



Cultural differences between East and West Germany after 1991: Communist values versus economic performance?

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ABSTRACT

Two decades after reunification substantial economic disparities between East and West Germany remain. With formal institutions being equalized, a typical explanation is that the partition of Germany created differences in economic values and attitudes that continue to feed differences in economic performance. Empirical work using values surveys to investigate the extent to which values differ between East and West has thus far produced mixed findings. We use individual-level panel data to assess East and West German value preferences by investigating how individuals from each group differentially transform situational factors into happiness. This novel method of assessing value differences shows that preferences indeed vary between East and West Germans. However, this variation is not in line with the differences associated with the gap in economic performance; if anything, Easterners appear to entertain values more conducive to economic growth. This suggests that the belief that economic differences between Eastern and Western Germany are a result of a Communist cultural legacy may be largely a myth.

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1. Introduction

The view that values and informal institutions are a cause of differences in economic performance between countries and regions is growing in popularity (Franke et al., 1991; Granato et al., 1996; Harrison, 1992; Jackman and Miller, 1996; McCleary and Barro, 2006; Noland, 2005; North, 1990; Pryor, 2005; Swank, 1996; Williamson, 2000). Reunified Germany offers an excellent test case for this argument. Almost two decades after political and formal institutional reunification, economic performance in Eastern Germany is still considerably below West German standards (Boltho et al., 1997; Sinn and Westermann, 2001; Sinn, 2002; Hall and Ludwig, 2006; Snower and Merkl, 2006; Uhlig, 2006, 2008). The most recent data show that in 2009 labor productivity in Eastern Germany as a whole still stood at less than 80% of the German average (Statistisches Ämter des Bundes und der Länder, 2010), while the unemployment rate in the East is 13%, almost double that in the West (Federal Statistical Office Germany, 2010). An oft-heard explanation for this continuing gap is that a so-called “wall

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in the head” still separates East and West Germans: persistent differences in the values held by Easterners and Westerners are thought to create divergent economic outcomes.²

In this paper, we investigate whether four decades of separation have indeed resulted in structural differences in values that are capable of causing the observed economic divergence. We do so following a novel method to measure values differences which focuses on differences in the determinants of subjective well-being (SWB) or happiness. Estimating the effects of such factors as income, job and marital status, known to be strongly related to happiness, we are able to construct happiness (“utility”) functions for the representative East and West German inhabitant. If there are important differences in value preferences between East and West, we expect these functions to exhibit substantial heterogeneity. Previous applications of this approach have shown, among other things, that left-wing individuals care more about unemployment and less about inflation relative to right-wing individuals (Di Tella and MacCulloch, 2005) and that religious individuals value income less than non-religious individuals do (Lelkes, 2006).

We use data from the German Socio-Economic Panel (GSOEP) for the period 1991–2006. Most respondents are sampled more than once, allowing us to apply multilevel modeling and simultaneously account for within-subject and between-subject variance. Our results show that East Germans and West Germans indeed portray important differences in values. However, an economically debilitating Communist legacy in the form of values that are not conducive to economic performance appears largely absent. The differences between East and West that we find are often contrary to what we would expect from the literature on values and economic development.

These results indicate that any relation between values and economic performance is more complex than often understood. Economic divergence seems not simply reducible to differences in values. For the debate about transition of formerly planned economies, this would suggest that a cultural transition is not necessarily part of the process of becoming a market economy. In addition, our paper contributes to the literature about measuring cross-cultural differences in values. Empirical research into values differences in general, and the “wall in the head” thesis in particular, relies mostly on survey questions to measure differences in values. The interpretation of survey scores as eliciting values has come under heavy fire recently (Clarke et al., 1999; Davis et al., 1999; Duch and Taylor, 1993; Maseland and van Hoorn, 2009) and has provided ambiguous results in the case of East and West Germany (Shiller et al., 1991, 1992; Corneo and Grüner, 2002; Alesina and Fuchs-Schündeln, 2007). Our use of heterogeneous happiness functions shows that an approach focusing on group variation in the way in which situational factors are transformed into happiness can be successfully applied to measure differences in value preferences.

The remainder of this paper is organized as follows. The next section elaborates the relation between culture and economic performance, discussing empirical work on the influence of Communism on cultural values and the limitations of this approach to the study of preferences. Section 3 introduces the happiness function-based approach to the measurement of preferences and states the hypotheses concerning a potential Communist value legacy in terms of East–West variation in the structure of happiness. In Section 4, we discuss the data used and our empirical strategy. Section 5 presents the results of our analysis. We discuss our findings and relate them to economic convergence in Germany since the reunification in Section 6.

2. Market values and economic performance

2.1. Cultural differences and economic performance

The literature relating values to economic performance can be traced back to Max Weber’s *The Protestant Ethic and the Spirit of Capitalism* (Weber, 1930 [1904/5]). In this seminal contribution, Weber sought to explain the motivation behind the entrepreneurial behavior that characterizes modern capitalism, arguing that an ascetic, rational pursuit of worldly success was what drove capitalist entrepreneurs. Since then, many authors have followed Weber’s quest to identify the kind of attitudes required for entrepreneurship. The most famous contribution is probably the one by McClelland (1961), arguing that an attitude he called “Need for Achievement” drove entrepreneurship and economic development. McClelland’s claim has been tested various times with mixed results (Beugelsdijk and Smeets, 2008; Frey, 1984; Gilleard, 1989; Granato et al., 1996). Over time, the list of attitudes that have been said to set entrepreneurs apart has grown longer and longer to include such values as autonomy, individualism, materialism, a propensity to social recognition and risk taking, along with the classic need for achievement (e.g. Brandstätter, 1997; Brockhaus, 1982; Cramer et al., 2002; Cromie, 2000; Fagenson, 1993; Morris et al., 1994; Spence, 1985; Thomas and Mueller, 2000).

Authors outside the entrepreneurship literature have also sought to relate values to successful economic development. Following another strand in Weber’s work, work ethic has been identified as one of the main factors responsible for economic prosperity (Delacroix and Nielsen, 2001; Lynn, 1991).³ Next to a preference for work, a willingness to sacrifice short-term profits for long-term growth and to invest in education have been proposed as important drivers of development, especially

² The phrase “wall in the head” stems from the German “Mauer im Kopf”, and is commonly used to refer to East–West differences in values (see, for example, Corbett, 2004; Häder and Häder, 1995, and Wagner, 1999).

³ It may be noted that Weber himself discussed value traits underpinning the historical emergence of capitalism, but never made an explicit link with economic performance.

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