Political Selection and Economic Policy*

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Abstract

Does political selection matter for policy in representative governments? I use administrative data on local politicians in Finland and exploit exogenous variation generated by close elections to show that electing more high-income, incumbent, and competent politicians (who earn more than observably similar politicians) improves fiscal sustainability outcomes but does not decrease the size of the public sector. I also provide suggestive evidence that electing more university-educated local councillors leads to more public spending without adverse effects on fiscal sustainability. I reconcile these findings with survey data on candidate ideology and demonstrate that different qualities are differentially associated with economic ideology.

Keywords: close elections, economic ideology, fiscal policy, local government, political selection, quality of politicians. *JEL:* D72, H11, H72.

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1 Introduction

Much research and advocacy focuses on getting capable people in political office under the premise that electing politicians with certain characteristics improves the quality of government. Voters' perceptions of candidate quality are also a key determinant of their choices at the polling booth (Stokes 1963; Mondak 1995). However, we have an imperfect understanding of whether, and if so how, the quality of elected representatives affects government performance (Dal Bó and Finan 2018).

What further complicates the relationship between politician quality and policies is that the traits that both researchers and voters frequently use as markers of politician quality can be linked to the ideologies of politicians for two reasons: What is often considered "quality" could correlate with other characteristics (such as social status) that shape politicians' views, and more able candidates might also enjoy an electoral advantage over others that enables them to take distinct policy positions (Serra 2010; Bernhardt et al. 2011). Can we have capable and ideological representatives who make better decisions? Or do voters need to compromise on ideology to have better policies?[1]

This paper takes steps towards answering these questions using local governments in Finland as a test bed. In the first part of the paper, I focus on the impact of political selection on two types of economic policy outcomes that are salient to citizens and directly under the control of politicians, that can be influenced by both politician ideology and politician characteristics, and between which there is a potential trade-off: the sustainability of public finances and the magnitude of government spending. To understand how economic policy is shaped by political selection, I combine data on local public finances with detailed administrative registry data on electoral candidates. These data allow me to approximate politician quality rigorously with measures of human capital and political experience that are expected to correlate with ability to make sound decisions.

[1] Ideology is often a centerpiece of criticism when governments are accused of overspending that derails public finances from a fiscally sustainable path, or austerity measures that hurt vulnerable groups in society. Voters care about ideology (Downs 1957), although they may be willing to accept ideological differences if a candidate possesses other desirable traits. This is illustrated in a quote from Leon Jaworski, the chief investigator of the Watergate scandal. He started chairing a "Democrats for Reagan" committee supporting the election of Ronald Reagan for president of the United States. When the press confronted Jaworski about his support for a conservative Republican candidate, he argued that he "would rather have a competent extremist than an incompetent moderate" (*Washington Post*, September 30, 1980).

My results indicate that electing more high-income politicians, re-elected incumbents, and competent politicians—defined based on residuals from a Mincer-type income regression following Besley et al. (2017)—in local councils improves fiscal sustainability outcomes without undermining the public goods and services provision. I also report tentative evidence that an increase in university-educated politicians' representation leads to an increase in the size of the public sector. Nevertheless, there do not seem to be any negative impacts on fiscal health.

The fiscal sustainability measures that I consider capture municipalities' economic balance and capability of sustaining the current size of the government, and thus they are informative about one aspect of government effectiveness. The metrics are monitored by the central government, and they are used as a basis for so-called crisis municipality criteria.[2] Failing to satisfy the criteria can lead to costly fiscal adjustment, such as forced austerity measures like spending cuts, a shutdown of public services, or a municipal merger. Moreover, a virtue that is commonly viewed as a goal of democratic government is policy responsiveness, i.e., government policies responding to the preferences of citizens. A larger public sector would reflect good performance if it is preferred by citizens with more left-wing policy preferences, whereas conservatives might view fiscal prudence as successful economic policy.[3]

A key empirical challenge is identifying the effects independently of voters' preferences and other unobservable traits that may correlate with both political selection and economic policies. I use the identification strategy developed by Hyytinen et al. (2018a) to deal with this and other potential endogeneity concerns. The identification strategy hinges on close electoral races between different types of candidates that take place *within political parties* as a source of exogenous variation. Such close elections stem from the open-list proportional representation system that Finland uses. They allow me to construct an instrumental variable that measures how many politicians with a particular trait were elected, or not elected, by chance in close elections. Given that the identification strategy is based on the election of marginal candidates in each party, my estimates (i) are not confounded by potential partisan effects, and (ii) are likely to provide a lower bound for the true effects.

[2]In particular, I examine six variables that the central government monitors: net result, debt, relative indebtedness, deficit, solvency ratio, and income tax rate of the municipalities. I also construct a summary index of fiscal sustainability based on the crisis municipality criteria used by the Ministry of Finance.

[3]Throughout the paper, I use the terms conservative and right-wing, and liberal and left-wing interchangeably.

The first set of my findings adds to the empirical work inspired by citizen-candidate models (Osborne and Slivinski 1996; Besley and Coate 1997). Empiricists have shown, to mention some examples, that political partisanship (Ferreira and Gyourko 2009; de Benedictis-Kessner and Warshaw 2016), female politicians (Chattopadhyay and Duflo 2004; Clots-Figueras 2012), minority representation (Pande 2003), and politicians' occupational background (Hyytinen et al. 2018a; Kirkland 2021) and their social class (O'Grady 2019; Kirkland 2020) matter for a range of policy outcomes.

However, only a handful of studies shed light on how the quality of politicians influences policy. Earlier work has assessed the role of political leaders' education (Besley et al. 2011; Carnes and Lupu 2016; Martinez-Bravo 2017), experience in politics (Freier and Thomasius 2016), and managerial competence (Carreri 2021). My study complements this research in three ways. First, I offer new findings on the effects of valence characteristics—traits that voters might universally value—on policy.[4] Second, I provide direct evidence that the composition of representative governments matters, whereas the existing studies have concentrated on the quality of chief executives. This is an advancement in terms of external validity: political decision-making is oftentimes carried out by legislatures consisting of several members, but prior analyses of such contexts have been non-existent. Third, my study jointly analyses multiple traits that are predominant proxies for politician quality in the political selection literature.

Studying several characteristics in a unified setting reveals that different qualities—that all aim at measuring politicians' decision-making ability—have differential effects on economic policies. To reconcile this finding, I use unique survey data on municipal election candidates' policy positions to quantify associations between politician quality and economic ideology.[5] These data reveal that local election candidates with a university degree have a more left-wing ideology than less educated candidates, whereas candidates with a higher income and political experience are more fiscally conservative than their counterparts. The correlation between ideology and competence is

[4]Political scientists frequently employ incumbency as a measure of valence. Furthermore, the competence measure that I use captures an individual earnings capacity but is orthogonal to characteristics such as gender, age, sector of employment, and having higher education. Besley et al. (2017) argue that it is thus a reasonable candidate for a measure of valence (see also Dal Bó et al. 2018).

[5]It is well known that politicians' behaviour in office is often guided by their ideology (Entman 1983; Barrett and Cook 1991). But much of what we know about the correlates of politicians' policy positions comes from analyses of legislative voting records. Instead of relying on voting behaviour, I am able to combine the administrative data with survey data on candidates' stated policy preferences. These data are not limited to elected politicians. This is crucial, as party discipline can constrain the vote choices of elected representatives at least on certain issues (Snyder and Groseclose 2000; Ansolabehere et al. 2001b).

very similar to that between ideology and income, even though the competence measure only captures that part of income that is unrelated to the observable characteristics of the candidates.

Based on the overall findings of this paper, one may thus conjecture that ideology does not necessarily trump quality. Electing more politicians with traits that are correlated with decision-making ability leads to fiscally responsible policies that are in line with their economic ideology. A bad liberal might merely care about the size of the public sector without paying attention to fiscal sustainability. A bad conservative, on the other hand, might only care about having as little public debt and budget deficit as possible. To achieve this goal, they might be willing to take public spending to the bare minimum, which could hurt at least some citizens.

The remainder of the paper proceeds is organised follows. Section 2 introduces the institutional context, and Section 3 describes the data employed in this study. Section 4 explains the instrumental variables strategy used to identify the policy effects, and presents the empirical findings. Section 5 explores the correlation between candidate quality and economic ideology. Finally, Section 6 concludes the study.

2 Institutional Setting

In this section, I provide an overview of the tasks of Finnish local governments. Moreover, I describe the local political landscape, as well as the election system.

