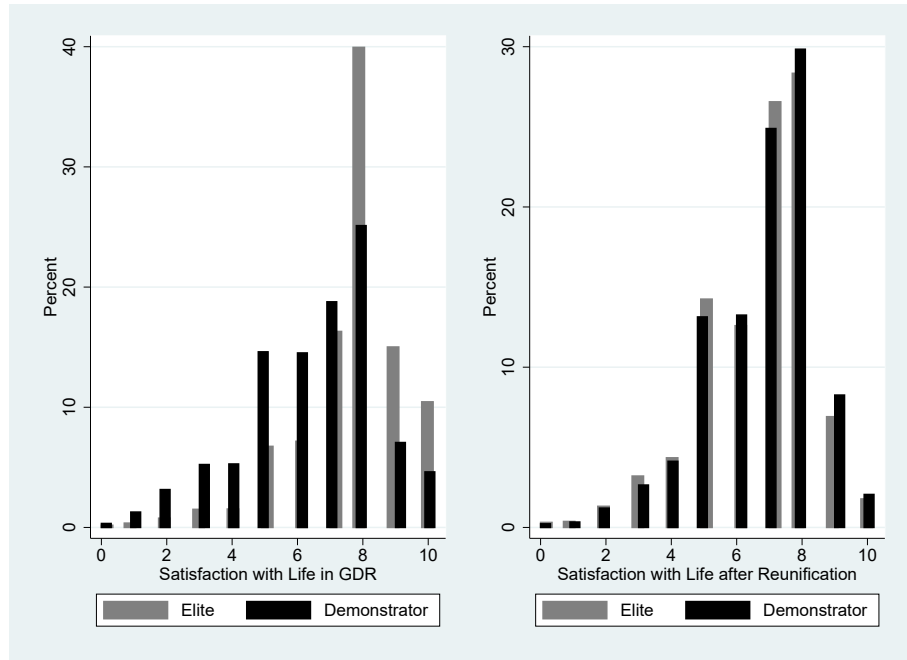
Variable	Item	Years
Life Satisfaction FRG \ominus	“On a scale from 0 to 10, where 0 means completely dissatisfied and 10 means completely satisfied. How satisfied are you with your life, all things considered.”	all
Life Satisfaction GDR	“All in all: How satisfied were you with your Life in the GDR?” (0-10)	2018
LM Income FRG \ominus	“How much did you earn from your work last month?” Net income (after tax, social security, unemployment and health insurance excluding vacation pay/subsequent payments; including overtime payments	all
LM Income GDR	” (1990)	
Employment FRG \ominus	“Are you currently engaged in paid employment?” Which of the following applies best to your status? full-time employed, part-time employed (=1) non-working (education, unemployment..) (=0)	all
Employment GDR	“How was your employment in 1989? Were you...” working (=1), non-working (education, unemployment..) (=0)	2018
SED Member	Before 1.1.1989 Member of the Socialist Unity Party (SED) (and have not left the party before 1989)	2018
Sensitive Public Sector	Sector mostly worked in GDR: [10] Sensitive Public Sector	2018
Official Vacation	Gratification Travel, Exchange, Business Trip (Socialist or West Countries)	2018
HH with Phone	HH with Phone in 1990	1990
Silent Advocate	No: demonstration, member of political party, MfS observation, “thought about flight/emigration”	2018
Demonstration	Yes on “Have you personally <i>participated</i> in the demonstrations of the opposition movement in the years 1989/90?”	2018
Opposition Movement	Yes on “ <i>Engagement</i> in opposition movement 1989/90”	2018
West TV	Often or always watched either “Wetten Dass...” or “Tagesschau”	2018
MfS Observation	“Did you know or felt that during the time in the GDR time in the GDR, you were observed by others? “Yes, knew it”	2018
Religion	Member of Church, Religion if missing, values are taken from last question	1990, 91, 97 2003, 07, 11, 15
Silent Dissident	No: demonstration, member of political party, MfS observation, Yes: “thought about flight/emigration”	2018

Table 2: Descriptive Statistics

	P.-Y. Obs.	Age (SD)	Education (SD)	Male (SD)	West (SD)
All	115,727	53.055 (14.93)	.846 (.69)	.467 (.50)	.092 (.29)
GDR Sample 2018	42,295	53.721 (13.44)	.961 (.67)	.445 (.50)	.082 (.27)
SED	7,145	58.221 (12.35)	1.052 (.75)	.560 (.50)	.065 (.25)
Sensitive Public Sector	1,375	56.626 (13.34)	.92 (.70)	.798 (.40)	.037 (.19)
HH with Phone 1990	16,265	54.277 (14.87)	.921 (.73)	.478 (.50)	.036 (.19)
Official Vacation	7,626	54.771 (13.79)	1.245 (.70)	.554 (.50)	.091 (.29)
Silent Advocate	13,162	53.270 (14.20)	.775 (.61)	.321 (.47)	.050 (.22)
Demonstration	8,720	52.343 (13.02)	1.079 (.65)	.550 (.50)	.069 (.25)
Organization of Dem.	2,640	50.714 (13.23)	1.277 (.63)	.552 (.50)	.125 (.33)
West TV	26,504	54.281 (13.40)	.951 (.68)	.466 (.50)	.075 (.26)
MfS Observation	10,040	53.892 (12.92)	1.133 (.68)	.522 (.50)	.131 (.34)
Religious	44,092	56.077 (15.37)	.738 (.70)	.418 (.49)	.091 (.29)
Silent Dissident	3,829	51.079 (13.44)	1.084 (.61)	.486 (.50)	.246 (.430)

Note: SOEP 1990-2018, own calculations

Figure 1: Distribution of Life Satisfaction



Note: SOEP 1990-2018, own calculations; left side: retrospective life satisfaction (surveyed in 2018) of former elites and dissidents in the GDR; right side: life satisfaction (surveyed 1991-2018) of former elites and dissidents in the FRG

upper class status, as only about 20 % had access to telephones, and follows Bird, Frick, & Wagner (1998) who analyze whether higher incomes of the socialist upper class persisted in the West, whereas we look at *changes* in outcomes.

