

# A TEAR IN THE IRON CURTAIN: THE IMPACT OF WESTERN TELEVISION ON CONSUMPTION BEHAVIOR

Leonardo Bursztyn and Davide Cantoni\*

*Abstract*—This paper examines the impact of exposure to foreign media on the economic behavior of agents in a totalitarian regime. We study private consumption choices focusing on the former East Germany, where differential access to Western television was determined by geographic features. Using data collected after the transition to a market economy, we find no evidence of a significant impact of previous exposure to Western television on aggregate consumption levels. However, exposure to Western broadcasts affects the composition of consumption, biasing choices in favor of categories of goods with a high intensity of prereunification advertisement. The effects vanish by 1998.

## I. Introduction

IN 1980, over 60% of the countries in the world were ruled by autocratic regimes. As of 2010, this number had decreased to 27%. Still, this number is sizable, and it includes some of the more populous countries of the world such as China and Iran (Marshall, Jaggers, & Gurr, 2010).<sup>1</sup> In many of these countries, not only individuals' choice sets are restricted, but also their information sets, since non-democratic regimes often limit access to outside sources of information. Indeed, recent history provides several episodes of nondemocratic regimes that restricted access to foreign, independent media, such as the current censorship of Internet content in China (the "Great Firewall"), as well as instances in which foreign governments attempt to broadcast news and information to countries where the free flow of information is controlled, such as Radio Free Europe. Although autocratic regimes generally attempt to seclude their citizens from this information, often there are cracks in the walls—physical or digital—that have been erected. Does the information that passes these cracks matter?

We focus on a particularly important element that is often constrained in totalitarian regimes: individuals' ability to fulfill their desires of material consumption. Consumption is

not only one of the most fundamental economic decisions; it is also a defining feature of the Western way of life.<sup>2</sup> The destabilizing effects of the desire for higher levels of material consumption have been observed across a variety of totalitarian regimes and can, of course, together with the wish for personal freedom and civil liberties, be seen as one of the causes of the breakdown of the socialist system.<sup>3</sup>

This paper considers how former exposure to foreign television during a communist regime later translated into differences in private consumption. To study this issue, we exploit a natural experiment: the differential access to West German television broadcasting in East Germany (the German Democratic Republic, GDR) during the communist era. Whereas most East Germans could (and, according to all available evidence, enthusiastically did) watch West German TV channels, West German broadcasts did not reach the inhabitants of some regions of the GDR. Those inhabitants, while equally endowed with TV sets, were able to watch only the East German TV channels, a drab mixture of political propaganda and Soviet-produced movies. We look at the individuals with access to West German TV broadcasts in former East Germany as the treatment group of an "experiment" of having been exposed to Western television for over three decades.

The regions of the GDR without access to Western television broadcasts were located in the northeastern or southeastern corner of the country (see figures 1 and 3). These regions, which together made up for approximately one-tenth of the East German population, were either too distant from the western border or West Berlin, or located in valleys behind mountains that blocked TV broadcasting signals.<sup>4</sup> An example is the large and important district of Dresden, situated in the Elbe valley, which became popularly known as the "valley of the clueless" (Stiehler, 2001).

Empirically analyzing behavior in totalitarian regimes is notoriously difficult due to data limitations. Both official national statistics and survey data are of questionable quality, and revealed preferences are difficult to observe given the restrictions citizens are subject to. In order to examine

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\* Bursztyn: UCLA Anderson School of Management; Cantoni: University of Munich, CEPR, and CESifo.

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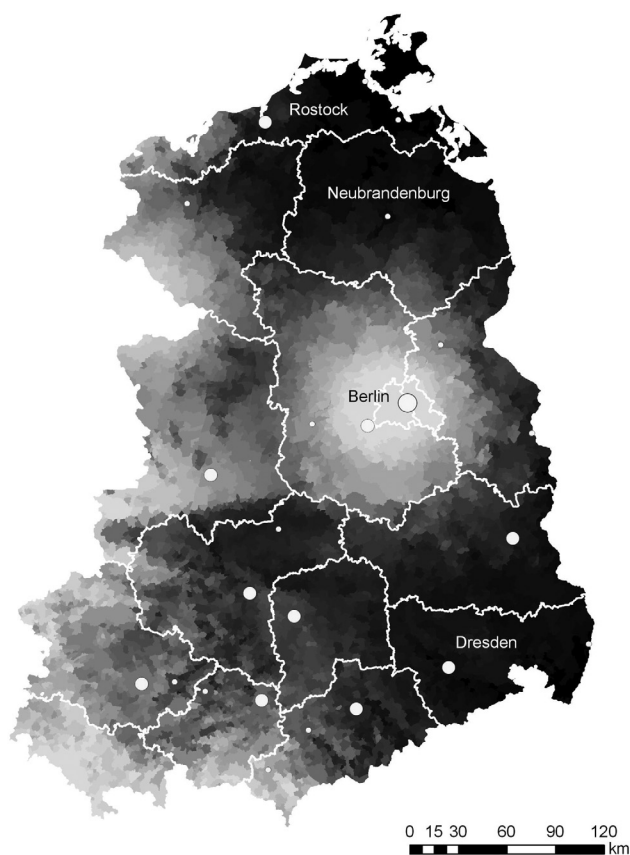
<sup>1</sup> See Marshall et al. (2010). Regimes with a Polity IV score of  $-10$  to  $-6$  are classified as autocratic.

<sup>2</sup> Adam Smith (1776) famously wrote that "consumption is the sole end and purpose of all production" (bk. IV, ch. 3, pt. 3).

<sup>3</sup> On the role of consumption shortages in East Germany, see Schneider (1996) and Kaminsky (2001). On Western television stoking consumption desire in the former Yugoslavia, see Pušnik and Starc (2008). More recently, increasing levels of consumerism and craving for capitalistic status symbols have been observed in North Korea by Frank (2010, 2012), Lankov (2013), and "North Korea." (2013).

<sup>4</sup> A confounding factor that could presumably also affect postreunification consumption patterns in these regions is their distance from West Germany, which could conceivably have made some Western products less likely to be available for purchase. We address this concern in our analysis by explicitly taking into account distance to the West German border in some regression specifications.

FIGURE 1.—SIGNAL STRENGTH (ARD) IN EAST GERMANY, 1989



Dark: weak signal. Dots represent major cities. District borders are (*Bezirke*) superimposed as white lines.

actual consumption behavior, we look at the period immediately following German reunification in 1990. Prior to that event, any differences in desired consumption choices between individuals exposed or not to Western TV could not be reflected by differences in consumption behavior, as the goods seen on West German TV were not available in communist East Germany. Consumption in the GDR was strictly regimented by the central planning operated by the Ministry of Commerce and Provisioning; consumption patterns would be determined by the day-to-day availability of goods in store. After reunification, this obstacle was no longer impeding the consumption of desired goods by East Germans; any good that had previously been seen on TV could now, at least in theory, also be purchased in East Germany.<sup>5</sup>

We assess the impact of long-term Western television exposure on consumption by analyzing the first two waves of the German income and expenditure survey (EVS) collected after 1990. We find important effects of previous exposure to Western television on consumption behavior. The effects are subtler than a simple change in total consumption or household savings. Indeed, we find no evidence of significant and quantitatively meaningful effects of West German TV on

<sup>5</sup> Moreover, West German broadcasts were already available in all regions of former East Germany in 1990.

those aggregate variables. Our analysis indicates instead that Western television affected the composition of consumption via one of its key elements: advertisements. If changes in the composition of consumption are to be attributed to West German television, we should expect larger differences between regions exposed or not to Western television to occur in the consumption of categories of products with a higher intensity of advertisement on West German television.<sup>6</sup> We combine the EVS data with information about the average intensity of advertising of different categories of goods on the main West German TV channel during the last decade before reunification.

We find that previous exposure to Western television affects the composition of consumption shortly after reunification according to the intensity of prereunification West German TV advertisement in different categories of goods: individuals with access to Western television spent significantly more on goods with a high intensity of prereunification advertisement. Spending on a category of goods that had one more minute of advertising per day during the 1980s was 1.5% higher in parts of East Germany that had the chance to watch these advertisements, relative to the “untreated” part of East Germany.

We provide more than just cross-sectional evidence by also analyzing the second postreunification wave of the EVS survey. Our measured effects vanish through time and are no longer visible in 1998. Our results are robust to (a) variations in the definition of the exposure to treatment, West German television; (b) restricting the sample to areas surrounding the threshold for television signal availability (in the spirit of a regression-discontinuity design); and (c) controlling for distance to West Germany and its interaction with intensity of advertisement (to rule out alternative explanations of our findings based on remoteness factors).

Related to our paper by also exploiting the same sharp change in regime is the work by Alesina and Fuchs-Schündeln (2007), which analyzes the impact of several decades of exposure to communism on former East Germans preferences for redistribution and state intervention. Our paper, however, focuses on comparisons within East Germany as opposed to comparisons between East and West Germans. Burchardi and Hassan (2013) show that West German regions that had a large fraction of households with social ties to the East exhibited higher growth in income per capita in the early years after German reunification. Friehe and Mechtel (2014) provide evidence indicating that after German reunification, individuals in the former East Germany spent more resources on visible goods than former West German individuals did.<sup>7</sup> Finally, similar to our research design, Kern and Hainmueller (2009) use within-East Germany variation to analyze the effect of exposure

<sup>6</sup> Other factors associated with access to Western television could also potentially affect the composition of consumption, such as exposure of goods in TV shows and movies. We focus on the advertisement mechanism.

<sup>7</sup> On the aspirations of West German citizens, see also Hyll and Schneider (2013).

to Western media on reported support for the communist regime, using survey data on stated preferences.

This paper also relates to the recent empirical literature that studies media effects, particularly the effect of exposure to television. A series of papers looks at political outcomes. Enikolopov, Petrova, and Zhuravskaya (2011) consider independent TV stations and their effect on the 1999 Russian elections. DellaVigna and Kaplan (2007) report important effects of Fox News on Republican vote shares. DellaVigna et al. (2014) focus on effects of exposure to radio and report the unintended effects of Serbian radio on the likelihood to vote for extreme nationalist parties in Croatia. Gentzkow (2006) finds a large impact of the expansion of television between 1940 and 1972 on voter turnout. Gentzkow and Shapiro (2004) document that television viewership in Muslim countries changes attitudes toward the West. Another set of research papers considers social outcome variables. Jensen and Oster (2009) document how access to cable TV changed the perception of women's status in India, whereas Olken (2009) tests Putnam's (2000) hypothesis that television decreases social capital by studying the effect of exogenous variation in TV signal availability on Indonesian islands. La Ferrara, Chong, and Duryea (2012) report that exposure to television soap operas decreases fertility in Brazil.<sup>8</sup> Our paper adds to this literature by providing evidence of the effect of exposure to Western television on one of the most fundamental economic decisions: consumption.