2.1 Local Public Sector in Finland

Local governments have an important role in the Finnish system. On average, they spent about $5,600$ euros per capita per year during the period of my data ($1997-2012$). Overall, local public expenditures constitute around 20% of the Finnish GDP. The majority of local expenditures is used to take care of statutory responsibilities, the most important of which are social and health care, and primary education. The municipalities are a major employer in Finland: they employ roughly one fifth of the Finnish labour force. Municipalities are allowed to collect income and property taxes, and out-of-pocket payments from the users of municipal services to cover their expenditures. In addition, they receive a share of corporate taxes and fiscal grants from the central government. The most important revenue source is

the local income tax with an average rate of 18.7%. Local income taxes account for more than 40% of the local government revenue, on average.

To maintain financial and fiscal discipline, the Ministry of Finance monitors net result, debt, relative indebtedness, deficit, solvency ratio, and the income tax rate of the municipalities. In the year 2004, the ministry defined criteria based on these variables that the municipalities must satisfy. Local governments that do not satisfy the criteria become so-called crisis municipalities that are required to take actions to balance their economy.[6] If they fail to do so, they can lose their fiscal autonomy and face costly fiscal adjustment programs. I will return to the exact criteria in Section 3.1 when discussing the choice of dependent variables.

2.2 Politics in Finnish Municipalities

The municipalities are led by local councils in which the decisions are taken by a simple majority of the council members. The number of council seats is a step-wise function of the population, and it varies between 13 and 85. A median council has 27 seats. The council appoints a municipal executive board to prepare decision-making. It can set up committees to deal with different functions such as social and health services, education or urban planning. Seats in these organs are divided proportionally between the parties following the election result, and typically every elected councillor is assigned to at least one committee. Thus, elected politicians have several channels to influence policy-making.

Finnish local politicians are leisure politicians. Being a member of the local council is not a paid full-time job and thus, the councillors keep their every-day job alongside their political tasks. Every member receives compensation for participating in the council meetings, and the council and board chairmen also receive an annual compensation.[7] The economic returns to political office at the local level are relatively low, around a thousand euros annually (Kotakorpi et al. 2017). Thus, candidacy in elections is hardly motivated by money. A survey by Finnish political scientists suggests that the most important reason to

[6]The central government occasionally grants discretionary fiscal transfers to local governments that are experiencing a local economic recession or that have other temporary hardships. Municipalities that require additional funding must apply for it and provide a detailed justification for the need alongside with a plan for balancing the local economy in longer run. Typically, the government does not grant a municipality additional funds several years in a row. This limits the possibility of relying on soft budget constraints.

[7]The position of a board chairman is considered to be the most important position in local politics. It is roughly comparable to the position of a mayor in many other political systems.

run for local public office is the willingness to help the local community (Kestilä-Kekkonen et al. 2018).

Municipal elections are organised every fourth year, and a new local council starts its tenure at the beginning of January. The electoral system uses proportional representation with open lists. This means that a voter casts her ballot for an individual candidate and not directly for a party. The seats in the council are shared using the D'Hondt method. Therefore, the seat allocation between political parties depends on the vote shares of all parties, and the seat allocation within the parties depends on the vote shares of individual candidates in the party vote.

The municipal elections held between 1996 and 2012 were dominated by three large parties from the political left, center, and right: the Social Democratic Party, the Center Party, and the National Coalition Party, respectively. Other parties that hold seats in both municipal councils and the National Parliament are the Left Alliance, Green Party, True Finns, Swedish People's Party, and Christian Democrats. There are several smaller parties, and many municipalities have local, often independent or one-agenda political groups.

3 Data and Measurement

To explore the effects of politician quality on policy outcomes, I construct an extensive data set that combines aggregate data on local governments with detailed administrative registry data on the full Finnish population. This section describes these data and discusses measurement issues.

3.1 Aggregate-Level Data and Outcomes of Interest

I combine the micro data on politicians with finances and demographics of the municipalities to study how politician quality affects economic policies. These data span the years 1997–2012, and they were obtained from Statistics Finland. I average the variables over electoral terms, and the aggregate-level data set contains $1,544$ municipality-council term observations in total. Altogether, the data contain information from 436 municipalities.[8] Online Appendix A reports descriptive statistics.

[8]The number of municipalities varies slightly over time in particular due to municipal mergers. Some of the outcome variables are not observed for all municipalities. Information on debt and relative indebtedness is available from the year 1998 onwards, and data on solvency ratios and accumulated deficit start from the

Dependent Variables. This paper focuses on two types of economic policies that are directly under the control of local governments. These are the size of local public sector as measured by expenditures per capita, and a set of fiscal sustainability outcomes.[9] Better government performance in this context is understood as increased public goods and services provision—which is arguably important and valuable at least to some citizens—without causing economic distress, or improved financial conditions without a reduction in public expenditures. On the contrary, worse performance either involves a trade-off between public spending and fiscal sustainability, or both cutting down the public sector and doing worse in terms of financial stability.

So-called crisis municipality criteria provide a natural way of measuring the fiscal sustainability of the municipal finances. The central government monitors the net result, debt, relative indebtedness (the share of operational revenues of a municipality that would be needed to pay back outside capital), deficit, solvency ratio (the share of own capital of all capital), and the income tax rate of the municipal balance sheets. I study these variables for the whole time span of my data. Moreover, I construct a fiscal sustainability index (FSI) for the period starting from 2005 to capture the economic performance of the municipalities with a single measure. A municipality that fulfills the following six criteria becomes a crisis municipality: (i) the net result is negative; (ii) debt per capita exceeds the national average by more than 50%; (iii) the local government has a budget deficit; (iv) the municipal income tax rate is 0.5 percentage points higher than the national average; (v) the solvency ratio of the municipality is less than 50%; and (vi) the relative indebtedness is at least 50%. FSI measures how many of the crisis municipality criteria a municipality *does not* satisfy. Thus, a higher value of the index indicates better fiscal health.[10] This index is negatively correlated with the size of the municipal budget, which further suggests that there is a trade-off between these two variables, on average.[11]

It is plausible that being classified as a crisis municipality has welfare consequences, given that crisis municipalities can lose their fiscal autonomy and face mandatory spending

year 2000. Two municipalities with errors in the electoral results data are omitted from the analysis. I also exclude 33 observations for municipalities that have merged during the four-year electoral term.

[9] La Porta et al. (1999) also use size of government as one measure of government quality.

[10] Most municipalities satisfy at least one criterion, and the average number of criteria satisfied is 1.3. It is somewhat rare that a municipality would be classified as a crisis municipality. I show the full distribution of the FSI in Online Appendix A. Due to their nature, the fiscal sustainability outcomes are very salient to Finnish voters.

[11] The pairwise correlation between the fiscal sustainability index and the logarithm of per capita expenditures is around -0.13 ($p < 0.01$).

cuts, or they can be forced to a municipal merger. Kestilä and Rantsila in Northern Finland are two typical examples of local jurisdictions that the Ministry of Finance classified as crisis municipalities in the year 2006. They had to close down elementary schools, privatize public services, and reduce the number of public employees to improve fiscal sustainability. Despite their efforts, they ended up merging with two neighbouring municipalities three years later, as they could not guarantee the delivery of public services otherwise. According to the Finnish Association of Local Authorities, more than half of the crisis municipalities (26 out of 47) had the same fate between the years 2006 and 2017. While the central government can force crisis municipalities to a municipal merger, all the mergers so far have been voluntary. Local government mergers are typically viewed as the last resort. A survey conducted in 2004 found that 43% of the Finns were against municipal mergers, and 29% supported them (Pekola-Sjöblom et al. 2006). One potential reason is that they can have a considerable impact on the spatial distribution of local public services within a merger, as shown by Harjunen et al. (2021).

To further illustrate that the dependent variables capture something meaningful in terms of politician performance and citizen welfare, I correlate them with incumbent vote shares (a measure of voter satisfaction with the incumbent politicians) and survey-based measures of citizen satisfaction with their home municipality. The correlations are positive.

3.2 Candidate Information

I use data on the candidates and electoral results from five elections held between 1996 and 2012. These data come from the Ministry of Justice, and they include electoral candidate information, such as candidates' party affiliation, number of votes, previous political experience and election status. In total, the data cover almost $200,000$ candidate-election year observations, out of which over $100,000$ are unique individuals.

I merge the election data with administrative registry data on the full population to measure candidate quality. These data are obtained from Statistics Finland. They span 1988–2015 and include information on educational attainment, labour market and demographic characteristics. Online Appendix A provides summary statistics on the candidate data.

3.3 Measurement of Politician Quality

The administrative registries allow me to use various *proxies* of politician ability that are predominant in the literature. Broadly speaking, these are metrics of human capital and political experience that aim at capturing cognitive and non-cognitive abilities that translate into ability to make sound decisions—what I consider politician quality in this paper—although they may also correlate with other traits.