Dissidents and Victims of the System. The measure of being a dissident in the authoritarian regime is captured by the question whether an individual participated in the “Peaceful Revolution” that ultimately led to the end of Communism in Germany. Although the measure could be problematic, as it is a self-reported measure that is surveyed in hindsight, the 25.2 % in the sample stating to have participated in demonstrations match official reports. Additionally, *engagement* in opposition groups, and whether an individual watched West television captures dissident behavior, as watching West German TV was forbidden, but possible for the majority of GDR citizens. We use the frequency of watching West TV (always, often vs. rarely, not) of either “Wetten, dass...?”, an entertainment show, or “Tagesschau”, television news. Several studies use regional variation in access to West television in the GDR and find that higher access predicts satisfaction with the Communist system, and differences in consumption behavior after reunification (Kern & Hainmueller, 2009; Bursztyn & Cantoni, 2016). Victim status in the GDR is captured by whether an individual was observed by the MfS, or part of a religious group. Both groups were deeply involved in the opposition movement. The MfS observed citizens who could become a threat to the system, that is, individuals who joined opposition groups, worked in important positions in culture or the media, planned to emigrate, or who had close ties to the West. MfS employees themselves were also often under surveillance by their agency. Religion in the GDR was used as a tool to suppress people belonging to the working class, by denying them important jobs and higher education. Atheism was propagated from early on in schools. The Communist ideology opposed religion; according to Marx (1844) religion was the opium of the masses. Thus, religious people are expected to have improved their situation in the *Federal Republic of Germany*, where freedom of religion is much more respected (Laudenbach, Malmendier, & Niessen-Ruenzi, 2018).

Silent Majority. The “silent majority” is captured if an individual was not involved in any political actions, such as membership in a political party, employment in the *Sensitive Public Sector*, engagement in opposition movement or demonstrations. We divide the “silent majority” in *Silent Advocates*, that did not think about emigrating or fleeing the country and thus, to some extent supported the system silently, and on the hand in *Silent Dissidents* that thought about emigrating, or fleeing the country, a measure for inner dissatisfaction with the system.

Descriptive statistics for GDR status are shown in Table 2. SED members, for example, are older than dissidents, but education, share of male, and migration to the west (after 1989) are relatively balanced. Compared to the average, SED members and dissidents have a higher education and a higher male share.

Outcome Variables. Outcome variables include the change in labor income, employment, and overall life satisfaction from socialism to capitalism. Income in capitalism is measured by current monthly net (log) labor income from 1991 to 2018, income in socialism is measured in 1990 when the GDR was still in place. The income measure is adjusted for inflation (2016 prices). In general, incomes were very equal in the GDR, but not so in capitalism. This is why the change in income is important. Also concerning employment, as the GDR reached almost full employment, while mass employment occurred in the immediate years after reunification. Employment in the FRG equals one if an individual is employed full-time or part-time (also self-employment), and zero otherwise (1991-2018). Employment in socialism is measured by the retrospective question in 2018 “How was your employment in 1989?” where the variable is recoded to 1 if an individual was full-time or part-time employed and zero otherwise (education, unemployment, etc.). For the labor market regressions, individuals up to the pension age of 65 are included. This could bias the results of economic success, because only relatively young individuals are considered. Therefore, a measure of life satisfaction is additionally included.

The measure of life satisfaction in capitalism is based on responses to the question, “On a

scale from 0 to 10, where 0 means completely dissatisfied and 10 means completely satisfied, how satisfied are you with your life, all things considered?” For life satisfaction in the GDR the retrospective measure from 2018 is included ”All in all: How satisfied were you with your Life in the GDR?”. Self-reported life satisfaction recognizes the fact that “everybody has their own ideas about happiness and a good life” and “people are reckoned to be the best judges of the overall quality of life” (Frey & Stutzer, 2002, p.405). Life satisfaction is positively affected by income, economic growth, democracy, and employment (Stevenson & Wolfers, 2008; Gardner & Oswald, 2007; Frey & Stutzer, 2000; Clark, 2003; Deter, 2020a). Although happiness statements can be biased, for example by daily moods (Schwarz & Strack, 1999), they contain a significant true signal about a person’s overall satisfaction with life and are correlated with a person’s happiness indicated by friends and relatives, and even physiological measures of well-being, such as heart rate and blood pressure (for an overview, see Kahneman, 2006).

Retrospective life satisfaction statements could be problematic because individuals tend to remember incorrectly, and have the tendency to forget about problems in the past. In Figure 1, life satisfaction exemplary of Communist elites and dissidents are shown for life in the market-based democracy (1991-2018, right-hand side) and for life in the GDR (left-hand side). Elites were much more satisfied with life in the GDR than dissidents. Dissidents scored higher on life satisfaction under capitalism, but the difference between both groups is smaller.

3.2 Empirical Strategy

We consider the following approach to be estimated on the sample to approximate the effect of position in GDR on success after the transition:

$$y_{it} = \alpha + \beta GDRStatus_i + X_{it} + a_i + u_{it} \quad (1)$$

where y_{it} is the dependent variable, thus, outcome after 1990 in year t (outcome under capitalism) *minus* the outcome variable in the time of the GDR (outcome under socialism). Therefore, the dependent variable represents the change in outcomes from socialism compared to the post-socialist period. Outcome variables are the changes in life satisfaction, income, and employment. $GDRStatus_i$ is the explanatory variable that is set for an individual over time. A significantly positive β would therefore mean that, for example, being a member of the Communist elite gave the individual an advantage in the transition from socialism to capitalism, compared to the general East German population. The fact that explanatory variables were measured before the transition into capitalism, reversed causality, that is, the dependent variable predicts the explanatory variables, is unlikely, and the results can be interpreted causally.

X_{it} is the set of control variables, gender, age, education, west migration, and the regional unemployment rate. Gender takes the value 1 if the individual is male and 0 if the person is female. Four *age* dummies, that are equally distributed, are included: younger than 45, 45-53, 54-62, and older than 62 (the reference age in the regression). The *education* variable takes the value 0 if the individual has no formal education or took 9 years of secondary school (*Hauptschule*), the value 1 if a person did 10 years of secondary school (*Realschule*), and the value 2 for general qualification for university (*Fachhochschulreife* or *Abitur*). *West migration* captures whether an individual in the GDR sample has after 1989 migrated to the West, and has therefore potentially better employment possibilities. The unemployment rate at the federal states level captures possible yearly differences in economic development that might differ at the regional level (Federal Statistical Office, 2020).

a_i is an individual fixed effect that is assumed to be uncorrelated with the independent variables; u_{it} is a time-varying error term. We estimate β by applying a random-effects model in order to account for the panel data structure. A fixed effects estimator is a transformation to remove the unobserved effect by removing any time-constant explanatory variable. This would also remove the here applied explanatory variable, as it is set for an individual