Finally, our paper also contributes to the economics literature on advertising.<sup>9</sup> First, our unique empirical setting provides novel insights on the overall long-run effects of advertising on consumer behavior. This stands in contrast to the existing marketing literature on advertising, which is usually concerned with the marginal effects of small changes in exposure to advertising (e.g., in the context of cable-split experiments for TV commercials) and usually studies shifts across brands rather than broad categories of consumption goods.<sup>10</sup> Second, empirical analyses of the effects of advertising are often made difficult by the scope for reverse causality, as advertising is generally targeted toward a given kind of audience (see, e.g., Avery et al., 2007). Our paper provides an empirical setting that allows for a well-identified analysis of the causal impact of long-term exposure to advertising on consumption behavior. This is because the East Germans who could watch West German TV were not by any means the targeted audience of the advertising, which

reduces concerns regarding the endogeneity of exposure to TV commercials.

Our findings suggest that advertising changes consumption patterns and that its effect is more than just to induce individuals to switch across brands of the same good. Advertising induces a recomposition of consumption across broad categories of goods, depending on the amount of advertising for each category. However, we do not find any evidence in favor of a shift of total levels of consumption expenditures. This runs counter to the argument that advertising may increase aspirations and consumption desires (Galbraith, 1958; Schor, 1998; Baker & George, 2010).<sup>11</sup>

The paper proceeds as follows. In the next section, we provide a brief account of the historical background. In section III, we introduce our empirical setting, explaining the conditions under which inference of causal effects is possible. Section IV turns to the analysis of consumption data in the light of television access and advertising intensity. Section V concludes.

## II. History

### A. East German History

Following World War II, Germany was separated into four occupation zones, roughly corresponding to geographical convenience for the Allied powers. While the three Western zones (American, British, and French) united economically and politically to form the Federal Republic of Germany (FRG) in 1949, the Soviet occupation zone took a separate path, transforming itself into the German Democratic Republic (GDR), a socialist economy firmly linked with the Soviet Union and the other countries of the Warsaw Pact. The Western exclave of West Berlin, de facto a part of the FRG, was surrounded by GDR territory and was separated from it by the Berlin Wall.

Reunification occurred rather quickly and, by most accounts, unexpectedly, following the historical events of the fall of the Berlin Wall in November 1989. Economic unification was completed by July 1990, and the political union of the two halves occurred in October 1990. The GDR was at the time of its fall the most advanced economy in the Warsaw Pact but was nonetheless decrepit by Western standards, with a barely competitive industrial structure, severe deficiencies in the production and distribution of goods, and burdened with a high level of external debt, required to keep the living standards of East Germans high (Sinn & Sinn, 1992).

### B. Television in the GDR

The main public TV networks from West and East Germany, ARD and DFF, respectively, began their broadcasts

<sup>8</sup> A series of papers has also analyzed the effects of other types of media, such as newspapers (e.g., Gerber, Karlan, & Bergan, 2009; Chang & Knight, 2011; Snyder & Strömberg, 2008) and radio (e.g., Strömberg, 2004; Yanagizawa-Drott, 2014). For an overview on media effects, see DellaVigna and Gentzkow (2010).

<sup>9</sup> On the theoretical side, see the different treatments by Dixit and Norman (1978), Becker and Murphy (1993), Nelson (1974), Milgrom and Roberts (1986), and Benhabib and Bisin (2002). For an extensive review of the economics literature on advertising, see Bagwell (2007).

<sup>10</sup> See, for example, the meta-analyses by Hu et al. (2007), Wind and Sharp (2009), or Sethuraman, Tellis, and Briesch (2011).

<sup>11</sup> The long-run nature of the effects of advertising observed in our data relates this paper to the recent findings by Bronnenberg, Dube, and Gentzkow (2012), who provide evidence of the long-run persistence of brand preferences in the United States.

in the same year, 1952. At that time, very few East Germans owned a TV set. However, television gained popularity rapidly, and by the end of 1958, there were already over 300,000 TV sets in the GDR. Based on reports from surveys (Müller, 2000), an estimated 98% of households in East Germany had a TV set and 46% a color TV by 1989. By 1988, one out of six households had more than one TV set, leading to an average of 117 TV sets per 100 households. The two production facilities for TV sets in East Germany were located in Dresden and in Stassfurt (in the district of Magdeburg).

East German TV (DDR-FS) was severely controlled by the Communist party, and this explained its low acceptance in the population. Its broadcasts were not considered a serious news source; where possible, GDR citizens turned to Western media as a source of information and to enjoy the better quality of entertainment programs. There was no advertising on East German TV until shortly before reunification. After the events of November 1989, the GDR's grip on the state media became weaker. DDR-FS became almost completely separate from the state apparatus and started a number of new program strands, including free and open debates. Upon reunification on October 3, 1990, DDR-FS ceased to be the state broadcaster of the former GDR. Its frequencies were taken over by Western Germany's main public TV channel, ARD, on December 15, 1990 (Claus, 1991).

### III. Empirical Setting

#### A. Treatment Definition

Our definition of the treatment area is based on the availability of signal from the West German TV stations. West Germany had two main public TV stations at the end of the 1980s, ARD and ZDF. Those stations were able to reach East German viewers through terrestrial broadcasting (over-the-air), as a chain of very powerful antennas was located along the FRG–GDR border and in the exclave of West Berlin. Anecdotal evidence about the availability of Western TV signals (Kern & Hainmueller, 2009) suggests that the areas with worst coverage were indeed in the northeast and the southeast of the GDR.<sup>12</sup>

We improve on this evidence by calculating the actual availability of Western TV signal in the GDR based on a signal propagation model. In the absence of any obstacles (air, clouds, terrain), an electromagnetic signal declines in strength with the square of the distance from its source. In practice, the actual availability of TV signals depends on a variety of factors. Signals can be refracted by mountains and reach their destination even if no direct line-of-sight exists between sender and receiver. To obtain a measure of actual TV signal availability, information about the distance to the signal source has to be combined with information

about the Earth's curvature and elevation features of the terrain.<sup>13</sup> We use the irregular terrain model (ITM, version 1.2.2; Hufford, 1995), which was created for the needs of frequency planning in television broadcasting in the United States in the 1960s. The ITM model is implemented by the ArcGIS Extension CSPT VHF.

To apply the ITM to the case of East Germany, we collected information about all antennas used to broadcast the main public TV station in West Germany, ARD (Norddeutscher Rundfunk, 1989).<sup>14</sup> Table A.1 in the online appendix lists the antennas in use in 1989, with their respective heights, power, and frequency of transmission. Figure 1 displays the results of our analysis. TV signal strength (at 10 meters above ground) is calculated for the entire former GDR, divided into a raster of  $1 \times 1$  kilometer. We then calculate the average level of TV signal strength for each municipality, based on this raster. These values range from  $-107$  decibels in Sassnitz on the island of Rügen (northeast of the GDR) to  $-10.9$  decibels in Seeburg, on the border to West Berlin.

For a given set of transmitters, the quality of TV signal can still vary considerably depending on atmospheric conditions and the power of the receiving antennas. However, whereas above a certain level of signal strength, the quality of reception does not vary substantially with signal strength, below a certain threshold, when the noise is stronger than the signal, no reception is possible at all. TV signal quality does not decrease linearly, but discontinuously, with the boundary of the discontinuity varying over time, depending among other things on atmospheric conditions.<sup>15</sup> To this extent, the discontinuity of TV signal strength is fuzzy.

We operationalize a definition of the treatment area based on the level of signal strength in Dresden. Existing anecdotal evidence suggests that with normal atmospheric conditions and standard TV receiver sets, Dresden was close to the signal strength discontinuity. Only the neighborhoods of Dresden located on hills were able to receive some signal under optimal conditions; the large majority of the city's inhabitants were not able to watch Western TV. To confirm this, we draw on a survey of East German youths conducted in 1985 in which individuals were asked anonymously how often they watched Western TV stations.<sup>16</sup> Although this survey contains only a rough regional indicator, referring to

<sup>13</sup> In addition, day-by-day variation in the quality of TV signal is given by atmospheric conditions; a particular phenomenon of extended signal range, known as tropospheric propagation, can occur with temperature inversion.

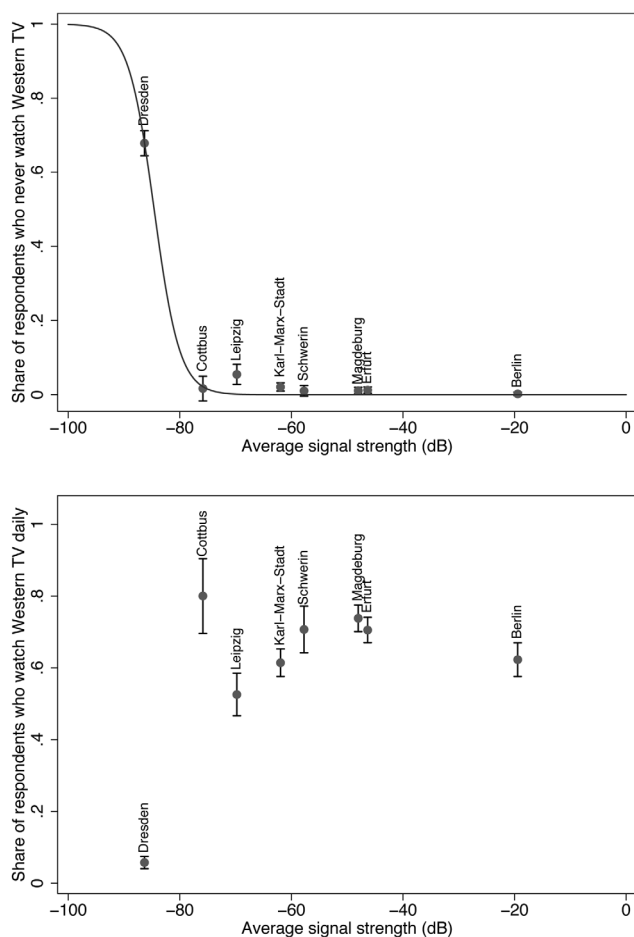
<sup>14</sup> In the overwhelming majority of East German municipalities, the strength of the ARD signals was higher than for ZDF, the second West German public TV station. We therefore focus on ARD availability. We also replicate our analysis using ZDF availability and minutes of advertising on ZDF, and the results (available on request) are unchanged. The correlation in advertising intensity for the analyzed categories for ARD and ZDF is extremely high ( $\rho = 0.9889$ ).