First, I measure politician quality with variables related to human capital: politicians' pre-office income and their educational attainment.[12] A higher income might reflect higher innate ability which could also be in useful in the political arena. For evidence that income correlates with cognitive and non-cognitive ability in the Finnish context, see Jokela et al. (2017). Similarly, people with more education have more human capital. They also tend to be more engaged in civic life (Besley and Reynal-Querol 2011; Dee 2004; Milligan et al. 2004), which potentially makes them better politicians. But while income and educational attainment of politicians may capture expertise that is relevant in politics at least to some extent, they are likely to be influenced by social background (Murray 1995; Carnes and Lupu 2016). A university degree as well as a high income may be qualities that some voters dislike (Campbell and Cowley 2014a,b). Therefore, these qualities are imperfect measures of valence typically understood as characteristics that voters value regardless of ideology (Stokes 1963).

Second, I use information on candidates' prior political experience to measure their quality. Incumbency is a typical measure of candidate quality in the political science literature on valence politics (Jacobson 1989; Groseclose 2001; Ansolabehere et al. 2001a; Burden 2004). Previous experience in a political office could tell us something about candidates' public service motivation. Moreover, politicians who have served before may have accumulated "political human capital", i.e., diverse skills that are useful in politics.[13] However, a commonly expressed concern is that political longevity could also be related to undesirable phenomena such as corruption (Besley and Prat, 2006), which limits the appeal of considering incumbency as a valence trait.

[12] This is the approach that researchers in political economics have used traditionally. See, for instance, Ferraz and Finan (2009), Kotakorpi and Poutvaara (2011), Galasso and Nannicini (2011), Besley et al. (2011), Gagliarducci and Nannicini (2013), Baltrunaite et al. (2014), and Beath et al. (2016).

[13] See also Meriläinen and Tukiainen (2021) for evidence supporting this interpretation. They present empirical evidence from Finnish municipalities that political parties benefit in coalitional bargaining from having more incumbent representatives, and that past political experience has a positive causal effect on promotion to important political positions in the future.

Third and finally, I follow the approach suggested by Besley et al. (2017).[14] They point out that an ideal measure of competence as a valence characteristic should capture policy-making ability *independently* of social background and other characteristics. As an attempt to measure politician quality in such a way, I define a competent politician as one who has a higher income than another individual with many similar background characteristics. To construct the competence measure, I use the administrative registries covering the full population and estimate fully saturated Mincer-type regressions of the form

$$income_{it} = f(age_{it}, sector_{it}, education_{it}) + \lambda_m + \nu_{it}. \quad (1)$$

Here $income_{it}$ is the disposable income of an individual i in year t. age_{it} are age cohort dummies (by five-year intervals), $sector_{it}$ are fifteen dummies for the sector of employment, and $education_{it}$ is a dummy for having at least two years of tertiary education. I include a full set of interactions of these variables, denoted by $f(\cdot)$, and municipality fixed effects λ_m to capture systematic geographical differences in income. I estimate the Mincer equation for each annual cross section in the data separately for four different groups, working-age (under 63-year-old) and retired (63 years old or older) men and women, to avoid confounding the results with labour market behaviour stemming from gender norms or retirement.[15] From each regression, I save the residuals ν_{it} for each politician, average them over time to reduce the idiosyncratic variation, and finally use the average residuals as a measure of competence. This competence measure is an attractive way of measuring candidate valence as it is likely to capture characteristics such as intelligence, bargaining skills and other similar, politically valuable attributes—though the exact composition of the metric is unclear. In the Swedish context, Besley et al. (2017) validate the measure by showing that it is related to the political success of candidates and the policy success of elected competent politicians. They also document a strong positive relationship between the measure and scores from military IQ and leadership tests.

Nonetheless, the measure is not entirely immune to the critique that concerns university education and income. It could still be associated with factors that do not measure "quality" per se, such as networks or family background. A particular caveat in the continuous

[14] See also Galasso and Nannicini (2017) who use a conceptually similar measure to gauge politician competence.

[15] I use the most recent sector of employment for the retired. I omit all full-time politicians and top bureaucrats beginning from the year in which they obtain such a position to alleviate endogeneity concerns, and to avoid the competence measure being driven by political careers.

residual ability measure is that income could have a different variance within the age-education-sector cells. As Besley et al. (2017) note, this variance could be correlated with levels of income. If that is the case, using the raw residual ability would effectively reflect the level of income, which we wish to avoid. Thus, the analysis in this paper uses a binary competence measure that gets the value of 1 if the residual of a politician exceeds that of the median in his or her party, and 0 otherwise. Defining the binary measure within the parties alleviates the concern that social background is not fully captured by the income residuals, given that different political parties attract candidates from different social backgrounds.

The binary measure of competence also facilitates the instrumental variables approach that I follow to causally identify the effects of council composition. Similarly, I use the following binary indicators of quality: having a university education (at least a bachelor's degree), a high income (an income above the election year median), or being an incumbent.[16] The pairwise correlations between different quality measures are not perfect which further illustrates that they may capture different dimensions of quality. The correlations of university education with high income, incumbency, and competence are 0.28, 0.03, and 0.07, respectively. The correlation between incumbency and high income is 0.16, and between competence and high income it is 0.28. Finally, the correlation between competence and incumbency is 0.13.

With these caveats in mind, the subsequent text refers to politicians with a particular trait as high-quality politicians, and to politicians without the trait as low-quality politicians. This terminology reflects the binary classification that I follow in the paper. I stress that I do not take any normative stance on what is the best way of measuring politician quality. Given the considerations above, we may speculate that different characteristics that researchers typically consider "quality" can play different roles in politics and have differential impacts on policy outcomes. Furthermore, it is possible that different voters value different characteristics.

Quality and Political Success. Table 1 provides motivating evidence that the quality measures capture something meaningful in politics. I show that the quality measures are positively associated with two crucial metrics of personal performance in the political

[16]The average disposable income of a high-income candidate is about 34,400 euros in the estimation sample (in 2015 values), whereas the average low-income candidate earns 15,100 euros. The difference is slightly smaller between competent and non-competent candidates. They earn, on average, 30,800 and 19,300 euros, respectively.

arena: electoral success (getting elected and personal vote shares) and political promotions.

According to the regression results, university-educated candidates get 0.24 percentage points larger vote shares than the less educated candidates when controlling for party and municipality fixed effects. The same quality premium is 0.36 for high-income candidates, 1.16 for incumbents, and 0.32 for competent candidates. These increases in vote shares are large enough to have a positive impact on election. University-educated politicians are about 11% more likely to become elected than candidates without university education. A high income is associated with an increase of 17% in the likelihood of getting elected, whereas incumbents are as much as 60% more likely to get elected than non-incumbents. Finally, competent candidates are 15% more likely to get elected than non-competent candidates.

Politician quality also matters for promotion to important political positions in Finnish municipalities. University-educated, high-income, and competent politicians are about $2-3\%$ more likely to become chairmen of municipal boards or councils than their counterparts.

Table 1. Relationship between quality and political success.

	Elected		Vote share		Board chair		Council chair	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: University education and political success								
University education	0.071***	0.109***	0.011	0.237***	0.010***	0.016***	0.018***	0.025***
	[0.008]	[0.004]	[0.031]	[0.014]	[0.002]	[0.002]	[0.003]	[0.003]
N	196058	196055	196058	196055	47421	47421	46830	46830
R^2	0.01	0.08	0.01	0.37	0.00	0.01	0.00	0.02
Panel B: Income and political success								
High income	0.159***	0.168***	0.271***	0.362***	0.025***	0.029***	0.028***	0.032***
	[0.004]	[0.004]	[0.016]	[0.014]	[0.002]	[0.002]	[0.002]	[0.002]
N	195953	195950	195953	195950	47396	47396	46808	46808
R^2	0.03	0.10	0.02	0.39	0.01	0.02	0.01	0.02
Panel C: Incumbency and political success								
Incumbent	0.632***	0.604***	1.377***	1.164***	0.090***	0.090***	0.097***	0.097***
	[0.006]	[0.005]	[0.024]	[0.020]	[0.002]	[0.002]	[0.002]	[0.002]
N	198387	198384	198387	198384	48058	48058	47508	47508
R^2	0.33	0.35	0.23	0.50	0.06	0.06	0.06	0.07
Panel D: Competence and political success								
Competent	0.144***	0.146***	0.286***	0.309***	0.024***	0.025***	0.028***	0.029***
	[0.003]	[0.003]	[0.012]	[0.011]	[0.002]	[0.002]	[0.002]	[0.002]
N	192712	192710	192712	192710	47265	47265	46670	46670
R^2	0.03	0.09	0.02	0.38	0.00	0.01	0.01	0.02
Mean of dependent variable	0.29	0.29	0.97	0.97	0.03	0.03	0.03	0.03
SD of dependent variable	0.45	0.45	1.20	1.20	0.17	0.17	0.17	0.17
Year FE	✓	✓	✓	✓	✓	✓	✓	✓
Party and municipality FE		✓		✓		✓		✓

Notes: The dependent variable is an indicator for getting elected in columns (1) and (2), (within-municipality) vote share in columns (3) and (4), an indicator for being promoted to board chairmanship in columns (5) and (6), and indicator for being promoted to council chairmanship in columns (7) and (8). Estimations using board or council chairmanship as the outcome only use sample of elected candidates in the parties that obtain these positions. Standard errors clustered at the municipality level are reported in brackets. ***, ** and * denote statistical significance at 1%, 5% and 10% level, respectively.

