

# **Preparing Kids for Capitalism: The Effect of German Reunification on the Intergenerational Transmission of Preferences**

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## *Abstract:*

One of the ways in which children are similar to their parents is in economic preferences such as patience and risk aversion. But what drives this intergenerational correlation in preferences? We argue that the natural experiment of German reunification can shed light on this question. We build a model of preference formation in which children's preferences are shaped by genetic transmission, passive transmission in the local environment, and active socialization by parents. Regarding the contrast of East and the West and the impact of reunification, the model implies that genetic channels should act independently of the political regime; that passive transmission channels should respond to the greater use of government-provided childcare in East Germany versus parent-provided care in West Germany; and that parents' active socialization efforts should be responsive to the new challenges that moving from a socialist to a capitalist system presents. Empirical evidence on the correlation of preferences between parents and children born on both sides of the border before, during, and after reunification suggests that government intervention had little impact on preference transmission. In contrast, both genetic and active transmission channels find strong support.