<sup>15</sup> This is analogous to the familiar experience of listening to a radio station while driving a car: sound quality, having been good for a long while, suddenly starts deteriorating and then fades completely.

<sup>16</sup> Zentralarchiv für Empirische Sozialforschung ZA 6008. This survey was conducted by the East German Institute for Youth Research, Zentralinstitut für Jugendforschung. Due to the comparatively strong anonymity

<sup>12</sup> Private television in Germany was in its beginnings around 1990 and was broadcast mainly by cable.

FIGURE 2.—AVERAGE VIEWERSHIP OF WESTERN TV CHANNELS, BY DISTRICT (BEZIRK)



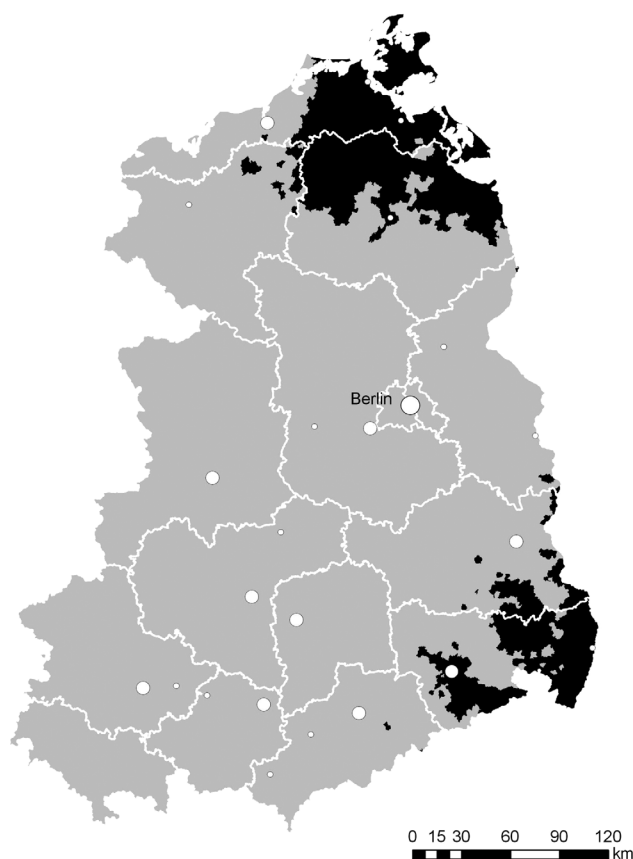
Share responding “daily” (upper panel) and “never” (lower panel). Omitted categories: “several times per week,” “once per week,” “less than once per week.” Bars indicate 95% confidence intervals. Some districts were not covered in this survey. The upper panel also displays the best fit of a logistic cdf to the observed data. Source: Zentralarchiv für Empirische Sozialforschung ZA 6008.

the district (*Bezirk*) of residence, the answers show clearly the discontinuity in viewership. While in the district of Cottbus (average signal strength:  $-75.9$  dB) only 1.67% of respondents declared that they never watched Western TV broadcasts, in the district of Dresden (average signal strength:  $-86.3$  dB) the corresponding figure is 67.85% (see figure 2, top panel). The findings are reversed if one considers the percentage of respondents watching Western TV daily (figure 2, bottom panel).

Given that the average signal strength in the city of Dresden was  $-86.8$  dB, we consider all municipalities with signal strength equal to or below that threshold to be in the control area. The treatment area thus comprises all regions with a positive probability of reception of Western TV broadcasts.

standards that were applied in conducting these surveys, most social scientists generally consider them valid sources of information despite their provenance from an authoritarian regime (Friedrich, Förster, & Starke, 1999; see also Kern & Hainmueller, 2009).

FIGURE 3.—SIGNAL STRENGTH (ARD) IN EAST GERMANY, 1989



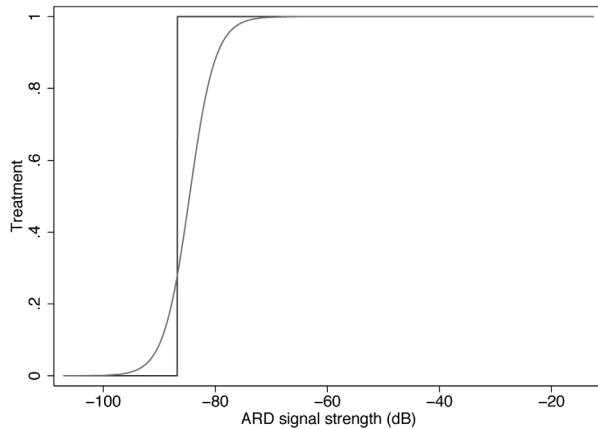
Dark: Signal strength below  $-86.7$  dB (threshold based on signal availability in Dresden). Dots represent major cities. District borders (*Bezirke*) superimposed as white lines.

Note that some of the households in the treatment area (especially those in the range between  $-75$  dB and  $-86.8$  dB) probably had no access to Western TV some or even most of the time. The control area is thus constructed such as to comprise only individuals who with certainty had no access to Western TV. In doing this, we implicitly hypothesize that all households in the GDR area tried to watch Western TV whenever it was technically feasible, no matter how poor the picture quality. While in contrast to studies that take signal strength as a linear predictor of viewership (Olken, 2009; Enikolopov et al., 2011), this approach is, in our view, justified by the crucial importance of access to Western media in a communist regime and consistent with actual viewership data as in figure 2.

The resulting partition of the GDR into treatment and control areas is displayed in figure 3. This definition of treatment based on the geospatial modeling of signal propagation is very close to the available anecdotal evidence on TV signal availability (see figures 1 and 3 in Kern & Hainmueller, 2009). In our empirical analysis, we show that our results are robust to small variations of the signal availability threshold.

Alternatively, we also use a continuous measure of treatment intended to replicate the actual likelihood of Western TV viewership as a function of signal strength. We construct

FIGURE 4.—TREATMENT DEFINITIONS



The figure compares the binary treatment definition, based on the threshold of  $-86.7$  dB, and the continuous treatment definition, based on the fit of actual viewership data as in figure 2, upper panel.

this measure by fitting a (logistic) cdf to the observed viewership patterns of figure 2 (upper panel). The resulting S-shaped curve (a logistic cdf with parameters  $\mu = -84.6$  and  $\sigma = 2.3$ ) is the best approximation for the share of respondents who never watch Western TV as a function of signal strength. Our continuous treatment variable, representing the probability of watching any Western TV, is then constructed by subtracting the fitted curve from unity. Figure 4 compares the binary treatment indicator, based on the threshold at  $-86.8$  dB, and the continuous treatment variable.

#### B. Conditions for Identification

For the identification strategy to be valid, we need four conditions to hold:

*Condition 1: The inhabitants in the treatment and control regions were comparable.* While there were certainly patterns of specialization and regional peculiarities across the regions of the GDR, we contend that, crucially for our identification, no substantial differences existed between the treatment and control regions as defined for the purposes of our work, neither before the “treatment” (i.e., the regionally differentiated access to West German media) started nor right after reunification.

Both regions contained industrial parts, with a fairly high level of technological development and cultural sophistication, such as Dresden in the control, and Leipzig and Halle in the treatment, as well as more agricultural and less densely populated parts, such as the control region in the northeast around Greifswald and the districts of Schwerin or Potsdam in the treatment. This is reflected by the social and economic indicators reported in table 1; these data are drawn from the GDR Statistical yearbooks of 1955 (the first one published after the war) and 1990. In the yearbooks, data are aggregated at the level of districts (*Bezirk*). The districts of Dresden, Neubrandenburg, and Rostock coincided partially

with the regions lacking TV reception in the southeastern and northeastern corner of the GDR (see figures 1 and 3); we thus consider them as our control area and define the remaining eleven districts as the treatment area.<sup>17</sup>

As evident from the comparison in panel A of table 1, in the 1955 data, the two groups of districts appear virtually indistinguishable with respect to the available variables: population density, shares of employment by sector, sales, and savings. Analogous data for 1990, in the last year of the GDR’s existence, show a similar picture (panel B). To check for differential trends between 1955 and 1990 in the two groups of districts, panel C looks at the differences in the means of the variables between the two years for the two groups. Again, we do not observe any significant differences.<sup>18</sup>

*Condition 2: No selective spatial sorting across treatment regions occurred.* It is important to exclude spatial sorting across treatment regions. If individuals more interested in Western broadcasts or more susceptible to Western advertising had moved into the area with better reception, this would mar our identification of causal effects.

*Before reunification.* In a centrally planned economy such as the GDR, spatial mobility was seriously hampered; the allocation of labor as a factor of production had to follow the overarching social and economic objectives set by the planning committees. Mobility of labor across occupations and across space was therefore considerably lower than in any free-market economy and was additionally reduced by the serious housing shortages that affected the GDR over the forty years of its existence (Kern & Hainmueller, 2009; Grünert, 1996).

Data based on population registries in the years 1970 to 1990 show that every year, only 2.5 out of 100 citizens of the GDR would change their residence (or, equivalently, an average of once every forty years), a rate of spatial mobility three times lower than the corresponding value for the FRG, a democracy and a free market economy, in the same time interval (Grundmann, 1998). Also, when we compare the treatment and control districts in both 1955 and 1990 (table 1), we do not observe any differential trend for the two groups between 1955 (before Western TV was popular in the treatment area) and 1990 (panel C). The two regions were

<sup>17</sup>In our baseline analysis, we exclude observations from East Berlin. East Berlin was the capital of the GDR, where a large fraction of the state bureaucracy was located, giving rise to different types of privileges for its residents. It was commonplace before 1990 that East Berlin’s residents never suffered the shortages so common in the rest of the GDR. Apart from that, the demographic composition of the East Berlin district is highly divergent from the other regions, since it was mainly a city-state, seat of the country’s administration, rather than a larger territorial unit. Adding East Berlin would therefore affect the balancedness of covariates across treatment and control areas. In our robustness regressions, we add observations from East Berlin, and our results hold.