4 Effects of Political Selection on Economic Policies

Can an individual councillor make a difference in a representative government, in particular if he or she possesses a trait that may reflect better decision-making ability? Voting is an imminent channel through which high-quality politicians could have an impact on policy outcomes (Entman 1983; Barrett and Cook 1991). An individual politician can also influence policies through intra-party bargaining or simply by convincing other decision-makers about their ideas (Laver and Shepsle 1990; Lijphart

1999; Hyytinen et al. 2018a). Exactly how the quality composition of a representative government maps into policies is an empirical question that I explore in this section.

4.1 Identification Strategy

Assume that we are interested in the relationship between a fiscal policy outcome y_{mt} and the seat share of competent politicians, $Competent_{mt}$. We want to estimate a regression function of the form

$$y_{mt} = \beta Competent_{mt} + \mathbf{X'_{mt}}\gamma + \mu_{mt}, \tag{2}$$

where $\mathbf{X'_{mt}}$ is a vector of (potentially lagged) control variables for municipality m at time t, and μ_{mt} is the error term. A simple OLS estimation of equation (2) would potentially yield a biased estimate of β, the impact of increasing competent politicians' seat share by one percentage point on the outcome. The OLS estimates could be vulnerable to an omitted variable bias due to unobserved voter preferences, or they might suffer from reverse causality due to the underlying economic conditions leading to the demand and supply of a particular kind of politicians.

To overcome these problems, I exploit *within-party* close elections that involve two types of politicians to construct an instrumental variable for seat shares following Hyytinen et al. (2018a).[17] These close elections stem from the open-list system used in Finland. The instrumental variables capture the deviation of each type's seat share from their expected seat share in close elections. The instrumental variables are constructed in three steps. I also illustrate the construction of the instrumental variable with a hypothetical example in Online Appendix B.

Step 1. The first step is to define candidates who are involved in close elections where the electoral outcomes are as good as random. For each party list, I define a cut-off value as the average of the within-party vote shares of the last elected and the first non-elected candidate. Each candidate's distance from election is then the difference between her within-party vote share and the cut-off value. Candidates whose distance from election lies within bandwidth ε are involved in the close races. Note that closeness can be defined only for party lists that elect at least one candidate and have at least one non-elected candidate.

[17] See also Clots-Figueras (2011) and Clots-Figueras (2012) for other examples of a similar empirical strategy.

I use bandwidth $\varepsilon = 0.2$ for most of the results presented in the main text, but I will explore robustness to using alternative definitions of closeness. While the choice of bandwidth is somewhat *ad hoc*, there are some practical reasons behind it. Using too wide a bandwidth would cause covariate imbalances, but there must also be enough variation to ensure that the IV approach works. In practice, the elections within the bandwidth $\varepsilon = 0.2$ are very close. Given that ε is expressed in percentages, $\varepsilon = 0.2$ means 2 votes out of $1,000$. The elections within this bandwidth cover about 5% of all candidates running for election. Roughly half of them are either ties resolved by a lottery or cases where the vote difference between the last elected and the first non-elected candidate is merely one vote.[18] More than 70% of the candidates involved in these close elections are within a bandwidth of five votes.

The construction of the individual-level closeness measure already suggests that the approach has a flavour of a regression discontinuity design. However, there is no well-defined running variable at the municipality level, as close elections can happen within multiple parties at the same time. It is not obvious how to treat this in a regression discontinuity design set-up. An extreme case would be a situation in which one high-quality politician gets barely elected in one party and another high-quality politician barely non-elected in another party, and both of them are within a similar margin from election.

Step 2. In the second step, I calculate the difference between the realised and the expected outcome of the close races within each party list. This yields a number for how many more high-quality politicians are elected, by chance, from the close races than we would expect. These close races can involve more than two candidates, of which any number can be high-quality ones. We can think of the situation as a simple "urn problem": Candidates from a group with two types of politicians (low and high quality) are (quasi-)randomly designated election status. As the election status of any candidate can be determined only once, the expectation comes from a hyper-geometric distribution.

Formally, the difference between the realised and the expected outcome (for each party p in municipality m at election t) is given by equation

$$Z_{pmt} = \sum_{i}^{N_{pmt}} C_{ipmt} E_{ipmt} D_{ipm} - \frac{\sum_{i}^{N_{pmt}} C_{ipmt} D_{ipm}}{\sum_{i}^{N_{pmt}} C_{ipmt}} \sum_{i}^{N_{pmt}} C_{ipmt} E_{ipmt}. \tag{3}$$

[18] See Hyytinen et al. (2018b) for details on the lottery procedure.

Here C_{ipmt}, E_{ipmt} and D_{ipm} are dummies for a politician i being close, getting elected, and being a high-quality politician, respectively. N_{pmt} is the number of candidates. The first term expresses the number of good candidates elected in close elections, and the second term is the expected number of such candidates. If the difference is positive, then more high-quality politicians got elected for a party than we would have expected, and vice versa.

Importantly, basing the identification on close elections that happen within parties ensures that the estimation results are not confounded by potential partisan effects on policies.[19] The contribution of each party to the final value of the instrument reflects only the fact that the party elected more or less high-quality politicians than would have been expected—not that the seat share of the party would have changed in any direction.

In total, I exploit data from $9,694$ party lists. Around 27% of them have close elections for the bandwidth $\varepsilon = 0.2$. Close elections happen within all parties, but they are more common in large parties—the Social Democratic Party, the Center Party, and the National Coalition Party. I illustrate this graphically in Online Appendix B where I show the distributions of the party-level contributions to the instrument.

Step 3. In the third and final step, the random variation at party-list level is aggregated across parties to construct a municipality-level instrumental variable. I divide the resulting sum by council size S_{mt} (and multiply it by 100) in order to express the instrument in terms of seat share. Therefore, the instrument—the unexpected change in council composition—is defined by equation

$$Z_{mt} = \frac{100}{S_{mt}} \sum_{p}^{M_{mt}} Z_{pmt}, \tag{4}$$

where M_{mt} is the number of political parties.

Is the Variation As Good As Random? To summarize, the instrument Z_{mt} measures the extent to which the seat share of high-quality politicians exceeds ($Z_{mt} > 0$) or falls short of ($Z_{mt} < 0$) their expected seat share due to randomness in the outcomes of close elections.

[19] Close elections regularly happen between political parties, but using these for identification would be problematic if politician quality is associated with party choice. For example, high-income politicians could be sorted into right-wing parties. Then, the effects that I estimate would be confounded by party effects, which I wish to avoid. This provides a rationale for not focusing on between-party close elections (between high- and low-quality candidates).

The instrument ought to be uncorrelated with the error term μ_{mt}. But how credible is this assumption?

In Panel A of Figure 1, I report balance tests for the lagged dependent variables using the main bandwidth ($\varepsilon = 0.2$). I divide the data into two groups based on the seat share exceeding or falling short of its expected value in close elections, and test for differences between means using a t-test adjusted for clustering at the municipality level.[20] The p-values are more or less uniformly distributed. Although one out of 32 pretreatment balance tests indicates a statistically significant difference with $p < 0.05$ and one with $p < 0.10$, these imbalances are not robustly present when I use different definitions of election closeness (see Online Appendix C). Thus, there should not be any reason to suspect that the (quasi-)randomisation fails.[21]

As a second validity check, I look at the council characteristics for the current election term (Panel B of Figure 1). If two politicians of different quality tie in votes, some other characteristic could make the candidates equal in the eyes of the voters. If this is the case, increasing, for example, the seat share of competent politicians might systematically increase or decrease the seat share of some other type of politicians. Imbalances in the posttreatment council characteristics are neither a sign of failed randomisation, nor a threat to the internal validity of the results, but they could make it harder to cleanly identify the effect of higher-quality politicians.