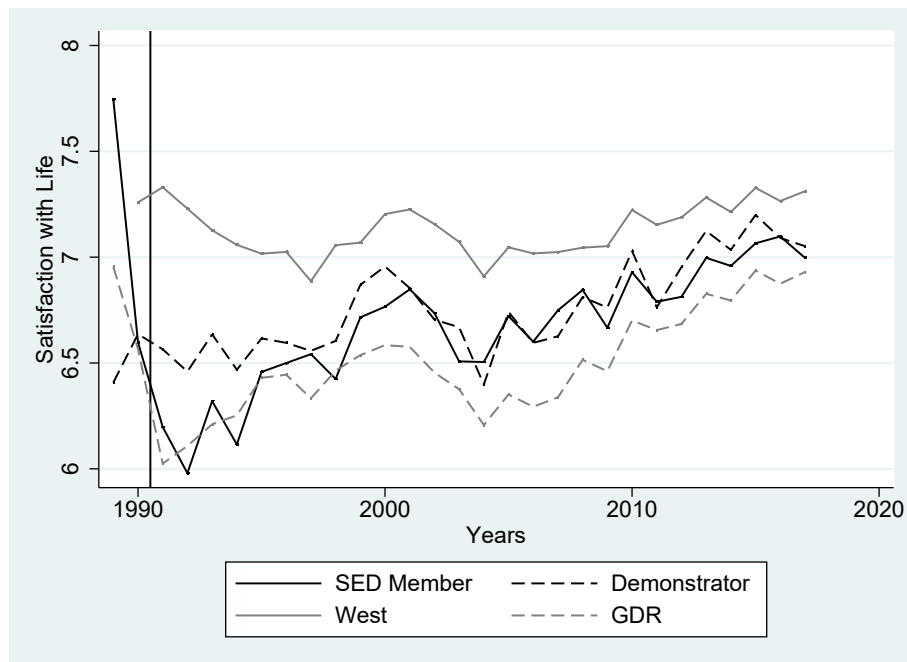
over time. Instead, a random effects estimator subtracts only a fraction of the time average, depending on the variance in a_i and u_{it} as well as the number of time periods for one individual (Wooldridge, 2016). The estimator is unbiased if the unobserved effect is uncorrelated with all explanatory variables in all time periods (Bell, Fairbrother, & Jones, 2019). Thus, if controls are good enough in the equation, neglected heterogeneity only induces serial correlation in the error term, but no correlation between the composite errors and the explanatory variables. Education, for example, can here capture the possibility that more able individuals might self-select into becoming Communist elites and also having higher outcomes in capitalism.

4 Main Results

4.1 Life Satisfaction

Figure 2 shows that demonstrators improved their life satisfaction the most, while SED members show the strongest decrease. To check whether this development is also visible with the inclusion of controls, the regression of equation 1 is applied in Table 3 for advocates of the system and in Table 4 for dissidents. Communist elites, measured as SED membership, employment in the *Stasi* supervised sector, and official vacation, lost significantly from the transition, compared to the average GDR citizen. An exception are individuals with telephone access, a measure of socialist upper class both economically and politically, who show no significant results. This is in line with the finding by Bird, Frick, & Wagner (1998) that the socialist upper class kept their privileges. However, this seems not to be true in case of political elites who appear to lose strongly from transition, at least in terms of life satisfaction. More precisely, being a former SED member reduces life satisfaction from Communism to capitalism significantly by 0.99 points on the 0-10 scale. The magnitude on the life satisfaction scale is larger than the effect of losing one’s job (Gielen & Van Ours, 2014). Moreover, the part of the “silent majority” who still supported to some extent the system

Figure 2: Life Satisfaction from Socialism to Capitalism



Note: SOEP 1990-2018, own calculations; for 1989, the retrospective life satisfaction is inserted ("How satisfied were you with life in the GDR"), afterwards the current life satisfaction; 1990 is the last year of the GDR; included are individuals born before 1973; "GDR" includes individuals that lived in the GDR in 1989 (but might live in the West afterwards), "West" includes individuals that have not lived in the GDR in 1989

Table 3: Change in Life Satisfaction of Advocates of the System

	(1) ΔLS	(2) ΔLS	(3) ΔLS	(4) ΔLS	(5) ΔLS	(6) ΔLS
SED Member	-0.998*** (0.14)					-1.441*** (0.24)
Sensitive Public Sector		-1.232*** (0.25)				-0.772 (0.45)
HH with Phone			-0.106 (0.18)			-0.039 (0.18)
Official Vacation				-0.315* (0.13)		-0.336 (0.22)
Silent Advocate					-0.769*** (0.10)	-1.213*** (0.18)
West Migration	0.221*** (0.06)	0.236*** (0.06)	0.257** (0.09)	0.239*** (0.06)	0.224*** (0.06)	0.214* (0.09)
Male	0.345*** (0.10)	0.360*** (0.10)	0.433** (0.16)	0.321*** (0.10)	0.192* (0.10)	0.371* (0.16)
Age < 45	-0.327*** (0.04)	-0.335*** (0.04)	-0.388*** (0.04)	-0.334*** (0.04)	-0.332*** (0.04)	-0.374*** (0.04)
Age 45-53	-0.346*** (0.03)	-0.355*** (0.03)	-0.391*** (0.04)	-0.354*** (0.03)	-0.353*** (0.03)	-0.373*** (0.04)
Age 54-62	-0.283*** (0.03)	-0.284*** (0.02)	-0.274*** (0.03)	-0.284*** (0.02)	-0.283*** (0.02)	-0.276*** (0.03)
Education	0.311*** (0.05)	0.294*** (0.05)	0.211** (0.07)	0.311*** (0.05)	0.245*** (0.05)	0.172* (0.07)
UER	-0.013*** (0.00)	-0.012*** (0.00)	-0.009** (0.00)	-0.012*** (0.00)	-0.013*** (0.00)	-0.009** (0.00)
Observations	36360	38430	19933	38430	38430	18653
Overall R ²	0.043	0.032	0.012	0.030	0.045	0.081
Random Effects	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05; outcome variable is change from retrospective life satisfaction (from 2018); Age > 62 is reference for age in the regression

show a negative effect as well (column 5). The coefficients of the control variables show that individuals who migrated to the West after reunification, males, and older and more educated individuals as well as individuals living in regions with lower regional unemployment could improve their subjective life situation.

Demonstrators, on the other hand, became more satisfied with their lives after transition. The largest gains of reunification show former organizers of protests, thus, individuals who were at the center of the Peaceful revolution, as well as *Silent Dissidents*, thus, politically inactive individuals who thought of fleeing the autocratic East. Interestingly, all measures for dissident behavior show a significant improvement in subjective living conditions, when

self-stated life satisfaction is applied.

The greater success of nonpolitical dissidents compared to active dissidents, protesters, is potentially due to the circumstance that demonstrators protested for a reform of the GDR that never occurred. The silent dissatisfied majority, however, supported the idea of a quick reunification with the West and the harmonization of political and economic conditions. In the elections of March 1990, the first free election in East Germany since Hitler abolished the Weimar Republic in 1933, the Helmut Kohl supporting *Alliance for Germany*, who stood for a quick reunification, won by a large margin (48.1%). Opposition groups, represented in the party *Democratic Awakening* only received 0.9 %, much less even than the successor of the discredited Communists, the new *Party for Democratic Socialism* that won a surprising 16.3 % of the vote. It, thus, became obvious that the *Silent Dissidents* prevailed in the elections, compared to the opposition groups.