<sup>18</sup>In section IV, we argue that in the context of the data set used, the treatment and control areas are balanced along a broad array of individual-level observable covariates.

TABLE 1.—REGIONAL CHARACTERISTICS, 1955 AND 1990 (DISTRICT LEVEL), BY TREATMENT STATUS

|   | Treatment | Control | Difference | SE   | P-Value |
|---|-----------|---------|------------|------|---------|
| <i>A: 1955 (District-Level Data)</i>              |           |         |            |      |         |
| Population density (inhabitants/km <sup>2</sup> ) | 206       | 202     | 4          | 77   | 0.959   |
| Share of employed in agriculture (%)              | 23.7      | 27.8    | -4.1       | 11.1 | 0.744   |
| Share of employed in industry (%)                 | 34.1      | 28.7    | 5.4        | 10.0 | 0.635   |
| Retail sales per capita (mark)                    | 1,691     | 1,694   | -3         | 102  | 0.979   |
| Savings per capita (mark)                         | 277       | 297     | -20        | 28   | 0.544   |
| <i>B: 1990</i>                                    |           |         |            |      |         |
| Population density (inhabitants/km <sup>2</sup> ) | 181       | 176     | 5          | 62   | 0.941   |
| Share of employed in agriculture (%)              | 13.5      | 11.3    | 2.2        | 5.1  | 0.706   |
| Share of employed in industry (%)                 | 33.2      | 39.5    | -6.3       | 7.5  | 0.479   |
| Retail sales per capital (mark)                   | 7,577     | 7,250   | 327        | 188  | 0.190   |
| Savings per capital (mark)                        | 9,312     | 9,381   | -69        | 928  | 0.946   |
| Cars per 1,000 inhabitants                        | 237.4     | 237.6   | -0.2       | 12.1 | 0.992   |
| <i>C: Difference 1990-1955</i>                    |           |         |            |      |         |
| Population density (inhabitants/km <sup>2</sup> ) | -18       | -26.2   | 8.2        | 15.4 | 0.626   |
| Share of employed in agriculture (%)              | -14.5     | -12.6   | -1.9       | 6.0  | 0.778   |
| Share of employed in industry (%)                 | 5         | 5.5     | -0.5       | 3.0  | 0.870   |
| Retail sales per capital (mark)                   | 5,862     | 5,557   | 305        | 157  | 0.142   |
| Savings per capital (mark)                        | 8,946     | 8,994   | -48        | 770  | 0.954   |

Population-weighted averages, excluding the district of East Berlin. *P*-values based on weighted Welch's *t*-tests of difference in means (two-sided, allowing for unequal variances). Total number of districts: fourteen (eleven treatment, three control).

Source: Statistisches Amt der DDR (1955, 1990).

very similar along the observable variables, both before and after Western TV became a popular source of entertainment in the treatment area.<sup>19</sup>

*Between reunification and the measurement of effects.* Migration of random subsets of the populations in the treatment and control regions would attenuate our findings. However, selective migration could potentially be a confounding factor with our estimated effects. Unfortunately, we do not perfectly observe the type of people who migrated out of the control and treatment areas. However, the available evidence suggests that selective migration does not seem to be of concern in our setting. We first look at overall migration in table 2, which shows that migration rates year by year from treatment and control areas to West Germany were, after a peak immediately after reunification, comparatively low and, more important, statistically similar across the treatment and control regions.<sup>20</sup> We also provide evidence in appendix table A.4 that migration rates from the treatment and control regions to West Germany broken down by age intervals were essentially identical for all age groups.

*Condition 3: The individuals in East Germany who could watch West German TV actually did watch it.* Available

<sup>19</sup> Moreover, there is no evidence for directed migration overall from the control to the treatment area. While population declined everywhere in East Germany between 1955 and 1990, the decline was stronger in the treatment area (-9.86%) than in the control area (-6.76%).

<sup>20</sup> The largest part of East-to-West migration occurred in 1989 and 1990 (Hunt, 2006); unfortunately, county-level migration statistics are available only for 1991 onward. In appendix A.3 we provide more detailed evidence by analyzing total migration rates from the treatment and control areas and the breakdown of these rates by destination (Berlin, West Germany, control region, and treatment region), suggesting that total migration rates were low and similar in treatment and control areas.

evidence suggests that this was indeed the case. Despite the inherent danger it would have posed to the stability of the autocratic regime, East German authorities mostly closed an eye on the installation of antennas suitable for watching West German TV channels. The frequencies of West German TV broadcasts were not jammed either, though this was technically feasible and practiced in the case of radio stations (Hesse, 1988; Beutelschmidt, 1995).<sup>21</sup> For instance, a survey of East German youths in 1985 reported that respondents watched on average more than two hours of West Germany TV each weekday.<sup>22</sup> As we reported in figure 2, a related survey found that 66.28% of respondents in districts with access to Western television declared they watched Western TV stations daily. In contrast, only 5.72% of the respondents in the district of Dresden declared so.<sup>23</sup> Survey evidence also suggests that Western media were used in East Germany mainly to watch entertainment shows and their advertisements (Stiehler, 2001; Buhl, 1990; Hesse, 1988).

Moreover, it was not the case that the limited availability of attractive entertainment options and news sources in the areas without Western TV reception prompted households living there to buy fewer TV sets. In fact, classified data from the GDR Ministry of Commerce and Provisioning suggest that in 1983, the district of Dresden had an above-average density of color TV sets, whereas the districts

<sup>21</sup> In 1961, after the construction of the Berlin Wall, East German authorities initially attempted to tear down roof antennas directed toward West Germany. However, the historical evidence suggests that due to the unpopularity of these measures, the East German regime soon realized that it had no choice but to accept that a very large fraction of East Germans watched West German TV frequently (Kern & Hainmueller, 2009).

<sup>22</sup> Zentralarchiv für Empirische Sozialforschung ZA 6073. Refer also to note 16.

<sup>23</sup> Zentralarchiv für Empirische Sozialforschung ZA 6008.

TABLE 2.—MIGRATION RATES, 1991–1993 (COUNTY LEVEL), BY TREATMENT STATUS

| Variable                                 | Treatment | Control | Difference | SE    | P-Value |
|--|-----------|---------|------------|-------|---------|
| Migration rate to West Germany (%), 1991 | 0.368     | 0.343   | 0.024      | 0.034 | 0.480   |
| Migration rate to West Germany (%), 1992 | 0.572     | 0.566   | 0.006      | 0.028 | 0.845   |
| Migration rate to West Germany (%), 1993 | 0.596     | 0.607   | −0.011     | 0.029 | 0.704   |

Total number of counties (*Kreise*): 215 (192 treatment, 23 control). *P*-values based on *t*-tests of difference in means, allowing for unequal variances. Source: Own analysis based on migration matrices (by *Kreis*), German Federal Statistical Office.

TABLE 3.—SUPPLY SIDE: DIFFERENCES ACROSS TREATMENT REGIONS, 1993 (COUNTY LEVEL)

| Variable             | Treatment | Control | Difference | SE    | P-Value |
|----------------------|-----------|---------|------------|-------|---------|
| Food supermarkets    | 0.075     | 0.070   | 0.004      | 0.015 | 0.782   |
| Mail-order companies | 0.011     | 0.011   | −0.001     | 0.002 | 0.844   |
| Other retail stores  | 1.767     | 1.715   | 0.052      | 0.083 | 0.544   |

Variables are expressed as number of plants per 1,000 inhabitants. Total number of counties (*Kreise*): 86 (75 treatment, 11 control). *P*-values based on *t*-tests of difference in means, allowing for unequal variances. Source: Own analysis based on the IAB Establishment History Panel (BHP).

of Neubrandenburg and Rostock did not differ significantly from the country-wide average in that respect.<sup>24</sup>

*Condition 4: The measured treatment effects are driven by product demand differences, not supply differences.* It is important that our treatment effects reflect differences in demand from the treatment and control areas, and not differences in supply conditions. Since the regions previously not exposed to West Germany, television are also generally far from the border with West Germany, we need to be sure that we are not capturing a remoteness effect that could affect the availability of products in these areas. To address this question, we resort to the Establishment History Panel (Betriebs-Historik-Panel, BHP), a 50% random sample of all businesses in Germany available from the German Institute for Employment Research (IAB). Table 3 compares the number of food supermarkets, mail-order companies, and other retail stores (expressed in plants per 1,000 inhabitants) active in the treatment and control areas in 1993, the first year included in our data analysis of section IV.<sup>25</sup> The densities of businesses are extremely similar in the two areas, and the differences are never statistically significant (the lowest *p*-value across the three categories is greater than 0.54). In addition to that, in section IVE, we provide evidence that our measured effects are not explained by distance to West Germany.

#### IV. Consumption after Reunification

##### A. German Income and Expenditure Survey

Prior to German reunification in 1990, any differences in desired consumption choices between individuals exposed or not to Western television could not be reflected by differences in consumption behavior. Goods seen on West German

TV were generally not available in communist East Germany, where consumption was strictly regimented by the central planning operated by the Ministry of Commerce and Provisioning. However, after reunification, no such obstacle prevented the consumption of desired goods by East Germans; any good that had been previously seen on television could now, at least in theory, also be purchased in East Germany.

We therefore focus on the period after reunification to assess the effects of West German television on consumption choices. For that purpose, we turn to the results of the German Income and Expenditure Survey (Einkommens- und Verbrauchsstichprobe, EVS) conducted by the German federal statistical office. These data can help us understand how exactly access to Western TV changed the consumption behavior of East German citizens. Conducted every five years on over 70,000 representative households (approximately 10,000 of them in our East German subsample), this survey records exact expenditures on a variety of goods over the course of one year. Unfortunately, the EVS is not conducted as a panel; therefore, we are not able to estimate the within-household variation during the period.<sup>26</sup>

We use the first two waves conducted after reunification: 1993 and 1998. While 1993 is already some years after reunification, this is the first available year with data on East Germany. We expect any effects stemming from the differential exposure to Western television before 1990 to be, if anything, still present in 1993, while they might have already faded away by 1998, after eight years of integration into a capitalist system.<sup>27</sup>

<sup>26</sup>For the analyses performed in this section, we drew on the restricted-use version of the EVS, which records the municipality of residence of each household interviewed. This information is needed to determine the treatment status. Due to confidentiality reasons, this version of the EVS data set can be accessed only on the premises of the German statistical office (Destatis).