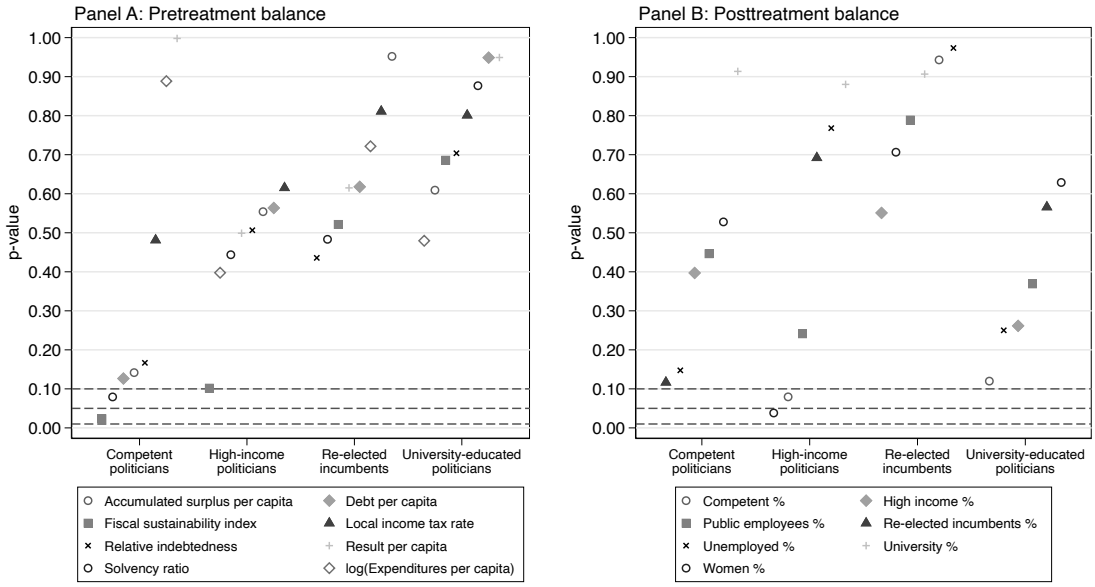
It is comforting that various council characteristics are well balanced with merely two exceptions, although there could be unbalances in other, potentially unobservable characteristics. Municipalities with a positive instrument value for high-income politicians seem to have more competent politicians. This should not be a problem, as the relationship is driven by the way in which the competence measure is constructed. Such municipalities also have slightly fewer women in the local council, and this difference is statistically significant at the 5% level. One way of solving this problem is to incorporate

[20] This approximately corresponds to splitting the sample by the median value of the instrumental variable (after excluding zeros), as the distributions of the instrumental variables are symmetric around zero (see Online Appendix B). The symmetric distribution of the instrument also suggests that there is no manipulation in close elections. Most of the variation is centered around cases in which one candidate gets or does not get elected by chance. Part of the variation in the instrumental variable reflects variation in council size, although close elections are more common in median-sized municipalities with 21-35 local councillors. Roughly half of the observations in my data have a non-zero instrument value for university-educated politicians. Around two thirds of the municipalities have a non-zero instrument value for high-income politicians, re-elected incumbents, or competent politicians.

[21] Overall, the evidence echoes earlier arguments that close elections provide a credible source of causal identification in the Finnish context; see Hyytinen et al. (2018a,b) and De Magalhães et al. (2020).

both high-income and female politicians' seat shares in the analysis and instrument them accordingly. Doing so barely affects the results (see Online Appendix C). This suggests that the findings are not confounded by local councillors' gender.

Online Appendix C reports further details on the balance tests shown here as well as additional pre- and posttreatment balance tests. These tests demonstrate that the lagged demographic and political characteristics of the local governments, as well as the current term seat shares of political parties, are balanced. The latter notion is very reasonable, as I only exploit close elections *within* and not *between* political parties.



Notes: The figure reports p-values from testing for the difference between means of municipalities with a negative and a positive instrument value. The differences between means are tested using a t-test adjusted for clustering at the municipality level.

Figure 1. Pre- and posttreatment balance.

First Stage. Table 2 indicates that I have a valid and strong first stage. I estimate two different specifications. The first specification only controls for year fixed effects. The second specification adds control variables to further improve the precision. These control variables include region dummies, lagged population characteristics (population, squared population, and shares of young and old inhabitants), lagged party seat shares, and a second-order polynomial of each respective group's vote share. If my instrument is as-good-as random, including any control variables in the regression model should only

reduce the residual variance. This appears to be the case. The point estimates are of a sensible magnitude as well.

Increasing the instrument value—i.e., deviation of high-quality politicians' seat share from their expected seat share—in close elections by one percentage point increases their actual seat share by approximately one percentage point.[22] This is perhaps not surprising, as the resulting instrument is monotonic in the sense that an increase in the instrument deterministically increases the value of the endogenous variable.

Table 2. First-stage estimates.

	University educated %		High income %		Re-elected incumbent %		Competent %	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Unexpected change in council composition	1.077***	0.921***	0.974***	0.975***	1.017***	1.032***	1.019***	0.887***
	[0.220]	[0.068]	[0.167]	[0.068]	[0.137]	[0.082]	[0.149]	[0.074]
N	1544	1544	1544	1544	1544	1544	1544	1544
N of clusters	436	436	436	436	436	436	436	436
R^2	0.06	0.90	0.02	0.85	0.04	0.64	0.04	0.80
Year FE	✓	✓	✓	✓	✓	✓	✓	✓
Controls		✓		✓		✓		✓

Notes: Controls include region dummies, lagged demographic characteristics (population and squared population and shares of young and old inhabitants), lagged party seat shares, and a quadratic polynomial of each respective group's vote share. Standard errors clustered at the municipality level are reported in brackets. ***, ** and * denote statistical significance at 1%, 5% and 10% level, respectively.

4.2 Regression Results

Effects on Fiscal Sustainability. I begin my empirical analysis by reporting IV regression results on the effects of politician quality on local governments' economic stance captured by the FSI.[23] In Table 3, I first show that electing more university-educated politicians does not affect local governments' fiscal situation. The point estimates are insignificant both statistically and economically. The conclusion that university-educated politicians do not matter for fiscal sustainability is robust. While the point estimates come with rather wide confidence intervals, the effect magnitude is very stable across a range of bandwidths and different specifications (see the robustness checks in the following subsection).

The other three qualities are causally linked to improved fiscal sustainability. Focusing on the specifications that include control variables, we see that a one percentage point increase in the seat share of high-income politicians, re-elected incumbents and competent

[22]The average seat shares of university-educated politicians, high-income politicians, re-elected incumbents and competent politicians are 22%, 62%, 57% and 59%, respectively.

[23]The results are robust to different subsets of the control variables or omitting them completely. Note also that I run a separate IV estimation for each of the characteristics. However, the magnitude of the point estimates is robust to including all qualities in the same IV regression.

politicians leads to an increase of approximately 0.06 in the fiscal sustainability index. This effect is statistically significant at the 10% level for high-income politicians, and at the 5% level for re-elected incumbents and competent politicians. However, note that conventional corrections for multiple testing would flush away the statistical significance of these results. It is thus important to notice the economic significance and robustness of the results. Adding one more high-income politician, re-elected incumbent, or competent councillor in a median council with 27 local councillors—where the seat share of one councillor is around 3.70%—would increase the FSI (i.e., reduce the number of crisis municipality criteria that are satisfied) by about one fifth. This effect is economically relevant and corresponds to approximately 0.15 standard deviations.

We see that adding control variables barely changes the point estimates in any of the specifications. This is good news for instrument validity. Including the additional controls makes the first stage considerably stronger, as we can see from the first-stage F-statistics. It also decreases standard errors of the second-stage estimates slightly in most cases.

I examine six variables behind the FSI separately in Table 4 to get a detailed picture of the effects on improved fiscal sustainability. Again, I report the estimation results both without and with the additional control variables. There are no statistically significant effects on the local income tax rate (columns 1 and 2). The sign of the point estimates suggests that having more councillors with a university education could raise the tax rate whereas representation of other types could lead to lower tax rates. There is no systematic and statistically significant evidence that the qualities would matter for the result per capita (columns 3 and 4), although the point estimates are positive in most cases.

Columns (5)-(8) then analyse debt and relative indebtedness, on which some qualities have a negative and statistically significant causal effect. A one percentage point increase in the seat share of high-income politicians or re-elected incumbents yields a decrease of almost 0.50 percentage points in relative indebtedness. Therefore, one additional politician of higher quality would mean a reduction of around two percentage points which is slightly above one tenth of the standard deviation. The point estimates for competent politicians are of a similar magnitude but not statistically significant at any conventional level.

