

Time preferences and political regimes: Evidence from reunified Germany

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Time preferences are crucial to major life-impacting choices such as saving for the future, educational decisions, and both labor-market and health-related behavior. This paper explores whether the socialist regime of the German Democratic Republic (GDR) has caused a lasting variation in its former residents' time preferences. We use survey measures from the SOEP for *present bias* and *patience* that are significantly correlated with corresponding time preference parameters elicited from incentivized experiments (SOEP-TIMEPREF). To identify the effect of the GDR's political regime, we use two identification strategies. First, we treat the separation and reunification of Germany as a natural experiment and present OLS-findings. To strengthen these results, we test for robustness against bias from local unobservables. Second, we adopt a geographic regression discontinuity design with border-segment fixed effects (GRDD). Thereby we address concerns about unobserved local heterogeneity by comparing only people who have lived close to the former FRG/GDR border.

Our results show that the GDR's socialist regime significantly diminished the present bias of its former citizens in the long run. In contrast, the regime's influence on patience is insignificant. When we split the sample into birth cohorts, we find results that are consistent with the proposition that a sufficiently long exposure to the socialist regime was necessary for a notable effect on individual present bias. Furthermore, we disentangle the direct regime effect on economic behavior from the indirect effect through its influence on present-bias by means of a mediation analysis. We show that present-bias is a good predictor for individual choices in health, finance, and education domains.

Our results suggest that the GDR's socialist regime enduringly diminished the present bias of its former citizens. Given that present bias can cloud and negatively distort an individual's long-term interests, our results speak to a positive consequence of the GDR's political regime.