<sup>27</sup>In the context of preferences for redistribution and attitudes about the role of the state in society, Alesina and Fuchs-Schündeln (2007) find remarkable persistence. According to their estimates, it will take about one to two generations for former East Germans and West Germans to converge. Note, however, that in addition to the difference in outcome variables between the two papers, the source of divergence in our paper is a variation within East Germany, not between East and West.

<sup>24</sup>This emerges from a (then classified) report by the Institut für Marktforschung to the Ministry of Commerce and Provisioning (Ministerium für Handel und Versorgung): “Möglichkeiten einer näherungsweise Ermittlung von bezirklichen Ausstattungs- bzw. Bestandsgrößen” (Leipzig, 1983). A scan of the report is on file with the authors.

<sup>25</sup>Results based on equivalent data for the years before 1993 are qualitatively similar and available on request.



TABLE 4.—BALANCEDNESS OF COVARIATES, EVS

| Variable                        | Treatment | Control  | Difference | SE      | P-Value |
|---------------------------------|-----------|----------|------------|---------|---------|
| <i>EVS 1993</i>                 |           |          |            |         |         |
| Disposable income               | 41,268.8  | 41,676.4 | -407.6     | 1,028.6 | 0.692   |
| Age                             | 50.1      | 47.9     | 2.2        | 1       | 0.028   |
| Number of children              | 0.659     | 0.787    | -0.127     | 0.045   | 0.005   |
| Single                          | 0.282     | 0.246    | 0.036      | 0.023   | 0.125   |
| Female                          | 0.422     | 0.43     | -0.008     | 0.025   | 0.759   |
| German                          | 0.997     | 0.998    | -0.002     | 0.002   | 0.332   |
| Employed                        | 0.517     | 0.498    | 0.019      | 0.025   | 0.446   |
| Retired                         | 0.274     | 0.248    | 0.026      | 0.024   | 0.282   |
| On Welfare                      | 0.025     | 0.027    | -0.003     | 0.009   | 0.752   |
| Small city (< 5000 inhabitants) | 0.214     | 0.19     | 0.025      | 0.021   | 0.230   |
| <i>EVS 1998</i>                 |           |          |            |         |         |
| Disposable income               | 49,807.8  | 48,201.0 | 1,606.8    | 1,106.6 | 0.147   |
| Age                             | 51.7      | 52.7     | -1.1       | 0.8     | 0.161   |
| Number of children              | 0.409     | 0.347    | 0.062      | 0.021   | 0.004   |
| Single                          | 0.303     | 0.358    | -0.055     | 0.021   | 0.008   |
| Female                          | 0.425     | 0.438    | -0.014     | 0.019   | 0.486   |
| German                          | 0.995     | 0.999    | -0.003     | 0.001   | 0.007   |
| Employed                        | 0.552     | 0.530    | 0.023      | 0.019   | 0.247   |
| Retired                         | 0.346     | 0.363    | -0.018     | 0.02    | 0.366   |
| On welfare                      | 0.016     | 0.009    | 0.006      | 0.004   | 0.065   |
| Small city (< 5000 inhabitants) | 0.237     | 0.174    | 0.063      | 0.013   | 0.000   |

Total number of observations: 9,305 in 1993 (8,035 treatment, 1,270 control) and 11,794 in 1998 (10,147 treatment, 1,647 control). P-values based on *t*-tests of difference in weighted means (survey weights used).

Table 4 provides some summary descriptive statistics, divided by treatment status (binary treatment indicator), about the households in the two waves of the EVS used here. In our regressions, as well as in these summary statistics, we always use the sampling weights provided by the German federal statistical office (selection of households included in the EVS occurs through stratified sampling). The results in table 4 show how the treatment and control regions are largely similar across most characteristics.

#### B. West German TV and Aggregate Consumption Behavior

Does long-term exposure to Western television affect aggregate consumption behavior? In particular, do individuals exposed to Western television change their levels of total private consumption and savings? Are they more likely to take on consumer credit to finance additional splurges? A certain strand of the social science literature (Galbraith, 1958; Schor, 1998) would suggest that corporations use advertising to increase households' aspirations and overall consumption levels.

We thus start our analysis of the effect of long-term exposure to Western television by examining the impact of exposure to West German TV on aggregate consumption behavior after reunification using the EVS data. For that purpose, we use the following regression setup:

$$y_i = \beta_0 + \beta_1 \text{Treatment}_i + x_i' \gamma + \varepsilon_i, \quad (1)$$

where  $y_i$  are variables relating to the aggregate consumption behavior of household  $i$ ,  $\text{Treatment}_i$  is a treatment indicator equal to 1 for households with access to Western TV, and  $x_i$  is a set of household-level covariates, including economic and demographic characteristics (see table 4 for a list of covariates used in our regressions). The coefficient of interest

is  $\beta_1$ . Our main outcome variables of interest are the log of disposable income, the log of total private consumption, and a dummy on whether the household has positive levels of savings. We run separate regressions for 1993 and 1998.<sup>28</sup>

If households in the treatment area (those previously exposed to Western television) wanted to consume relatively more than those in the control area, we would observe them either supplying relatively more labor (thus increasing their incomes compared to households in the control area), saving relatively less, or resorting relatively more to credit to finance their consumption.

Table 5 shows the treatment effects of long-term exposure to Western television on disposable income, total private consumption, and savings. The results indicate that East German households with Western TV access before 1990 do not differ from the control group in their aggregate behavior: the treatment effects on disposable income, total private consumption, and savings are all statistically insignificant in both 1993 and 1998. Moreover, all estimates can rule out even modest increases in total private consumption associated with exposure to Western TV: based on the 1993 estimates (panel A, column 2), we can rule out with 95% confidence an increase of less than 1.5% in total private consumption.

In table 6, we look at the treatment effects on the use of financial instruments. We analyze the effect of previous exposure to Western television on the likelihood of reporting to have taken consumer credit and to have overdraft payments on a checking account, using a linear probability model. If households in the treatment area felt a comparatively stronger need to buy the consumption goods seen

<sup>28</sup> Note that since the EVS is conducted as a repeated cross-section rather than a panel, we are not able to link households across waves.

TABLE 5.—REGRESSION RESULTS, EVS (INCOME AND EXPENDITURE SURVEY)  
Aggregate Consumption Behavior: Disposable Income, Total Private Consumption, and Savings

| Dependent Variable ( $\times 100$ )                          | Log Disposable Income<br>(1) | Log Total Private Consumption<br>(2) | Savings > 0<br>(0/1)<br>(3) |
|--|------------------------------|--------------------------------------|-----------------------------|
| <i>A: EVS 1993</i>   |                              |                                      |                             |
| Treatment  | -1.0067<br>[1.8651]          | -0.8300<br>[1.3612]                  | 0.9368<br>[2.2795]          |
| Households with positive savings (treatment/control)         |                              |                                      | 7,161 (6,164/997)           |
| Households with negative or zero savings (treatment/control) |                              |                                      | 2,144 (1,871/273)           |
| Number of observations                                       | 9,305                        | 9,305                                | 9,305                       |
| <i>B: EVS 1998</i>   |                              |                                      |                             |
| Treatment  | -2.1699<br>[1.9600]          | 0.6180<br>[1.1698]                   | -1.5009<br>[1.4089]         |
| Households with positive savings (treatment/control)         |                              |                                      | 9,086 (7,804/1,282)         |
| Households with negative or zero savings (treatment/control) |                              |                                      | 2,708 (2,343/365)           |
| Number of observations                                       | 11,794                       | 11,794                               | 11,794                      |

Significant at \*\*\*1%, \*\*5%, \*10%. Robust standard errors in brackets, clustered by municipality. Sampling weights used. All dependent variables multiplied by 100. All regressions include a full set of state dummies and household covariates as in table 4, except column 1, where log disposable income is excluded from the set of regressors. Column 3 corresponds to a linear probability model. The dependent variable is defined as 1 if savings are positive, 0 otherwise. Number of municipalities: 1,359 (1993), 1,896 (1998).

TABLE 6.—REGRESSION RESULTS, EVS (INCOME AND EXPENDITURE SURVEY)  
Use of Financial Instruments

| Dependent Variable ( $\times 100$ )                        | Interest payment (0/1) on: |                      |
|--|----------------------------|----------------------|
|  | Consumption Credit<br>(1)  | Overdraft<br>(2)     |
| <i>A: EVS 1993</i>   |                            |                      |
| Treatment  | 1.7287<br>[2.4061]         | -1.3737<br>[1.5755]  |
| Households with dependent variable = 0 (treatment/control) | 6,229 (5,352/877)          | 8,350 (7,241/1,109)  |
| Households with dependent variable = 1 (treatment/control) | 3,067 (2,683/393)          | 955 (794/161)        |
| Number of observations                                     | 9,305                      | 9,305                |
| <i>B: EVS 1998</i>   |                            |                      |
| Treatment  | -1.4162<br>[1.7493]        | -1.5388<br>[1.0312]  |
| Households with dependent variable = 0 (treatment/control) | 8,548 (7,308/1,240)        | 10,462 (9,002/1,460) |
| Households with dependent variable = 1 (treatment/control) | 3,246 (2,839/407)          | 1,332 (1,145/187)    |
| Number of observations                                     | 11,794                     | 11,794               |

Significant at \*\*\*1%, \*\*5%, \*10%. Robust standard errors in brackets, clustered by household. Sampling weights used. The dependent variable is defined as 1 if interest payments are positive, 0 if absent. All dependent variables multiplied by 100. All regressions include a full set of household covariates as in table 4 and state dummies. Number of municipalities: 1,359 (1993), 1,896 (1998).

on Western television after they suddenly became available in 1990, they could have resorted to consumer credit or overdraft on bank accounts to finance those purchases. Repayment of these credits would then still be visible in 1993. However, the absence of significant treatment effects in the regressions of table 6 does not corroborate this hypothesis. Here, too, the estimates are precise enough to rule out meaningful quantities. In 1993, we can rule out with 95% confidence a propensity to resort to consumer credit that is 6% higher in the treated regions and a propensity to resort to overdraft that is 1% higher.