The point estimates on the accumulated surplus are all positive but statistically significant at the 5% level only in the case of competent politicians (columns 9 and 10). A one percentage point increase in competent politicians' seat share increases the accumulated surplus per capita by around 25 euros. Finally, politician quality matters for the solvency ratio (columns 11 and 12). All point estimates are positive, and statistically

significant for high-income ($p < 0.05$) and competent politicians ($p < 0.10$). The effect is economically meaningful, as adding one more politician of either of these qualities would translate into an increase of about two percentage points in a median council. This is equal to slightly above one tenth of the standard deviation.

The analyses in Table 4 exploit the entire sample, including years when the central government did not use the fiscal sustainability criteria. In Online Appendix D, I show that the results that I find are primarily driven by the years when the central government imposed the crisis municipality criteria. This could be interpreted as high-quality politicians being more ambitious or obedient than low-quality politicians.[24]

Table 3. IV estimation results for FSI.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
University educated %	0.012	0.000						
	[0.034]	[0.038]						
High income %			0.071	0.063*				
			[0.053]	[0.034]				
Re-elected incumbent %					0.088**	0.060**		
					[0.039]	[0.028]		
Competent %							0.049	0.065**
							[0.030]	[0.029]
N	679	679	679	679	679	679	679	679
N of clusters	394	394	394	394	394	394	394	394
First stage *F*	16.55	96.82	7.53	64.61	14.42	63.79	23.32	64.03
Mean of dependent variable	4.69	4.69	4.69	4.69	4.69	4.69	4.69	4.69
SD of dependent variable	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Year FE	✓	✓	✓	✓	✓	✓	✓	✓
Controls		✓		✓		✓		✓

Notes: The dependent variable is the FSI. Larger values are associated with improved fiscal sustainability. Controls include region dummies, lagged demographic characteristics (population and squared population and shares of young and old inhabitants), lagged party seat shares, and a quadratic polynomial of vote shares corresponding to each group. Standard errors clustered at the municipality level are reported in brackets. ***, ** and * denote statistical significance at 1%, 5% and 10% level, respectively.

Effects on Public Spending. Can university-educated politicians affect the provision of public services and goods without any negative effects on fiscal stability? Qualitatively, it seems that increasing their seat share increases total expenditures, although the estimation results in Table 5 are not statistically significant at any conventional levels ($p \approx 0.13$ in the specification with the control variables). The regression results suggest that adding one

[24]Research in personality and political psychology suggests that some citizens consider these qualities of a good politician (e.g., Aichholzer and Willmann 2020).

Table 4. IV estimation results for fiscal sustainability outcomes.

	Tax rate		Result		Debt		Indebtedness		Surplus		Solvency ratio	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Panel A: University-educated politicians												
University %	0.013	0.008	3.003	2.748	-1.422	-9.890	-0.108	-0.288	7.289	9.643	0.085	0.282
	[0.013]	[0.010]	[3.429]	[4.043]	[14.983]	[15.737]	[0.263]	[0.279]	[16.093]	[17.033]	[0.259]	[0.276]
First stage *F*	23.87	182.96	24.01	184.53	23.87	182.51	23.87	182.51	23.94	182.08	23.94	182.08
Panel B: High-income politicians												
High income %	-0.005	-0.011	-0.174	1.074	-28.243**	-34.084***	-0.443*	-0.471**	12.757	16.845	0.454*	0.484**
	[0.010]	[0.007]	[3.134]	[3.237]	[13.986]	[11.959]	[0.247]	[0.207]	[13.177]	[13.146]	[0.243]	[0.214]
First stage *F*	34.19	205.75	34.15	205.88	32.99	206.91	32.99	206.91	33.51	204.03	33.51	204.03
Panel C: Re-elected incumbents												
Re-elected incumbent %	-0.014	-0.009	2.186	1.197	-20.464*	-23.433**	-0.325	-0.397**	3.448	1.262	0.337	0.348
	[0.009]	[0.007]	[3.042]	[2.831]	[11.520]	[10.641]	[0.210]	[0.193]	[11.834]	[10.589]	[0.248]	[0.221]
First stage *F*	54.75	159.02	55.04	158.47	54.52	159.01	54.52	159.01	54.15	157.60	54.15	157.60
Panel D: Competent politicians												
Competent %	-0.007	-0.006	0.188	-0.671	-14.020	-12.873	-0.321	-0.238	25.371**	25.573**	0.479*	0.439*
	[0.009]	[0.007]	[2.742]	[3.029]	[11.930]	[11.457]	[0.220]	[0.208]	[12.671]	[12.328]	[0.249]	[0.242]
First stage *F*	46.35	143.89	46.72	144.83	49.61	150.97	49.61	150.97	46.37	143.95	46.37	143.95
N	1543	1543	1544	1544	1528	1528	1528	1528	1537	1537	1537	1537
N of clusters	436	436	436	436	436	436	436	436	432	432	432	432
Mean of dependent variable	18.69	18.69	163.25	163.25	1384.68	1384.68	37.28	37.28	308.10	308.10	66.61	66.61
SD of dependent variable	0.87	0.87	219.87	219.87	981.68	981.68	16.37	16.37	896.66	896.66	18.30	18.30
Year FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Controls		✓		✓		✓		✓		✓		✓

Notes: The dependent variable is municipal income tax rate in columns (1) and (2), result per capita in columns (3) and (4), debt per capita in columns (5) and (6), relative indebtedness in columns (7) and (8), budget surplus per capita in columns (9) and (10), and solvency ratio in columns (11) and (12). Controls include region dummies, lagged demographic characteristics (population and squared population and shares of young and old inhabitants), lagged party seat shares, and a quadratic polynomial of vote shares corresponding to each group. Standard errors clustered at the municipality level are reported in brackets. ***, ** and * denote statistical significance at 1%, 5% and 10% level, respectively.

more university-educated politician in a median-sized council would roughly translate into an increase of 1% in spending. In monetary terms this means about $50-60$ euros per capita.[25]

Do high-income politicians, re-elected incumbents, or competent politicians achieve improvements in economic stability by downsizing the public sector? This does not appear to be the case. The coefficients for high-income politicians, re-elected incumbents, and competent politicians are smaller in size and statistically insignificant, thus suggesting that these aspects of quality do not affect the size of the government. There seems to be a positive and statistically significant ($p < 0.05$) effect of having more competent politicians on public spending in column (7), but the point estimate tends towards zero and loses its statistical significance once I introduce additional control variables in the regression. Thus, if anything, there is no evidence that increases in competent politicians' seat share would lead to decreases in public spending.

Table 5. IV estimation results for public spending.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
University educated %	0.003	0.003						
	[0.003]	[0.002]						
High income %			0.002	-0.001				
			[0.002]	[0.001]				
Re-elected incumbent %					-0.001	-0.001		
					[0.002]	[0.001]		
Competent %							0.004**	0.001
							[0.002]	[0.002]
N	1544	1544	1544	1544	1544	1544	1544	1544
N of clusters	436	436	436	436	436	436	436	436
First stage *F*	24.01	184.53	34.15	205.88	55.04	158.47	46.72	144.83
Mean of dependent variable	8.61	8.61	8.61	8.61	8.61	8.61	8.61	8.61
SD of dependent variable	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Year FE	✓	✓	✓	✓	✓	✓	✓	✓
Controls		✓		✓		✓		✓

Notes: The dependent variable is the logarithm of total expenditures per capita. Controls include region dummies, lagged demographic characteristics (population and squared population and shares of young and old inhabitants), lagged party seat shares, and a quadratic polynomial of vote shares corresponding to each group. Standard errors clustered at the municipality level are reported in brackets. ***, ** and * denote statistical significance at 1%, 5% and 10% level, respectively.

[25]This increase may seem puzzling as there are no clear effects on fiscal sustainability outcomes such as local income tax rates or debt. However, the municipalities have other sources of revenue that could be used to finance the spending. These revenue sources, such as user fees or property taxes, are not included in the fiscal sustainability index.

Effects on Alternative Dependent Variables. I investigate effects of political selection on alternative outcome variables in Online Appendix D. First, I estimate the effects separately for each year of the electoral term, motivated by political economy models of political business cycles (e.g., Rogoff 1990). I do not detect any large differences in estimated effects when using data from different years, which is suggestive evidence against the hypothesis that politicians would be manipulating the economy when the elections are approaching.

Second, I find some evidence that university-educated politicians have a positive effect on house prices, indicating that the increases in public spending may be capitalised in house prices. However, politician quality—no matter how it is measured—does not seem to have a robust and significant effect on economic inequality, unemployment, income per capita, population growth, or incumbent vote shares in future elections. This suggests that the role that political selection has for policy outcomes can be limited, at least at the margin of close elections that I use for identification and to the extent that I can capture politician quality with the observable characteristics. A further caveat is that the extent to which local governments are able to influence the alternative outcomes that I consider here is limited.

