

A different look at Lenin's legacy: trust and risk in the two Germanies

Guido Heineck*, Institute for Employment Research, Nuremberg

Bernd Süßmuth, University of Erlangen-Nuremberg

Abstract

Twenty years after the collapse of the Soviet system, there is growing interest in the long-lasting effects of Communism on economic preferences. There by now is an established literature on for example individuals' attitudes towards income redistribution (cf. Alesina and Fuchs-Schündeln, 'Good-Bye Lenin (or Not?): The Effect of Communism on People's Preferences.' 2007, AER, 97, 4, 1507-1528).

Recently, Rainer and Siedler ('Does democracy foster trust?,' 2009, Journal of Comparative Economics, 37, 2, 251-269) examine whether the post re-unification, democratic experience of East Germans enhances an even more fundamental economic parameter – trust. Their findings suggest that ten years after reunification, East Germans still have the same levels of social distrust as shortly after the fall of the wall.

We re-examine the East-West trust gradient and further look at individuals' risk attitudes as well as their perceptions of others being fair and helpful. In contrast to Rainer and Siedler (2009), who use repeated cross-sectional data, but similar to Alesina and Fuchs-Schündeln (2007), we use data from the German Socio-Economic Panel, which allows accounting for intra-personal correlation over time.

Our results indicate that despite almost twenty years of German re-unification, East Germans are still much less socially trusting, which holds controlling for a wide range of socio-demographic and contextual characteristics as well as across various estimation

* Contact: Institute for Employment Research (IAB), Weddigenstr. 20-22, 90411 Nuremberg, Germany, guido.heineck@iab.de

approaches. East Germans also believe less that other people are fair or helpful although the patterns for these outcomes are less robust. East Germans, however, are much more risk loving than their West German counterparts, which again holds for several robustness checks.

In an additional cross-sectional exercise, we examine whether being raised in the former GDR correlates with external locus of control and (positive and negative) reciprocity. Except for a weak finding for positive reciprocity, East Germans do not statistically differ from their West German counterparts.