The general picture is therefore one of lack of effects on aggregate consumption behavior. Unfortunately, we cannot address whether this is due to previous exposure to West German television truly not affecting postreunification aggregate consumption, the effects having already vanished in 1993, or households being constrained in their ability to adjust aggregate consumption behavior. Yet the absence of effects on aggregate variables does not preclude an alternative kind of effect: long-term exposure to West German television

could have affected the composition of consumption after reunification, shifting consumption toward some particular categories of goods.

### C. West German TV Advertising and the Composition of Consumption

We expect advertising to be an important channel through which Western television might affect consumption choices. To study how advertising, present in West German television but not in East German broadcasts, affected postreunification composition of consumption, we use data about the quantity of advertising (measured in minutes) on West German TV stations between 1980 and 1989 (Zentralausschuss der Werbewirtschaft, 1980–1989). Table 7 lists categories of goods ranked by the percentage of total minutes of advertising on the main West German TV channel, ARD. Food and drinks, as well as body care products, make up the largest part of advertising on television; other categories of goods,

TABLE 7.—MOST AND LEAST ADVERTISED CATEGORIES OF GOODS

| Goods                           | Average Minutes of Advertising per Day | Share of Advertising Time (%) | Average Budget Share, 1993 (%) |
|---------------------------------|--|-------------------------------|--------------------------------|
| Food and drinks                 | 6'49"                                  | 42.5                          | 23.7                           |
| Body and mouth care             | 2'52"                                  | 17.9                          | 3.4                            |
| Cleaning and washing            | 1'46"                                  | 11                            | 0.7                            |
| Media, leisure                  | 0'53"                                  | 5.47                          | 6.3                            |
| Home and garden                 | 0'35"                                  | 3.66                          | 11.7                           |
| Pharmaceuticals                 | 0'31"                                  | 3.19                          | 0.7                            |
| Cars, accessories               | 0'28"                                  | 2.95                          | 14.1                           |
| Transportation and tourism      | 0'11"                                  | 1.15                          | 5.9                            |
| Photo, optics, watches, jewelry | 0'8"                                   | 0.83                          | 1.1                            |
| Clothes, textiles               | 0'8"                                   | 0.78                          | 8.4                            |
| Other                           | 0'0"                                   | 0                             | 24.1                           |

Figures correspond to advertising time allocated to each of the categories of goods on the main West German state TV channel (ARD); average of the years 1980 to 1989. Source: Zentrallausschuss der Werbewirtschaft (1981–1990).

such as clothing and tourism, make up for a much smaller share of total advertising time.<sup>29</sup>

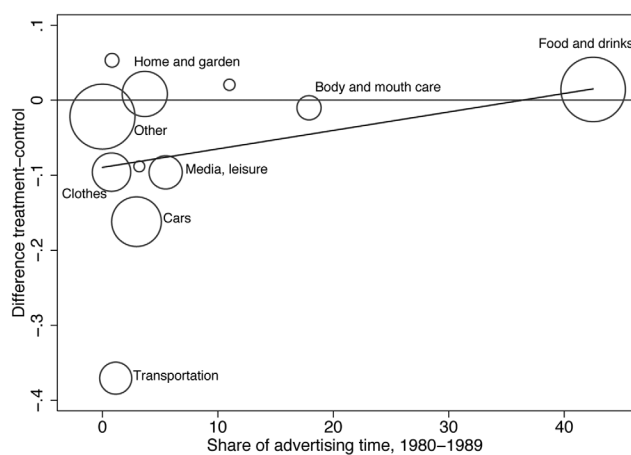
The effects of advertising on consumption patterns could conceivably take different forms. Exposed households could consume more of the more heavily advertised brands of a given product, preferring them to “no-name” items. This would correspond to having a higher brand-recognition factor for advertised goods among East German citizens who had watched Western television previously. With the data available to us, we are not able to test this hypothesis; both the advertising figures in table 7 and the categories of consumption goods in the EVS are not detailed up to the level of brands. Here, rather than focusing on shifts across brands, we examine whether households spend more on categories of goods that, according to the figures of table 7, were more heavily advertised on television to the detriment of those categories of consumption goods that were less advertised.<sup>30</sup> We matched the items recorded in the EVS surveys to the categories of table 7. Other types of consumption goods present in the exhaustive catalog of the EVS are not present at all among the goods advertised on television (e.g., expenditures for house rental, utilities, bicycles, or telephones). For those goods, we created an eleventh category corresponding to all goods with 0 share of advertising time.

To first visualize the effects of Western television advertising on consumption choices, we examine figures 5 and 6, which display the logarithm of raw differences between treatment and control regions in average yearly consumption levels by categories of consumption. The categories of consumption goods are sorted along the horizontal axis according to their shares of total advertising time averaged

<sup>29</sup> Note that the overall amount of advertising on the state television broadcasting stations was low, totaling less than 20 minutes per day on average. These amounts, as well as the times of the day in which advertising was allowed, were regulated by law (Rundfunkstaatsvertrag of 1987, Section 3). Most of the advertising occurred in the prime time between 7:00 p.m. and 8:00 p.m.

<sup>30</sup> The question of whether advertising is, within categories of goods, “predatory” (i.e., one brand advertises at the detriment of the other brands) or “cooperative” (advertising increases overall sales) has been discussed in the industrial organization literature. See, for example, Rojas and Peterson (2008) for the beer industry. In the context of our study, we would find any effects only if advertising was cooperative within goods categories.

FIGURE 5.—DIFFERENCES IN CONSUMPTION LEVELS AND ADVERTISING, 1993

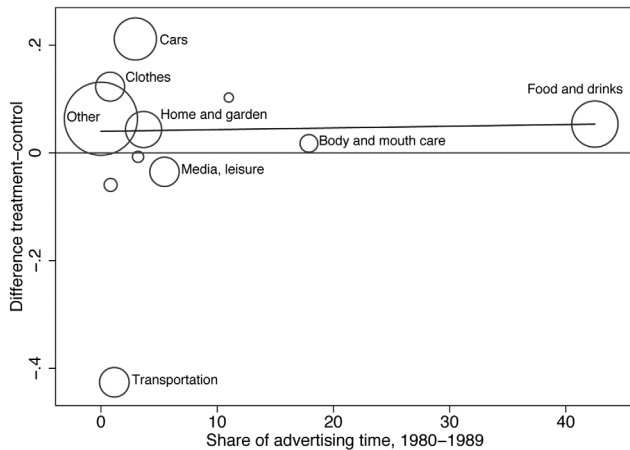


The horizontal axis reports shares of total advertising time, 1980–1989, as in table 7. The vertical axis reports (the logarithm of) raw differences between treatment and control regions in average yearly consumption levels. Circle sizes are proportional to the budget share of each category of consumption good. Major categories are labeled. Appendix Table A.5 presents the raw data underlying this figure.

over the period 1980 to 1989, as in table 7. Each figure also plots a linear fit of the raw data, weighting categories of consumption by their budget share. We choose to weight regressions according to the budget shares of the goods categories in order not to give undue weight to categories that are considered separately in the (arguably arbitrary) classification of the German advertising statistics but have little importance in most households’ budgets—for example, the category “Photo, optics, watches, jewelry,” which makes up for only 1.1% of the budget of the average household in 1993 (see table 7, third column).

The figures suggest that in 1993 (figure 5), higher intensity of advertising was associated with (significantly) larger consumption in the treatment areas compared to the control areas. The slope of the line is 0.0024 with an associated *t*-statistic of 2.20. On average, most categories of consumption goods display a negative difference between treatment and control area; this is consistent with the negative (but not significant) effect of treatment status on total private consumption (table 5, panel A, column 2). In 1998 (figure 6),

FIGURE 6.—DIFFERENCES IN CONSUMPTION LEVELS AND ADVERTISING, 1998



Interpretation: See the notes to figure 5.

the effects seem to have vanished, with a slope of 0.0003 (and a  $t$ -statistic of 0.25).

We now proceed with our regression analysis of the effects of Western TV advertising on consumption choices. Our basic regression setup can be described as follows:

$$\begin{aligned} \ln(1 + Expenditures_{ij}) \\ = \beta_0 + \beta_1 Advertising_j + \beta_2 Treatment_i \\ + \beta_3 (Treatment_i \times Advertising_j) + \varepsilon_{ij}, \end{aligned} \quad (2)$$

where  $Expenditures_{ij}$  are expenditures of household  $i$  on good  $j$ ,  $Treatment_i$  is a treatment indicator equal to 1 for households with access to Western TV, and  $Advertising_j$  is the average number of minutes of TV advertising per day devoted to good category  $j$  in the 1980–1989 period (as in table 7). We add 1 to  $Expenditures_{ij}$  when taking logs to avoid dropping observations with 0 consumption. The coefficient of interest is  $\beta_3$  and relates to the interaction term  $Treatment_i \times Advertising_j$ . If individuals exposed to Western television spend more on the more heavily advertised goods, then  $\beta_3 > 0$ . We first cluster standard errors at the municipality level. In our baseline specification, regressions are weighted by both the EVS sampling weights and the budget share of each category of consumption goods.

Alternatively, we can add a set of household-level covariates  $x_i$  (as in the previous section of the paper):

$$\begin{aligned} \ln(1 + Expenditures_{ij}) \\ = \beta_0 + \beta_1 Advertising_j + \beta_2 Treatment_i \\ + \beta_3 (Treatment_i \times Advertising_j) + x'_i \gamma + \varepsilon_{ij}. \end{aligned} \quad (3)$$

The inclusion of household-level covariates does not affect the point estimates  $\beta_1$  or  $\beta_3$  since  $Advertising_j$  does not vary at the household level and the effect of  $Treatment_i$  at the household level is captured by  $\beta_2$ . Conditional on  $Advertising_j$  and  $Treatment_i$ , the interaction term of these variables is orthogonal to covariates  $x_i$  that vary only at the household level.