4.3 Robustness and Validity Checks

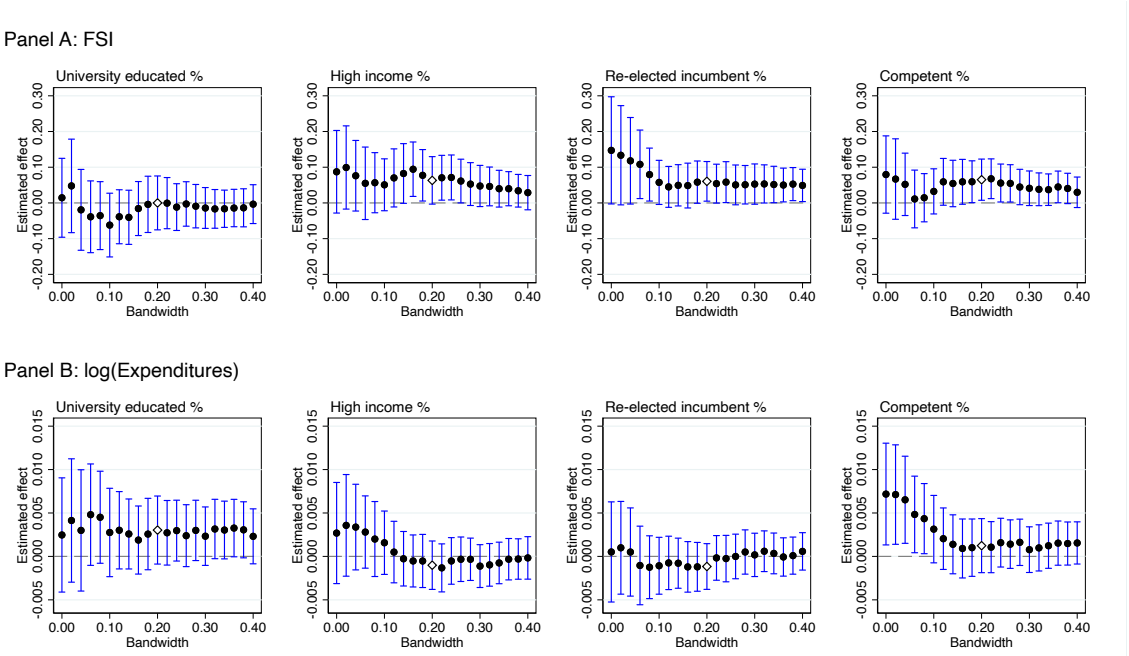
I have conducted a battery of additional robustness and validity checks which I discuss in this subsection. Most of these results can be found in the online appendix.

Using Alternative Bandwidths. It is important to assess the robustness of the results to the choice of bandwidth, as the main bandwidth is chosen in an *ad hoc* way. I show the point estimates and their 95% confidence intervals obtained using different bandwidths ε between 0 and 0.4 in Figure 2. Although there is some variation in the magnitude of the point estimates and the levels of statistical significance, the main conclusions remain the same across a range of different definitions of electoral closeness.

I assess sensitivity to the choice of bandwidth for the additional outcome variables in Online Appendix C. These point estimates and their statistical significance vary slightly with the bandwidth, but the conclusions remain qualitatively unchanged independent of the choice of ε.

Additional Robustness and Validity Analyses. Further robustness and validity checks are available in Online Appendix C. The results are robust to a reduced form specification and restricting the analysis to close elections only. My results also pass a placebo threshold

test where I use artificial cut-offs for getting elected, which provides additional support for the validity of the research design.



Notes: The figures show point estimates and their 95% confidence intervals constructed using standard errors clustered at the municipality level. The dependent variable is the FSI in Panel A, and the logarithm of per capita public expenditures in Panel B. Larger values are associated with improvements in fiscal sustainability in Panel A. Diamonds indicate point estimates that are obtained using the main bandwidth. All regressions control for region dummies, lagged demographic characteristics (population and squared population and shares of young and old inhabitants), lagged party seat shares, and a quadratic polynomial of vote shares corresponding to each group.

Figure 2. IV estimation results for FSI and total expenditures using different bandwidths.

4.4 Discussion

Nature of the Estimated Effects. The estimation results suggest that a university education, higher income, prior political experience, and competence of political representatives affect the quality of economic policies. The effects that I find are plausible. It is well documented that even marginal changes in the electoral outcomes can make a difference. The finding that the composition of a government matters for economic policies is similar to the results reported in prior studies using data from similar contexts and identification strategies based on close elections (Folke 2014; Freier and Odendahl 2015; Fiva et al. 2018; Hyytinen et al. 2018a).

Most of the identifying variation comes from the larger parties which have more decision-making power in the local governments, and from median-sized municipalities where it is still relatively easy for an individual local councillor to get his or her voice heard. Indeed, prior evidence from the Finnish context suggests that individual decision-makers matter particularly when they come from the largest parties and in smaller local councils (Hyytinen et al. 2018a)—i.e., when they are in a better position to influence policy through between- and within-party bargaining (Laver and Shepsle 1990; Lijphart 1999). The power of able politicians may be limited in a similar manner.[26] Lastly, recent evidence suggests that what kind of politicians are elected in the local council matters for what kind of politicians are selected to local political leadership (Meriläinen and Tukiainen 2021). The impact of electing high-quality representatives could be amplified through this mechanism.

Given that I identify the effects using close elections among marginal candidates, my findings are likely a lower bound to the actual effect of having better politicians. It is possible that higher-ranking politicians such as chairmen of municipal boards have a greater impact on policy.[27] However, identifying the causal impact of leader quality on policy is difficult if not impossible in the Finnish context, as there are no predetermined rules on the selection of political leaders.[28]

Policy Implications. The fiscal sustainability of public finances has been a concern for many politicians, bureaucrats, pundits, and citizens alike in various contexts.[29] My findings indicate that promoting higher-quality representation—while holding the party composition fixed—can foster fiscal stability, or increase local public goods and services provision without negative side effects on fiscal health. Prior research suggests that good

[26]Unfortunately, the concentration of close elections involving high-quality candidates in the largest parties and median-sized councils implies that I do not have the statistical power to conduct similar tests as Hyytinen et al. (2018a) do.

[27]Evidence from other contexts aligns with this expectation. For example, Carreri (2021) studies Italian mayors and employs a survey-based approach to measure their managerial competence. She then shows that a higher competence is associated with improved policy outcomes, such as better service provision without an increase in taxes. In that, her findings are similar to what I find for local councillor quality in Finland.

[28]Generally speaking, parties are more likely to give important political jobs to those candidates who rank higher in the vote count and/or who are more competent. See Meriläinen and Tukiainen (2018) for causal evidence on vote-rank effects in political promotions and descriptive evidence on other determinants.

[29]The fiscal sustainability outcomes proxy how well the local government will be able to sustain its current level of public goods and services provision. Thus, such outcomes provide the electorate with at least one performance metric. Voters might prefer more conservative fiscal policies, and they tend to punish incumbents for higher budget deficits or increasing debt, for instance (Brender and Drazen 2008).

candidates can be attracted by, for example, raising the salary of politicians (Caselli and Morelli 2004; Kotakorpi and Poutvaara 2011). Nonetheless, there are two crucial caveats.

The first caveat is that policies that are intended to promote better political selection may come at the cost of deteriorating descriptive representation.[30] Carnes and Hansen (2016) show that the descriptive representation of the working class is the same or worse in the U.S. states that pay legislators higher salaries. Promoting high-income or university-educated politicians' representation involves an obvious trade-off between politician quality and descriptive representation. It is important to understand what are the relative weights that citizens put on political representation and policy quality.

Second, although my results are informative about the potential effects of political selection on government effectiveness and responsiveness, economic policy constitutes only one area of policy-making. Politician qualities may very well have differential effects on different types of policy outcomes. To back up any policy recommendations, we should thus gather further evidence to fully comprehend when, how, and why competent politicians shape policy.

5 Politician Quality and Ideology

I have now established a causal connection between politician quality and improved policy outcomes. This section turns into a related connection that can illuminate why different qualities shape policies differently, namely the association between politician quality and ideology. The effects on economic policies could also reflect ideology. Fiscal conservatism is often associated with support for lower taxes, reduced government spending, less public debt, and so forth. Therefore, the fiscal sustainability outcomes can be influenced by ideology, even if they also capture economic efficiency.