Table 4: Change in Life Satisfaction of Dissidents of the System

	(1) ΔLS	(2) ΔLS	(3) ΔLS	(4) ΔLS	(5) ΔLS	(6) ΔLS	(7) ΔLS
Demonstration	1.015*** (0.12)						1.027*** (0.12)
Organ. of Demonstr.		1.494*** (0.20)					
West TV			0.528*** (0.10)				0.267** (0.10)
MfS Observation				0.790*** (0.11)			0.482*** (0.11)
Religious 1990					0.813*** (0.10)		0.561*** (0.10)
Silent Dissident						1.542*** (0.21)	1.813*** (0.20)
West Migration	0.195** (0.07)	0.238*** (0.06)	0.243*** (0.06)	0.223*** (0.06)	0.239*** (0.06)	0.192** (0.06)	0.118 (0.07)
Male	0.220* (0.10)	0.266** (0.10)	0.275** (0.10)	0.239* (0.10)	0.350*** (0.10)	0.311** (0.10)	0.219* (0.10)
Age < 45	-0.330*** (0.04)	-0.337*** (0.04)	-0.330*** (0.04)	-0.333*** (0.04)	-0.326*** (0.04)	-0.336*** (0.04)	-0.325*** (0.04)
Age 45-53	-0.350*** (0.03)	-0.356*** (0.03)	-0.351*** (0.03)	-0.354*** (0.03)	-0.347*** (0.03)	-0.354*** (0.03)	-0.345*** (0.03)
Age 54-62	-0.287*** (0.03)	-0.284*** (0.02)	-0.282*** (0.02)	-0.283*** (0.02)	-0.279*** (0.02)	-0.283*** (0.02)	-0.283*** (0.03)
Education	0.213*** (0.05)	0.260*** (0.05)	0.294*** (0.05)	0.259*** (0.05)	0.314*** (0.05)	0.286*** (0.05)	0.206*** (0.05)
UER	-0.013*** (0.00)	-0.012*** (0.00)	-0.013*** (0.00)	-0.013*** (0.00)	-0.013*** (0.00)	-0.012*** (0.00)	-0.013*** (0.00)
Observations	35410	38430	38430	38430	38430	38430	35410
Overall R ²	0.049	0.045	0.037	0.043	0.048	0.041	0.099
Random Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05; outcome variable is the change from retrospective life satisfaction (survey in 2018); the coefficient for “Organ. of Demonstr.” is not shown in the joint regression (8), as it is already captured by the variable “Demonstration”

4.2 Labor Market Outcomes

Have communist elites and advocates of the system also lost in terms of economic outcomes from the fall of the Iron Curtain? In Figure A, averages of (log) labor income show that the overall income of the GDR population increased substantially in the transition. Demonstrators and SED members have higher incomes than the average population, suggesting a higher productivity for both groups. In figure B, where yearly average employment rates are shown, it can be seen that Communist elites experienced a sharp drop after the transition, whereas dissidents maintained a relatively high share of employment. When controlling for individual heterogeneity over time, year effects, and biographical data, the regression results in Table 5 show that all measures of Communist elite status are significantly negative, except for employees working in the *Sensitive Public Sector* (column 1-6). SED members lost 30.8 percentage points more in income compared to the general population. *Silent Advocates*, on the other hand, could even gain from transition in terms of income. This can be explained by the non-involvement in Communist malfeasance and the accompanying negligence by the *Federal Commission for the Records of the State Security Services*. They therefore faced no disadvantages concerning job opportunities. When the change in individual employment is analyzed (column 7-12, Table 5), only SED membership is significantly negative in the joint regression. Thus, also in terms of economic outcomes, the winners of socialism appear to be the losers of capitalism.

Table 5: Labor Market Outcomes of Advocates of the System

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	ΔINC	ΔINC	ΔINC	ΔINC	ΔINC	ΔINC	ΔEM	ΔEM	ΔEM	ΔEM	ΔEM	ΔEM
SED Member	-0.308*** (0.06)					-0.258*** (0.06)	-0.049 (0.03)					-0.116** (0.04)
Sensitive Public Sector		-0.054 (0.10)				0.045 (0.10)		-0.014 (0.05)				0.061 (0.08)
HH with Phone			-0.136*** (0.02)			-0.081 (0.04)			0.017 (0.03)			0.029 (0.03)
Official Vacation				-0.115* (0.05)		-0.077 (0.05)				0.034 (0.03)		0.015 (0.04)
Silent Advocate					0.151*** (0.04)	0.081 (0.04)					-0.008 (0.02)	0.003 (0.03)
West Migration	0.095* (0.04)	0.096* (0.04)	0.229*** (0.02)	0.097* (0.04)	0.093* (0.04)	0.092* (0.04)	0.053** (0.02)	0.077*** (0.02)	0.110*** (0.02)	0.076*** (0.02)	0.077*** (0.02)	0.083*** (0.03)
Male	0.020 (0.04)	-0.016 (0.04)	-0.022 (0.02)	-0.009 (0.04)	0.004 (0.04)	0.031 (0.04)	0.064** (0.02)	0.057** (0.02)	0.100*** (0.03)	0.054** (0.02)	0.055** (0.02)	0.109*** (0.03)
Age < 45	-0.492*** (0.03)	-0.503*** (0.03)	-0.457*** (0.02)	-0.504*** (0.03)	-0.504*** (0.03)	-0.494*** (0.03)	0.592*** (0.01)	0.594*** (0.01)	0.641*** (0.01)	0.594*** (0.01)	0.594*** (0.01)	0.643*** (0.01)
Age 45-53	-0.098*** (0.03)	-0.109*** (0.03)	-0.122*** (0.02)	-0.109*** (0.03)	-0.109*** (0.03)	-0.099*** (0.03)	0.578*** (0.01)	0.575*** (0.01)	0.636*** (0.01)	0.575*** (0.01)	0.575*** (0.01)	0.643*** (0.01)
Age 54-62	0.089** (0.03)	0.078** (0.03)	0.074*** (0.02)	0.078** (0.03)	0.078** (0.03)	0.089** (0.03)	0.407*** (0.01)	0.407*** (0.01)	0.437*** (0.01)	0.407*** (0.01)	0.407*** (0.01)	0.440*** (0.01)
Education	0.236*** (0.02)	0.234*** (0.02)	0.265*** (0.01)	0.241*** (0.02)	0.244*** (0.02)	0.248*** (0.02)	0.144*** (0.01)	0.141*** (0.01)	0.093*** (0.02)	0.139*** (0.01)	0.141*** (0.01)	0.090*** (0.02)
UER	-0.000 (0.00)	-0.001 (0.00)	0.007*** (0.00)	-0.001 (0.00)	-0.001 (0.00)	-0.000 (0.00)	-0.010*** (0.00)	-0.010*** (0.00)	-0.010*** (0.00)	-0.010*** (0.00)	-0.010*** (0.00)	-0.009*** (0.00)
Observations	10481	11189	29945	11189	11189	10432	29512	31053	16599	31081	31053	15478
Overall R ²	0.035	0.029	0.036	0.030	0.034	0.038	0.216	0.216	0.212	0.216	0.216	0.212
Random Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05; column 1-6: outcome variable is change in real log labor income from 1990 to the following years; column 6-12: outcome variable is change in employment status from 1989 (surveyed retrospectively in 2018) to the following years (except 1990)