Table 8 presents the results of estimating our regression model in equation (2), once for the 1993 EVS survey (panel A) and once with the 1998 data (panel B). In column 1, we present the results following the setup in equation (2), and in column 2, we show the results associated with the baseline specification adding household-level covariates, as in equation (3). The coefficient on intensity of advertisement,  $\beta_1$  shows that in the control region, categories of goods with more advertising are associated with higher expenditures.<sup>31</sup> The direct effect of a household's location in the treatment area,  $\beta_2$ , is negative but not significant. Note that this corresponds to the direct effect in the case of a category of goods with 0 advertising. As one moves to goods categories with a higher intensity of advertising, households in the treatment group consume more than those in the control region. This can be derived from the fact that the coefficient on the interaction term  $Treatment_i \times Advertising_j$ ,  $\beta_3$ , is positive and significant at the 1% level. Note that, as predicted, the inclusion of household covariates in column 2 affects only the point estimate of  $\beta_2$ .<sup>32</sup>

In column 3, we use the share of total advertising time, rather than minutes of advertising per day, as the explanatory variable: the coefficient of interest now measures the differential effect in treatment versus control areas of 1 more percentage point of total advertisement time during the 1980s rather than 1 more minute per day on the logarithm of expenditures. The estimates of the coefficients  $\beta_1$  and  $\beta_3$  are rescaled accordingly but do not change their qualitative interpretation. Column 4 does not weight the regression observations by the budget shares of the respective consumption goods categories (it uses only the original sampling weights from the EVS survey). Again, this does not affect the main findings. The magnitude of the coefficient  $\beta_3$  is increased, although the coefficient is less precisely estimated (it is now significant at the 5% level).<sup>33</sup>

Finally, in column 5, we reproduce the baseline regression using the continuous treatment variable instead of the binary treatment indicator. The point estimate for  $\beta_3$  is slightly larger than in the previous specifications and still highly significant.<sup>34</sup>

The economic magnitude of the coefficients is not minor. The estimated coefficient using our baseline specification (column 1) indicates that spending on a category of goods

<sup>31</sup> This is expected, since some categories with a high intensity of advertising (e.g., food) are large items in household budgets. The coefficient  $\beta_1$  cannot be interpreted as a (causal) effect of advertising on consumption.

<sup>32</sup> Analogously, including a full set of interaction terms between the treatment dummy and household covariates would not affect the point estimate of the interaction term,  $\beta_3$ .

<sup>33</sup> It is interesting to note that, as expected due to the lack of increases in total consumption among households previously exposed to West German TV, the coefficient  $\beta_2$ —the effect of the treatment on consumption categories with 0 share of advertisement time—is always negative (e.g., in column 1, it corresponds to a consumption level in those categories almost 9% lower in the treatment areas).

<sup>34</sup> In appendix tables A.8 and A.9, we reproduce all other results from this table and from the other analyses based on the EVS, using the continuous treatment variable instead of the binary treatment indicator. All results are confirmed and comparable in both magnitude and significance.

TABLE 8.—REGRESSION RESULTS, EVS (INCOME AND EXPENDITURE SURVEY)

| Dependent Variable:<br>Treatment Definition: | Recomposition of consumption |                      |                     |                      |                      |
|--|------------------------------|----------------------|---------------------|----------------------|----------------------|
|  | 100 × log(1 + expenditures)  |                      |                     |                      |                      |
|  | Binary                       |                      |                     |                      | Continuous           |
|  | (1)                          | (2)                  | (3)                 | (4)                  | (5)                  |
| <i>A: EVS 1993</i>                           |                              |                      |                     |                      |                      |
| Advertising                                  | 16.549***<br>[0.388]         | 16.549***<br>[0.388] | 2.653***<br>[0.062] | 29.142***<br>[0.824] | 16.071***<br>[0.495] |
| Treatment                                    | −8.96<br>[5.951]             | −4.569<br>[2.899]    | −8.96<br>[5.951]    | −9.382<br>[5.802]    | −14.267*<br>[7.472]  |
| Treatment × Advertising                      | 1.537***<br>[0.547]          | 1.537***<br>[0.547]  | 0.246***<br>[0.088] | 1.979**<br>[1.000]   | 2.132***<br>[0.714]  |
| Number of observations                       | 102,355                      | 102,355              | 102,355             | 102,355              | 102,355              |
| Number of households                         | 9,305                        | 9,305                | 9,305               | 9,305                | 9,305                |
| <i>B: EVS 1998</i>                           |                              |                      |                     |                      |                      |
| Advertising                                  | 3.398***<br>[0.239]          | 3.398***<br>[0.239]  | 0.545***<br>[0.038] | 21.637***<br>[0.759] | 3.518***<br>[0.296]  |
| Treatment                                    | 3.989<br>[4.656]             | −1.068<br>[1.607]    | 3.989<br>[4.657]    | −0.833<br>[3.254]    | 2.155<br>[5.039]     |
| Treatment × Advertising                      | 0.197<br>[0.284]             | 0.197<br>[0.284]     | 0.032<br>[0.046]    | 1.234<br>[0.815]     | 0.059<br>[0.355]     |
| Number of observations                       | 129,734                      | 129,734              | 129,734             | 129,734              | 129,734              |
| Number of households                         | 11,794                       | 11,794               | 11,794              | 11,794               | 11,794               |
| Household covariates                         | No                           | Yes                  | No                  | No                   | No                   |
| Advertising definition                       | Minutes per day              | Minutes per day      | Share               | Minutes per day      | Minutes per day      |
| Regression weights                           | S × B                        | S × B                | S × B               | S                    | S × B                |

Significant at \*\*\*1%, \*\*5%, \*10%. Robust standard errors in brackets, clustered by municipality. Sampling weights used. Regressions are weighted by either the EVS sampling weights (S) or additionally by the budget share of each category of consumption goods (S × B). The regression in column 3 uses the share of advertising time rather than minutes of advertising per day as explanatory variable (see table 7). Household covariates included in column 2 are listed in table 4. Number of municipalities: 1,359 (1993), 1,896 (1998).

that had on average 1 more minute of advertising per day between 1980 and 1989 was about 1.5% larger in the treatment area when compared to the control area. If we look instead at column 3, which uses the share of total advertising time as the main explanatory variable, we observe that a 1 percentage point increase in the share of total advertisement allocated to a category of goods is associated with about 0.25% more consumption in the treatment area when contrasted with areas not exposed to the advertisements. To have a better sense of the size of these effects, note that the estimated coefficient in column 3, 0.246, implies that consumer expenditures for body care products, a rather heavily advertised class of products (with 17.9% of total advertising time), were approximately 4.4% (= 17.9 × 0.246) higher in areas with access to Western TV.

At the same time, the results reported in panel B show that the effects have all but disappeared by 1998. The estimated coefficient for  $Treatment_i \times Advertising_j$  is now insignificant and, perhaps more important, clearly smaller in magnitude across all specifications. For example, in our baseline specification of column 1, the effect declines to about one-seventh of the size measured for 1993.

Another way to appreciate the magnitudes of the estimated effects is to gauge how large the likely effect was just after reunification. Recall that the results of panel A stem from the survey conducted in 1993, three years after the East was integrated into the West German economy and all households in the former GDR were exposed to the same TV stations and had access to the same types of goods. As a back-of-the-envelope calculation, assume that the treatment

effect of exposure to Western television and its advertising content declines linearly over time. In that case, the decline witnessed between 1993 and 1998 for the specification of column 1 corresponds to a hypothetical effect of 2.341 in 1990, the year of German reunification—that is, an effect of approximately 2.3% more consumption expenditures for every additional minute of television advertising time on average between 1980 and 1989 spent on a given category of goods.<sup>35</sup>

It is important to note that our results are robust to dropping single categories of consumption goods one at a time, as displayed in appendix table A.7. The only case in which our coefficient of interest ( $\beta_3$ ) is no longer significant in 1993 is when we drop the “Food, drinks” category. The point estimate for  $\beta_3$  is actually 25% larger when we drop that category (compared to our baseline specification), indicating that the category is not an outlier. We lose precision when dropping that category since it is the most important one in terms of its budget share in 1993 (accounting for 23.7% of the budget). Since we weigh regressions by the budget share of each category, dropping the “Food, drinks” category implies a large reduction in our effective sample size, thus reducing the precision of our estimates.

As a whole, the regression results draw a picture in which East German households in the treatment areas (i.e., with

<sup>35</sup> The persistence of the effect of advertising of the 1980s into the 1990s is even more remarkable if one considers that the marketing literature (Lodish et al., 1995) finds that the carryover effect of advertising is about six to nine months and is even weaker in the absence of reinforcement through actual purchases (Givon & Horsky, 1990).

TABLE 9.—REGRESSION RESULTS, EVS  
Recomposition of Consumption: Robustness

| Dependent Variable:                      | 100 × log(1 + expenditures) |                           |                      |                                     |                      |
|--|-----------------------------|---------------------------|----------------------|-------------------------------------|----------------------|
|  | Household Clustering (1)    | Including East Berlin (2) | −84.8 dB (3)         | “Treatment” threshold: −82.8 dB (4) | −80.8 dB (5)         |
| <i>A: EVS 1993</i>                       |                             |                           |                      |                                     |                      |
| Advertising                              | 16.549***<br>[0.512]        | 16.549***<br>[0.388]      | 16.605***<br>[0.369] | 16.532***<br>[0.349]                | 16.663***<br>[0.339] |
| Treatment                                | −8.960*<br>[5.327]          | −10.559*<br>[5.901]       | −8.846<br>[5.718]    | −10.664*<br>[5.714]                 | −10.845**<br>[5.526] |
| Treatment × Advertising                  | 1.537***<br>[0.571]         | 1.583***<br>[0.522]       | 1.530***<br>[0.544]  | 1.641***<br>[0.535]                 | 1.531***<br>[0.537]  |
| Number of observations                   | 102,355                     | 111,056                   | 102,355              | 102,355                             | 102,355              |
| Number of households                     | 9,305                       | 11,096                    | 9,305                | 9,305                               | 9,305                |
| Number of households in treatment region | 8,035                       | 9,826                     | 7,752                | 7,639                               | 7,404                |
| <i>B: EVS 1998</i>                       |                             |                           |                      |                                     |                      |
| Advertising                              | 3.398***<br>[0.355]         | 3.398***<br>[0.239]       | 3.610***<br>[0.257]  | 3.592***<br>[0.243]                 | 3.484***<br>[0.249]  |
| Treatment                                | 3.989<br>[3.593]            | 3.808<br>[4.586]          | 3.197<br>[4.208]     | 2.486<br>[4.101]                    | 1.189<br>[4.020]     |
| Treatment × Advertising                  | 0.197<br>[0.381]            | 0.052<br>[0.305]          | −0.049<br>[0.301]    | −0.028<br>[0.291]                   | 0.106<br>[0.296]     |
| Number of observations                   | 129,734                     | 141,966                   | 129,734              | 129,734                             | 129,734              |
| Number of households                     | 11,794                      | 12,906                    | 11,794               | 11,794                              | 11,794               |
| Number of households in treatment region | 10,147                      | 11,259                    | 9,787                | 9,598                               | 9,317                |

Significant at \*\*\*1%, \*\*5%, \*10%. Robust standard errors in brackets, clustered by municipality (by household in column 1). All regressions use the binary treatment definition and are weighted by EVS sampling weights and budget shares. Advertising defined as minutes per day (see table 7). Number of municipalities: 1,359 (1993), 1,896 (1998).

access to Western television until 1990) are particularly susceptible to prereunification advertising when making the choice between different categories of consumption goods in the early postreunification period.