5.1 Measuring Candidate Ideology

I have collected data from voting aid applications from the Finnish public broadcasting company *YLE* to measure candidates' policy positions. Voting aid applications are

[30] Descriptive representation means that elected representatives resemble their constituents in politically relevant characteristics such as ethnicity, gender, or occupational background. Descriptive representation is often associated with substantive representation. That is to say, politicians advocate on behalf of groups that they represent. For empirical evidence, see Pande (2003), Chattopadhyay and Duflo (2004), and Hyytinen et al. (2018a).

interactive questionnaires, the purpose of which is to assist voters in finding a candidate with similar policy preferences to theirs. Candidates fill out the survey before elections, after which voters can take the same survey to find a suitable candidate. The voting aid application data are available for the local elections held in 2008 and 2012, and I have further combined them with the administrative data on local election candidates.

The voting aid applications include a number of claims mostly related to the size of the public sector and redistribution, such as: "The user fees for municipal services should be made more progressive in income", "We should raise the property tax rate", "It is nowadays too easy to be admitted to social welfare", and "We should cut the number of municipal employees because there are too many of them".[31] There are seven such items in the 2008 voting aid application, and seventeen in 2012. In 2008, the candidates would give their answers on a $1-4$ scale (from "completely disagree" to "completely agree"). In 2012, an additional option "I do not agree or disagree" was included. I employ a principal component analysis to compress the survey responses into a single measure of economic policy preferences. This approach is commonly used to extract politicians' ideology from survey data (Heckman and Snyder 1997; Ansolabehere et al. 2001a). The first principal component captures the left-right dimension of economic ideology. It explains 28% of the variation in the 2008 data, and 15% in the 2012 data. The resulting ideology measure is the smaller the more liberal is a candidate. Further details and a complete list of questions included in the analysis can be found in Appendix E.

There are three caveats with the voting aid application data. First, the estimated ideology scores are based on public statements by the candidates of their positions and could be influenced by electoral considerations. Second, although the contents of the voting aid application were different in 2008 and 2012, and the scale of the responses changes between the years, I pool the ideology scores for both elections together in my main analysis.[32] Having said that, the findings largely remain unchanged if I run the analysis separately on each year. Third, only around half of the candidates took the survey. I compare the respondents and non-respondents to each other in Appendix E, where I also discuss the potential selection issue.

[31] A stronger agreement with the first two claims is associated with a more left-leaning ideology, whereas the stronger agreement with the latter two claims is related to a more conservative ideology.

[32] The correlation between the estimated ideology for the years 2008 and 2012 is high for two-time respondents, about 0.66. Moreover, the ranking of parties by ideology score is almost completely stable between the elections.

5.2 Estimation Results

The estimation results suggest a clear relationship between candidate quality and ideology (Table 6).[33] I present results from two different specifications. In the first specification, I only control for election year fixed effects. In the second specification, I add municipality and party fixed effects to control for factors that are common to all candidates running in the same municipality and party.

We see that having a university degree makes a candidate 0.12 standard deviations ($\sigma = 1.50$) more left-wing, after controlling for party and municipality fixed effects. Candidates with a higher income are more right-wing. Having an income above the median is associated with an increase of 0.04 standard deviations in the ideology score, again when comparing the candidates within parties and municipalities. There is no clear association between prior political experience and ideology. While incumbency and ideology score are positively correlated, the regression coefficients tend towards zero and lose their statistical significance as soon as we introduce party and municipality fixed effects. More competent politicians are economically more conservative. Being competent shifts the policy position by 0.05 standard deviations to the right (within party and municipality). This is perhaps not that surprising given that the measure is based on income, but it is nevertheless interesting to see that the relationship is present so strongly even independently of the social status of the politicians.

The differences between candidates of different quality are quite small in contrast to the differences between parties. For instance, the average candidate from the Social Democratic Party (the largest left-wing party) has an ideology score equal to -0.72, whereas the score of the average candidate from the National Coalition Party (the largest right-wing party) is 1.00. Nevertheless, the quality differences of the candidates can plausibly explain some of the ideological heterogeneity within political parties.

Online Appendix E reports estimation results by party. This analysis suggests that politicians of a similar quality may try to push policies in the same direction despite their ideological leanings. This is not necessarily true for politicians with prior political experience—they appear to be more extreme than non-incumbents from the same party.

[33] Note that the number of observations varies slightly across columns because some of the candidate information is missing.

Table 6. Relationship between ideology and politician quality.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
University education	-0.082***	-0.184***						
	[0.022]	[0.015]						
High income			0.260***	0.058***				
			[0.026]	[0.014]				
Incumbent					0.112***	-0.004		
					[0.040]	[0.015]		
Competent							0.100***	0.080***
							[0.025]	[0.015]
N	37104	37103	37059	37058	38002	38001	37232	37231
R^2	0.00	0.35	0.01	0.35	0.00	0.35	0.00	0.35
Mean of dependent variable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SD of dependent variable	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Year FE	✓	✓	✓	✓	✓	✓	✓	✓
Party and municipality FE		✓		✓		✓		✓

Notes: The dependent variable is the ideology score. Larger values refer to a more conservative economic ideology. Standard errors clustered at the municipality level are reported in brackets. ***, ** and * denote statistical significance at 1%, 5% and 10% level levels, respectively.

5.3 Discussion

The correlations that I find help reconcile why different qualities matter for economic policies in different ways. They also echo typical findings in studies of voter ideology.

The work on political socialisation suggests that education may expand perspectives on society and lead to more liberal political views. University-educated individuals tend to be more tolerant, more open to non-conventional social and moral views, more likely to support civil liberties and democratic values, and so on (Lipset 1960). More liberal values can be reflected in economic ideology as well (Gerber et al. 2010). This is also what I find. However, some studies argue that university-educated individuals tend to earn more which could also make them more conservative (e.g., Curto and Gallego 2021).[34] The positive correlation between a high income and economic conservatism rhymes with the classical idea that if individuals are self-interested, they might prefer the less public spending or redistribution the higher is their income (Meltzer and Richard 1981). An extensive literature lends support to this prediction: high-income individuals are more likely to support economically right-wing policies or parties (Doherty et al. 2006; Gelman et al. 2007). My findings echo these earlier results.

The results on politician quality and ideology also speak to the literature on valence politics. Many formal models of valence politics predict a correlation between candidate

[34]Recall that in my data, the correlation between having a university degree and a high income is not very strong.

quality and policy positions, although the deeper nature of the relationship between candidate valence and policy position depends on the model set-up. One branch of theories suggests that candidates with a valence advantage can take policy positions closer to the median voter, pushing the challenger away (Ansolabehere and Snyder 2000; Groseclose 2001). Other models deliver an opposite prediction: valence-advantaged politicians can take more extreme policy positions and compensate this by their higher quality (Serra 2010; Bernhardt et al. 2011). The empirical work provides mixed results (Ansolabehere et al. 2001a; Burden 2004; Stone and Simas 2010). I discover that incumbency and competence, which earlier research has considered as measures of valence, correlate with ideology.

Overall, the results underscore the notion that different valence characteristics and qualities may be associated with ideology in different ways, and the relationship can be heterogeneous across different political parties. Thus, it is not obvious that high-quality politicians always shape policies the same way.

6 Concluding Remarks

We have a good understanding that the quality of politicians as well as the quality of policies matter to voters. It is also well-established that politicians' identity can be an important determinant of their ideology and the policies that they put in place. However, we do not know much about how the interplay between politician quality and ideology matters for policy in representative government. This paper starts filling this fundamental gap in our knowledge by providing novel empirical evidence from the local governments in Finland.

The main contribution of this paper is to show that electing representatives who possess traits that are correlated with both ability and ideology implement better economic policies in the sense that they show signs of fiscal responsibility. Fiscal conservatism of high-income politicians, re-elected incumbents, and competent politicians is reflected in improved fiscal sustainability measures which capture municipalities' economic balance and capability of sustaining the current size of the government. These improvements are not achieved by cutting down the local public sector. Symmetrically, I find—robust but weaker in terms of statistical significance—evidence that more liberal university-educated politicians increase the expenditures. Nevertheless, they do not have any negative effects on fiscal sustainability outcomes.

According to a prominent argument, political institutions have an important role in shaping economic policies by setting the right incentives for good policy-making. I provide empirical support for a complementary view that highlights the importance of political selection as a determinant of policy quality (Besley 2005; Dal Bó and Finan 2018). In light of these results, a well-known passage from political scientist V. O. Key's book *American State Politics* appears to be warranted:

> *"The nature of the workings of government depends ultimately on the men who run it. The men we elect to office and the circumstances we create that affect their work determine the nature of popular government. Let there be emphasis on those we elect to office."* (Key 1956, *p.* 10)

Understanding the relationship between political selection and policy is important for the design of policies intended to attract able citizens in politics, but the findings of this paper are also encouraging from the voters' perspective. Even marginally elected politicians matter for policy outcomes in a representative government. What is more, the results hint that is possible to elect able politicians who are ideological but do not have adverse impacts on economic policy.

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