Labor Market outcomes of dissidents of the system show also favorable results in terms of employment for demonstrators and organizers of demonstrations, but are insignificant for other groups. Regarding income, demonstrators show small significant improvements in the joint regression. Interestingly, victims of repression, that is, individuals who were observed by the *Stasi* and religious individuals even lost from the transition in terms of labor income, compared to the average GDR citizen. This might be explained by a lower work experience due to discrimination in the GDR.

Table 6: Labor Market Outcomes of Dissidents of the System

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	ΔINC	ΔINC	ΔINC	ΔINC	ΔINC	ΔINC	ΔINC	ΔINC	ΔEM	ΔEM	ΔEM	ΔEM	ΔEM	ΔEM
Demonstration	0.060** (0.02)						0.057* (0.02)	0.078 (0.05)						0.096* (0.05)
Organ. of Demonstr.		0.125** (0.04)							-0.010 (0.07)					
MfS Observation			-0.009 (0.02)				-0.012 (0.02)			-0.116* (0.05)				-0.143** (0.05)
Religious 1990				0.031 (0.02)			0.004 (0.02)				-0.070*** (0.02)			-0.040 (0.04)
West TV					0.029 (0.02)		0.024 (0.02)					-0.014 (0.04)		-0.004 (0.04)
Silent Dissident						-0.034 (0.04)	-0.010 (0.04)						0.054 (0.10)	0.113 (0.11)
Observations	28868	31053	31059	31165	31071	31053	28774	10319	11189	11189	29945	11189	11189	10270
Overall R ²	0.211	0.216	0.217	0.218	0.217	0.217	0.212	0.029	0.029	0.032	0.033	0.028	0.029	0.034
RE and Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05; column 1-6: outcome variable is change in log labor income from the GDR (surveyed in 1990) to the following years; column 7-14: outcome variable is change from employment in the GDR in 1989 (surveyed retrospectively in 1989) to the following years

Additionally, in Table B, instead of the change in outcomes, the current outcomes in capitalism are shown. In terms of life satisfaction, and when controlling for individual heterogeneity (over time) *Silent Advocates* seem to be the least satisfied, while demonstrators and observed individuals appear to be the happiest. Employment-wise, demonstrators, individuals with a phone, and individuals watching West TV regularly are more often employed than *Silent Advocates*. Income-wise, again, both elite measures and dissident measures show higher incomes than the measure for *Silent Advocate*. Interestingly, the highest labor income shows *Silent Dissidents*. Thus, although the (economic) elite lost from the transition, they are still better off than the average. Demonstrators and *Silent Dissidents* could not only improve their (economic) position in relative terms, but are also better off than the average after transition.

5 The Role of Individual Preferences

Reunification affected outcomes for dissidents and elites differently. Can individual preferences explain why this was the case?

5.1 Preference Measures

Preferences are mainly caused by genetics and socialization in early childhood (Cesarini et al., 2009; Booth & Nolen, 2012; Kosse et al., 2020). They are therefore relatively stable over time (Schildberg-Hörisch, 2018; Wölbert & Riedl, 2013).

Risk. A higher preference for risk in capitalism predicts higher income and the likelihood to become and stay self-employed (Dohmen et al., 2011; Caliendo, Fossen, & Kritikos, 2014). In socialism, however, risk could have been harmful, as every deviant action could result in the end of one’s career or even imprisonment. In general, former GDR citizens show a persistently higher risk preference than their Western neighbors after reunification (Heineck & Süßmuth, 2013), potentially due to the Peaceful Revolution where taking risks was neces-

sary on both sides, “among protesters as well as among subjects working for the system (not to resort to squeezing the trigger)” (Heineck & Süßmuth, 2013, p.795). According to this finding, protesters should be more than normally willing to take risks, a character trait that could have helped them to succeed in capitalism. The risk measures applied (see description of variables in Table H) in the SOEP data were found to correlate with incentivized lottery experiments and are therefore behaviorally meaningful (Dohmen et al., 2011; Deter, 2020b).

Trust. In market-based democracies, higher individual trust has a positive effect on income, the provision of public goods, contract enforcement, and productivity (Dohmen et al., 2008; Putnam, Leonardi, & Nanetti, 1994; Porta et al., 1996; Knack & Keefer, 1997; Lebel & Patil, 2018; Cooper & Kagel, 2016). In socialism, trust could have been harmful, as spying was mostly carried out by unofficial employees (*IM*) and occurred in the professional context, within circles of friends, and even among families. Mistrust helped one stay out of trouble. Former GDR citizens are persistently less trusting even today, due to the extensive government surveillance (Heineck & Süßmuth, 2013; Lichter, Löffler, & Siegloch, 2020). Therefore, especially individuals who had been under observation, such as political dissidents, should show lower levels of trust. In contrast, protesters needed a higher than normal level of trust to participate the dangerous demonstrations in the first place. The applied trust measures correlate with trusting and prosocial behavior (Kosse et al., 2020).

Economic Liberalism. A third preference, for individual economic liberalism, could be negatively associated with success in the GDR, as it stands against the state ideology of socialism. For the transition to capitalism, economic liberalism could have been helpful, as personal initiative became more important (Fritsch et al., 2014). Former GDR citizens show persistently lower preferences for economic liberalism, potentially due to the indoctrination of the Communist regime, and because they had become used to an intrusive public sector (Alesina & Fuchs-Schündeln, 2007). Dissidents might show higher preferences for economic liberalism compared to Communist elites, as they had fought the socialist system and its ideology. For the regression analysis, all preferences are z-standardized for a better compar-

ison. Individual averages of preferences of all years are considered, since preferences are not always surveyed in the same year, and could thus be included in the same regression (see Table D in the Appendix).