#### D. Robustness Checks: Changing Samples, Clustering, Treatment Definition

Table 9 presents further robustness checks, departing from the baseline regression of table 8, column 1 (budget shares weights, binary treatment indicator, no household covariates). In column 1, we reproduce the regressions clustering at the household level rather than at the municipality level, as in table 8. All standard errors are now smaller than before, suggesting that clustering at the municipality level, by taking into account the correlation across households in the same municipality, is the more conservative approach.<sup>36</sup>

In column 2, we include observations from East Berlin, which were originally dropped in table 8. Again, all findings are virtually unchanged. In columns 3 to 5, we vary our definition of threshold for availability of West German TV broadcasts (by 2 dB each time to −84.8 dB, −82.8 dB, and −80.8 dB) to see if our findings are robust to variations on the level of signal strength that defines treatment and control.<sup>37</sup> The coefficients of interest in columns 3 to 5 are similar to the baseline coefficients from column 1 in table 8 and are also significant at the 1% level.

<sup>36</sup> In appendix table A.6, we show that our results are robust to aggregating households into larger clusters.

<sup>37</sup> We do not change the threshold in the other direction, since that would assign the entire municipality of Dresden, which was known to have virtually no access to Western television broadcasts, to the treatment area.

TABLE 10.—REGRESSION RESULTS, EVS  
Recomposition of Consumption: Subsamples

| Dependent Variable:      | 100 × log(1 + expenditures) |                      |                      |
|--------------------------|-----------------------------|----------------------|----------------------|
|                          | −86.8 dB ±30 dB (1)         | −86.8 dB ±20 dB (2)  | −86.8 dB ±10 dB (3)  |
| <i>A: EVS 1993</i>       |                             |                      |                      |
| Advertising              | 16.699***<br>[0.389]        | 16.596***<br>[0.390] | 16.870***<br>[0.401] |
| Treatment                | −11.872**<br>[6.045]        | −10.164<br>[6.779]   | 5.496<br>[7.814]     |
| Treatment × Advertising  | 1.662***<br>[0.584]         | 1.510**<br>[0.698]   | −0.326<br>[0.791]    |
| Number of observations   | 72,842                      | 53,405               | 26,081               |
| Number of households     | 6,622                       | 4,855                | 2,371                |
| Number of municipalities | 912                         | 664                  | 391                  |
| <i>B: EVS 1998</i>       |                             |                      |                      |
| Advertising              | 3.565***<br>[0.230]         | 3.434***<br>[0.222]  | 3.112***<br>[0.229]  |
| Treatment                | 1.037<br>[5.029]            | 0.157<br>[5.171]     | 6.901<br>[5.552]     |
| Treatment × Advertising  | 0.368<br>[0.309]            | 0.646**<br>[0.328]   | 0.144<br>[0.433]     |
| Number of observations   | 87,571                      | 65,626               | 34,078               |
| Number of households     | 7,961                       | 5,966                | 3,098                |
| Number of municipalities | 1,158                       | 829                  | 488                  |

Significant at \*\*\*1%, \*\*5%, \*10%. Robust standard errors in brackets, clustered by municipality. All regressions use the binary treatment definition and are weighted by EVS sampling weights and budget shares. Advertising defined as minutes per day (see table 7).

As before, the effects are much smaller and no longer significant in 1998, as observed in panel B of table 9.

In table 10, we proceed with a different set of robustness checks. Instead of varying the definition of our threshold of

signal availability as in table 9, we now restrict our areas of analysis to regions with West German TV signal strength sufficiently close to our original threshold of signal availability. This approach is in the spirit of a regression-discontinuity design, although we do not have a clear discontinuity in signal availability. We restrict the analysis to regions in which the signal strength is within 30 dB (column 1), 20 dB (column 2), or 10 dB (column 3) of the original  $-86.8$  dB threshold.<sup>38</sup> In the first two settings, our results hold and are quantitatively very similar to the baseline results from table 8. In table 10, panel B, we observe that the results have either decreased or disappeared by 1998.

If we further restrict our sample to regions in which the signal strength is within 10 dB of the original threshold, our results no longer hold, as observed in column 3 of table 10. This is not surprising in the light of the survey evidence presented in figure 2, which suggests that the discontinuity threshold lay approximately between  $-75$  dB and  $-86$  dB. Since the discontinuity in access to West German TV signals is not sharp, many individuals in the treatment area within 10 dB of the original threshold would most likely not have access to the broadcasts on a everyday basis either. In practice, in the sample restricted to  $-86.8 \pm 10$  dB, one would be comparing individuals with no exposure to West German TV with individuals with very little exposure to West German TV, thus attenuating our findings.

#### E. Effect of Distance to West Germany

An alternative explanation for the findings of the section IVD could be that such results are simply the product of the control areas' distance from the West German border. Such longer distance could make the access to Western goods more difficult, increasing the time that Western goods take to penetrate the local market, among other plausible factors that could affect consumption choices. Although we have no reason to think that the goods that were less likely to penetrate the local market in the control areas were also the ones with higher intensity of advertising, it is important to address this alternative explanation. To examine that, we reproduce in table 11 our main analysis adding as a covariate the minimum driving distance (in kilometers) between any household's municipality of residence in our data set and the closest point in former West Germany (including the exclave of West Berlin). To compute this variable, we used the East German road and highways network as of 1990.

Having the explanatory variable "availability of West German TV broadcasts" compete with the shortest distance to either the West German border or West Berlin makes for a strong test of our hypotheses. The effects will thus be identified only from cases where geographic features of the landscape do not reduce travel distance but prevent TV signals from reaching the households in the

<sup>38</sup> See the online appendix, tables A.10 to A.12, for a comparison of household covariates in the treatment and control areas under the three different sample restrictions criteria of table 10.

TABLE 11.—REGRESSION RESULTS, EVS  
Recomposition: Robustness to Distance

| Dependent Variable:            | $100 \times \log(1 + \text{expenditures})$ |                         |
|--------------------------------|--|-------------------------|
|                                | Whole Sample<br>(1)                        | Treatment Region<br>(2) |
| <i>A: EVS 1993</i>             |  |                         |
| Advertising                    | 16.907***<br>[1.388]                       | 18.237***<br>[0.906]    |
| Treatment                      | -9.763<br>[7.718]                          | .                       |
| Treatment $\times$ Advertising | 1.357*<br>[0.762]                          | .                       |
| Distance                       | -0.914<br>[7.364]                          | -1.702<br>[7.831]       |
| Distance $\times$ Advertising  | -0.205<br>[0.765]                          | -0.174<br>[0.815]       |
| Number of observations         | 102,355                                    | 88,385                  |
| Number of households           | 9,305                                      | 8,035                   |
| Number of municipalities       | 1,359                                      | 1,194                   |
| <i>B: EVS 1998</i>             |  |                         |
| Advertising                    | 3.184***<br>[0.576]                        | 3.432***<br>[0.315]     |
| Treatment                      | 0.159<br>[5.582]                           | .                       |
| Treatment $\times$ Advertising | 0.307<br>[0.385]                           | .                       |
| Distance                       | -4.309<br>[3.240]                          | -4.928<br>[3.390]       |
| Distance $\times$ Advertising  | 0.123<br>[0.300]                           | 0.193<br>[0.313]        |
| Number of observations         | 129,734                                    | 111,617                 |
| Number of households           | 11,794                                     | 10,147                  |
| Number of municipalities       | 1,896                                      | 1,682                   |

Significant at \*\*\*1%, \*\*5%, \*10%. Robust standard errors in brackets, clustered by household. All regressions use the binary treatment definition and are weighted by EVS sampling weights and budget shares. Advertising defined as minutes per day (see table 7). Distance to West Germany measured in kilometers.

survey. The empirical setup chosen corresponds to equation (2); however, in addition to the interaction of interest  $Treatment_i \times Advertising_j$ , we include a further variable representing the interaction between the intensity of advertising and distance to West Germany:  $Distance_i \times Advertising_j$ .<sup>39</sup>

The results in column 1 show that the main coefficient of interest is entirely unaffected by the inclusion of the distance measure. This makes us confident that the estimated effects stem, in fact, from differential access to West German broadcasts before 1990 and not merely from distance to West German markets.

An alternative way to assess the potentially confounding effect of distance is to run placebo regressions restricting our sample to the treatment region only, where a Western TV signal was available before 1990. If distance, and not access to Western TV, explained the difference of consumption patterns, this effect should also be visible when considering the variation within the treatment region only, that is, among

<sup>39</sup> We also reproduce tables 5 and 6 (i.e., the regressions relating to aggregate consumption behavior from section IVB) adding our distance to West Germany variable, and the coefficient of interest (on the treatment indicator) always continues to be insignificant. Results are available from the authors on request.

households with access to Western TV throughout. Here we use interaction of distance to West Germany with advertising time as the explanatory variable of interest. As shown in column 2 of table 11, distance to West Germany does not explain the differences in consumption choices within the region with access to Western broadcasts.

## V. Conclusion

We study the impact of long-term exposure to Western television on consumption behavior, exploiting a setting with plausibly exogenous variation of the explanatory variable: differential access to Western television in the former East Germany, a variation that was mainly determined by geographic features.

While our data do not support the hypothesis that Western television shifts aggregate consumption patterns (total private consumption, savings), we provide evidence consistent with Western television affecting the composition of consumption through advertising. Expenditures on categories of goods with higher shares of advertising time on prereunification Western television were, after 1990, higher in the areas reached by Western broadcasts. Our unique setting allows for a well-identified analysis of the causal impact of long-term exposure to advertising on consumption behavior, since the East Germans who could watch West German broadcasts were not the targeted audience of the advertising.

Our findings also suggest that television advertising changes consumption patterns in a way that is more than just to induce individuals to switch across brands of the same good. Advertising may induce a recomposition of consumption across broad categories of goods, depending on the amount of advertising for each category.

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