5.2 Empirical Analysis

We consider the following random effects approach to be estimated on the sample to approximate the effect of preferences on transition success:

$$y_{it} = \alpha + \beta_1 \overline{Risk}_i + \beta_2 \overline{Trust}_i + \beta_3 \overline{EconomicLiberalism}_i + X_{it} + a_i + u_{it} \quad (2)$$

where y_{it} is the outcome in either socialism or capitalism. A significantly positive β_2 coefficient, for example, means that higher individual trust can explain why individuals are better off under capitalism or under socialism in terms of life satisfaction and labor outcomes. Table E shows that higher risk, trust and/or economic liberalism predict a lower satisfaction with different areas of socialist life. In contrast, Table F reveals that those preferences predict success in capitalism. It could thus be the case that heterogeneity in preferences could explain the main results of section 4, because preferences that are useful in capitalism appear to be harmful in socialism.

To check whether preferences can explain selection into former GDR positions (exemplary here SED members and demonstrators) the following ordinary least squares regressions are applied:

$$SEDMember_i = \alpha + \beta_1 \overline{Risk}_i + \beta_2 \overline{Trust}_i + \beta_3 \overline{EconLiberalism}_i + X_i + \epsilon_i \quad (3)$$

$$Demonstrator_i = \alpha + \beta_1 \overline{Risk}_i + \beta_2 \overline{Trust}_i + \beta_3 \overline{EconLiberalism}_i + X_i + \epsilon_i \quad (4)$$

The dependent variable in equations 3 and 4 is surveyed in 2018 and average individual preferences are considered. Therefore, a cross-sectional regression for 2018 is applied, making random and year effects unnecessary. The regression merely reflects a correlation: Either

individuals became Communist elites or dissidents *because* of different preferences, or they changed their preferences due to different experiences in their positions. The regressions show that SED members score lower on trust and demonstrators higher on all preferences (Appendix Table G). Therefore, dissidents’ character traits might have helped them improve their situation in the change from socialism to capitalism.

In a last step, the main regression from the previous section was performed first without and then with preferences to see whether preferences can partly explain the main results, that is, the different effects of the fall of the Iron Curtain on dissidents and Communist elites? Compared to the regression without preferences, the inclusion of preferences increases the goodness of fit (overall- R^2) by a considerable margin (columns 1-2 and 3-4, Appendix Table H). The coefficient for demonstrators decreases with the inclusion of preferences, indicating that preferences work as a confounding factor. Also labor market outcomes are affected by preferences, as the employment effect of dissidents becomes insignificant with the inclusion of preferences (Appendix Table L, column 4). The results suggest that individual heterogeneity in preferences can partly explain why dissidents and Communist elites became satisfied or dissatisfied after the transition. This relates to Hadsell & Jones (2020), who show that a greater preference-policy mismatch reduces self-reported life satisfaction.

6 Conclusion

We analyzed with data on Germany’s socialist past how former Communist elites, dissidents, and the “silent majority” in East Germany managed the transition into today’s market-based democracy. Regressions revealed that Communist elites lost significantly more from the transition than the average East German citizen in terms of satisfaction, labor income, and employment. Political dissidents and victims of the system, were, on the other hand, positively affected by the transition. The transition success of the “silent majority” depended on the inner support of the system. Individual preferences for economic liberalism, for risk,

and level of trust in others can partly explain selection into Communist elites and dissidents, and also the individual difference in outcomes in the transition from socialism to capitalism.

The results are important as they showed that both systems produced different winners and losers, a circumstance that is relevant for the acceptance of the system. Moreover, it is important that formerly discriminated persons improved their lives in the new system, because many of them fought for their freedoms in the old system under very difficult circumstances.

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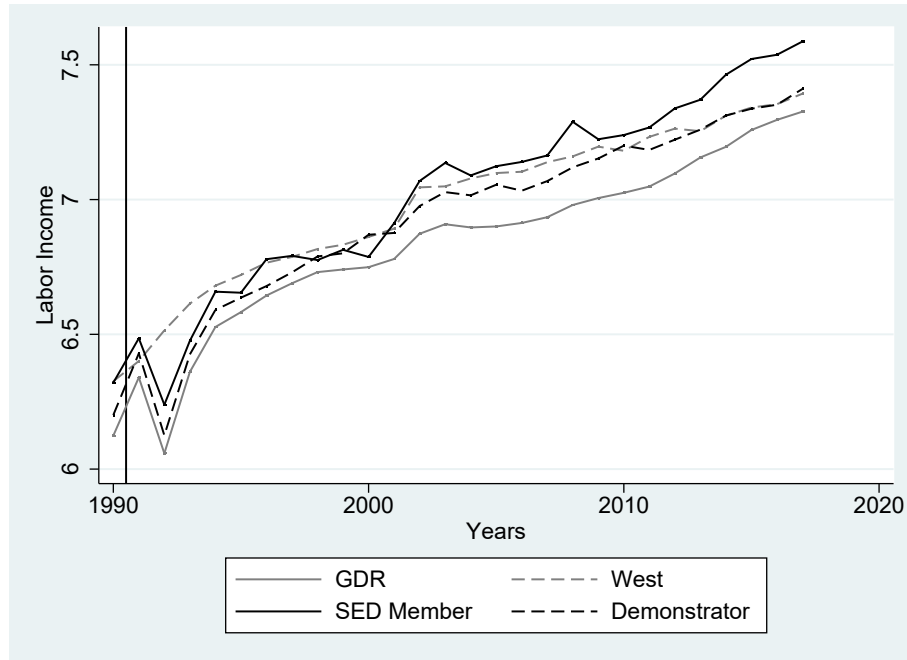
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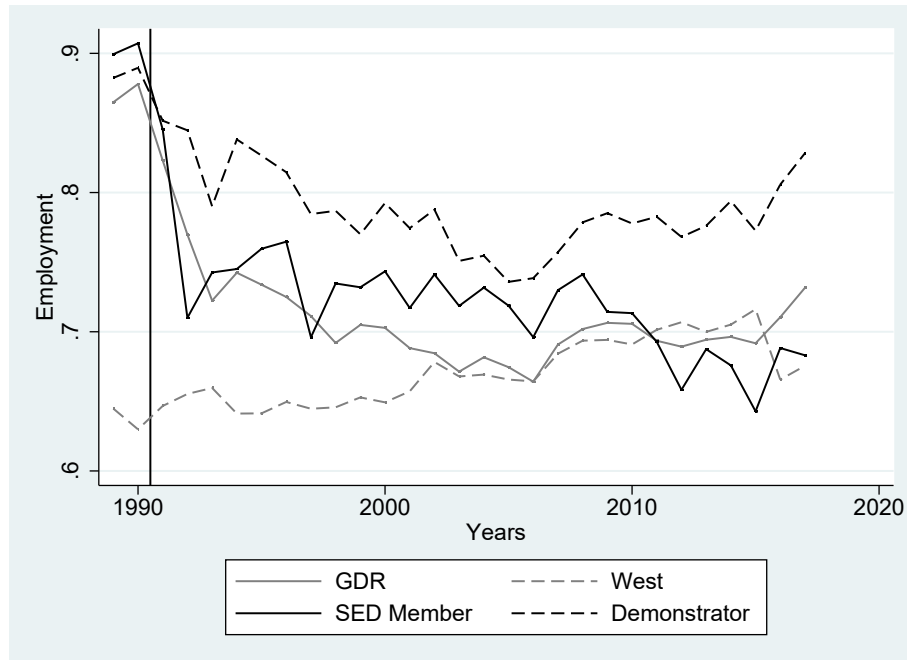
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Figure A: Log Income from Socialism to Capitalism



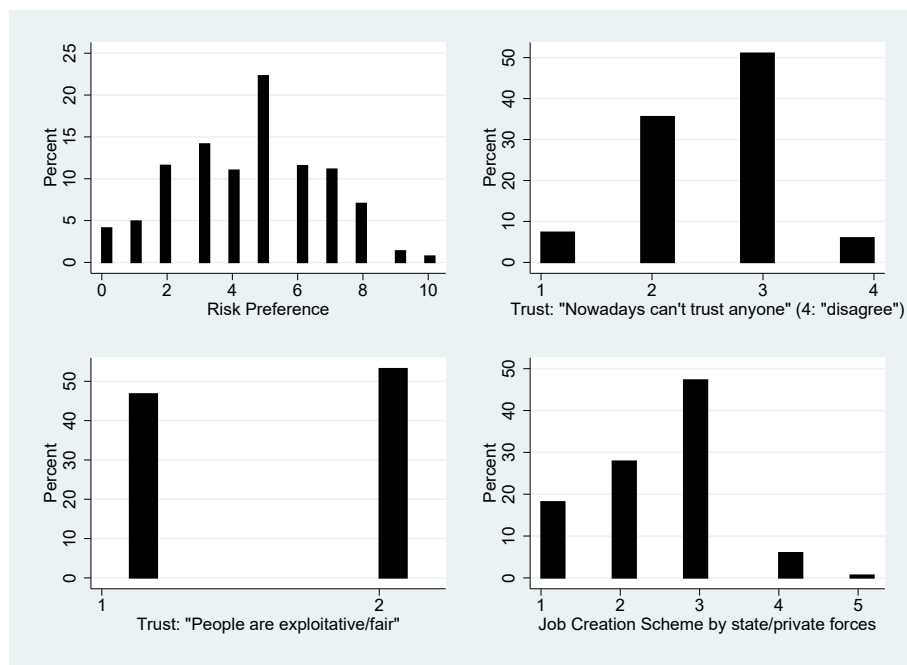
Note: SOEP 1990-2018; included are individuals born before 1973; “GDR” includes individuals that lived in the GDR in 1989 (but might live in the West afterwards), “West” includes individuals that have not lived in the GDR in 1989

Figure B: Employment from Socialism to Capitalism



Note: SOEP 1990-2018, own calculations; for 1989, the retrospective employment status is inserted ("How was your employment in 1989"), afterwards the current employment status; 1990 is the last year of the GDR; included are individuals born before 1973; "GDR" includes individuals that lived in the GDR in 1989 (but might live in the West afterwards), "West" includes individuals that have not lived in the GDR in 1989

Figure C: Distribution of Preferences



Note: SOEP 1990-2018, own calculations

Table A: Outcomes in Capitalism (Life Satisfaction)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	LS	LS	LS	LS	LS	LS	LS	LS	LS	LS	LS	LS	LS
SED Member	-0.016 (0.07)					0.016 (0.13)							
Sensitive Public Sector		0.127 (0.13)				0.225 (0.25)							
HH with Phone			0.036 (0.05)			-0.107 (0.10)							
Official Vacation				0.117 (0.07)		-0.137 (0.12)							
Silent Advocate					-0.122* (0.06)	-0.166 (0.10)							
Demonstration						0.218*** (0.06)							0.214** (0.07)
Organ. of Demonstr.								0.196 (0.11)					
MfS Observation									0.173** (0.06)				0.135* (0.07)
Religious 1990										-0.008 (0.03)			0.038 (0.06)
West TV											0.074 (0.05)		0.028 (0.06)
Silent Dissident												0.164 (0.11)	0.212 (0.11)
Observations	36864	38858	58987	38885	38858	18760	35873	38858	38869	106892	38882	38858	35776
Overall R ²	0.029	0.029	0.013	0.029	0.030	0.020	0.031	0.030	0.030	0.024	0.029	0.029	0.033
RE and Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05

Table B: Outcomes in Capitalism (Labor Income)

	(1) INC	(2) INC	(3) INC	(4) INC	(5) INC	(6) INC	(7) INC	(8) INC	(9) INC	(10) INC	(11) INC	(12) INC	(13) INC
SED Member	0.004 (0.04)					-0.111* (0.06)							
Sensitive Public Sector		0.061 (0.08)				0.024 (0.10)							
HH with Phone			-0.054** (0.02)			-0.010 (0.04)							
Official Vacation				0.101** (0.04)		0.053 (0.05)							
Silent Advocate					-0.078* (0.03)	-0.049 (0.04)							
Demonstration							0.090** (0.03)						0.100** (0.04)
Organ. of Demonstr.								0.081 (0.06)					
MfS Observation									0.090** (0.03)				0.051 (0.04)
Religious 1990										-0.128*** (0.02)			-0.093** (0.03)
West TV											0.042 (0.03)		0.026 (0.03)
Silent Dissident												0.124* (0.06)	0.106 (0.06)
Observations	22237	23394	32372	23420	23394	11715	21491	23394	23400	59331	23394	23394	21765
Overall R ²	0.186	0.192	0.187	0.193	0.194	0.163	0.185	0.192	0.194	0.194	0.193	0.193	0.183
RE and Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05

Table C: Outcomes in Capitalism (Employment)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM
SED Member	0.007 (0.02)					-0.035 (0.03)							
Sensitive Public Sector		-0.004 (0.04)				0.075 (0.05)							
HH with Phone			0.043*** (0.01)			0.007 (0.02)							
Official Vacation				0.022 (0.02)		-0.007 (0.03)							
Silent Advocate					-0.049*** (0.01)	-0.060** (0.02)							
Demonstration							0.073*** (0.02)						0.065*** (0.02)
Organ. of Demonstr.								0.039 (0.03)					
MfS Observation									0.018 (0.02)				0.017 (0.02)
Religious 1990										0.001 (0.01)			0.018 (0.01)
West TV											0.031* (0.01)		0.017 (0.01)
Silent Dissident												-0.047 (0.03)	-0.030 (0.03)
Observations	30105	31713	46761	31741	31713	15714	29231	31713	31719	83738	31731	31713	29137
Overall R ²	0.189	0.190	0.220	0.190	0.192	0.202	0.192	0.190	0.190	0.204	0.191	0.190	0.193
RE and Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05

Table D: Operationalization of Variables in Preference Section

Variable	Item	Years
Risk Preference	<p>“Would you describe yourself as someone who tries to avoid risks (risk-averse) or as someone who is willing to take risks (risk-prone)?” (0-10)</p> <p>individual average of z-standardized variable</p>	2004, 06, 08 2010-17
Trust 1	<p>What is your opinion on the following statement - “Can’t trust anyone”</p> <p>1: Totally agree, 2: rather agree 3: rather disagree, 4: totally disagree</p> <p>recoded so that higher values correspond to higher trust</p> <p>individual average of z-standardized variable</p>	2003, 08, 13
Trust 2	<p>What is your opinion on the following statement - “Do you think that most people are helpful or act in their own interest” (1-2)</p> <p>recoded so that higher values correspond to higher trust</p> <p>individual average of z-standardized variable</p>	2003, 08, 13
Economic Liberalism	<p>Who should be responsible for maintaining jobs</p> <p>1: Only The State, 2: Mostly The State, 3: State and Private Forces, 4: Mostly Private Forces, 5: Only Private Forces</p> <p>individual average of z-standardized variable</p>	1997, 2002, 2007
Satisfaction with Democracy in the GDR	<p>“How satisfied were you with Democracy in the GDR?”</p> <p>1: Very Satisfied, 2: Rather Satisfied 3: Rather Dissatisfied, 4: Very Dissatisfied</p> <p>recoded so that higher values correspond to higher satisfaction</p>	2018
Continued Existence of the GDR	<p>“Opinion to continued Existence of the GDR”</p> <p>1: GDR should have continued like it was, 2: continued with substantial reformation, 3: Reunification of East and West</p> <p>recoded so that higher values correspond to approval of continued existence</p>	2018
Satisfaction Social System (GDR)	<p>“How satisfied were you with the Social System of the GDR?”</p> <p>1: Very Satisfied, 2: Rather Satisfied 3: Rather Dissatisfied, 4: Very Dissatisfied;</p> <p>recoded so that higher values imply higher satisfaction</p>	2018
Had All	<p>“All in all, in the GDR we had all we needed for Life”</p> <p>1: Strongly Applies, 2: Rather Applies, 3: Partly, 4: Rather Not Applies, 5: Does not apply at all;</p> <p>recoded so that higher values imply stronger approval</p>	2018

SOEP 1990-2018

Table E: Preferences and Socialism

	(1)	(2)	(3)	(4)	(5)
	<i>LS_{GDR}</i>	<i>EX_{GDR}</i>	<i>SDem_{GDR}</i>	<i>SatSoc_{GDR}</i>	<i>HadAll_{GDR}</i>
Risk	0.056 (0.04)	-0.048** (0.01)	-0.026 (0.02)	-0.025 (0.01)	-0.004 (0.02)
Trust 1	-0.120** (0.04)	-0.001 (0.02)	-0.047** (0.02)	0.002 (0.02)	-0.013 (0.02)
Trust 2	-0.081 (0.04)	-0.045** (0.02)	-0.021 (0.02)	-0.031 (0.02)	-0.096*** (0.02)
Economic Liberalism	-0.093* (0.04)	-0.021 (0.01)	-0.053*** (0.01)	-0.012 (0.01)	-0.073*** (0.02)
Observations	2237	1837	2246	2257	2222
R ²	0.032	0.025	0.050	0.009	0.033
Controls	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05; all outcome variables surveyed retrospectively in 2018; (1) outcome variable is satisfaction with life in the GDR, (2) further existence of the GDR, (3) satisfaction with democracy in the GDR, (4) satisfaction with social system in the GDR, (5) availability of goods in the GDR

Table F: Preferences and Capitalism

	(1)	(2)	(3)
	LS	INC	EMPL
Risk	0.184*** (0.02)	0.050*** (0.01)	0.020** (0.01)
Trust 1	0.201*** (0.03)	0.093*** (0.02)	0.026*** (0.01)
Trust 2	0.247*** (0.03)	-0.000 (0.02)	0.020** (0.01)
Economic Liberalism	0.088*** (0.02)	0.042** (0.01)	0.010 (0.01)
Observations	38708	23444	31602
Overall R ²	0.105	0.208	0.197
RE and Controls	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05

Table G: Selection into Positions

	(1)	(2)
	SED Member	Demonstrator
Risk	0.013 (0.01)	0.035*** (0.01)
Trust 1	0.015 (0.01)	0.012 (0.01)
Trust 2	-0.001 (0.01)	0.037*** (0.01)
Economic Liberalism	0.008 (0.01)	0.024** (0.01)
Observations	2147	2088
R ²	0.005	0.028
RE and Controls	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05

Table H: Can Preferences explain the results?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	ΔLS	ΔLS	ΔLS	ΔLS	ΔEM	ΔEM	ΔEM	ΔEM	ΔINC	ΔINC	ΔINC	ΔINC
SED Member	-0.998*** (0.14)	-1.075*** (0.13)			-0.049 (0.03)	-0.054 (0.03)			-0.308*** (0.06)	-0.209*** (0.06)		
Demonstrator			1.015*** (0.12)	0.822*** (0.12)			0.060** (0.02)	0.042 (0.02)			0.078 (0.05)	0.093 (0.05)
Risk		0.137** (0.05)		0.101* (0.05)		0.030** (0.01)		0.025** (0.01)		0.015 (0.02)		0.008 (0.02)
Trust 1		0.326*** (0.05)		0.294*** (0.05)		0.037*** (0.01)		0.027** (0.01)		0.077** (0.03)		0.073** (0.03)
Trust 2		0.328*** (0.05)		0.286*** (0.05)		0.017 (0.01)		0.013 (0.01)		-0.010 (0.02)		-0.021 (0.02)
Econ. Liberalism		0.192*** (0.04)		0.162*** (0.04)		0.015 (0.01)		0.013 (0.01)		-0.007 (0.02)		-0.012 (0.02)
Observations	36360	36210	35410	35261	29512	29307	28868	28664	10481	11293	10319	11119
Overall R ²	0.043	0.115	0.049	0.103	0.216	0.219	0.211	0.214	0.035	0.017	0.029	0.010
RE and Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

SE in (); ***p<0.001, **p<0.01, *p<0.05