

Political Rents Under A Changing Electoral System

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Motivation

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- Several studies have shown that politicians benefit from their position. These political rents can be accumulated in a multitude of ways:
 - Monetary (e.g. Eggers & Hainmuller, 2009; Fisman et al., 2014)
 - Nepotism (Dal Bo et al., 2009; Fafchamps & Labonne, 2017)
 - Ideology (Mian et al., 2010)
- Most studies are static in nature and do not focus on the institutional determinants of political rents.
 - Political rents are likely an equilibrium outcome (e.g. Barro, 1973; Trebbi, 2020)
- Historically, political rents could have affected the democratization process.
 - How constrained were politicians when implementing universal suffrage step-by-step? (Przeworski, 2009)
 - Political rents have implications for political selection (Besley, 2005) and politicians' voting behavior

This Study

- I provide a dynamic perspective of political rents by focusing on the case of the Netherlands (1860-1917)
- The Netherlands employed a district system at the time → Many (close) elections
 - I employ a regression discontinuity methodology to estimate political rents based on Cattaneo et al. (2019)
 - Detailed data on characteristics of politicians to examine what allows politicians to accrue rents
- Setting allows me to provide insights in the effect on political rents of:
 - Suffrage extensions and the monitoring of politicians
 - The roles of political parties and geography
 - What career paths politicians followed to pursue rents

Results - Overview

- At the margin, virtually all covariates are balanced among politicians and non-politicians, making non-politicians a convincing control group
- There is a large and significant positive effect of being elected into politics on personal end-of-life wealth
 - *A priori* not obvious a politicians would accumulate surplus wealth relative to e.g. businessman, manufacturer, lawyer, etc.
- The effect seems to be most convincingly present of *Protestant* politicians, and to a lesser degree *Liberals*
 - These are the same politicians whose parties did not enforce strong voting discipline
- Large discrepancies in estimates of political rents according to regional origin of politicians.
- Limited evidence of an influence of monitoring mechanisms and suffrage extensions further constraining politicians' rent-seeking activity.

Data & Methodology

Close Elections

- *Repository Tweede Kamerverkiezingen* (Repository Lower House Elections) contains detailed data on every election that took place in the district system (1848-1917)
 - Includes lists of candidates for each election, and amount of votes
 - I take into account multi-candidate elections (cf. Lee, 2008)
 - Somewhat more complicated definition of the running variable *Margin*. For candidate i in election e :

$$\text{Margin}_{i,e} = \frac{\text{Votes}_{i,e} - \text{Votes}_{j,e}}{\text{Total Votes}_e}$$

where j is the *Marginal Loser* if i is a *Winning Contender*, and j is the *Marginal Winner* if i is a *Losing Contender*.

- I then regard an individual as having taken part in a close election if $|\text{Margin}_{i,e}| < 0.2$. Using this criterion, about 600 close elections (out of approx. 2400)

Finding Candidates in Archives

- **Politicians:** I use a proprietary dataset from the *Politiek Documentatiecentrum* (PDC)
- The database contains demographic and other variables related to a politicians' life, including their birth and death date and place, as well as information about their political allegiance and their professional career.
- Using this information, I can find politicians' probate inventories.
- **Non-Politicians:** For non-politicians, I make use of the search engines of provincial archives, the historical newspaper search engine *Delpher* and various genealogy websites to find the dates and places of decease.

Measure Political Rents

- End of Life Wealth from the *Memories van Successies* archives
 - Probate inventories assembled with the purpose of levying inheritance taxation
 - Containing a detailed description of the deceased's assets and liabilities, including an appraisal
 - In practice, every individual deceased in the Netherlands (very few exemptions)
 - I use Net Wealth and deflated it to 1900 guilders.
- Freely accessible in the provincial archives from 1877-1927. Outside of this period without appraisal of assets and liabilities (<1877) or not publicly accessible (1927-).
- Finding rate: about 70% of inventories
 - Main reason for absence: probate inventory registered in other place than place of death.

Other Data

- Birthplace and district characteristics
 - HDNG Database, containing information about Dutch Municipalities, including demographics, religious composition, taxes levied, professional composition at various points in time
- Election characteristics:
 - Newspaper recommendations of each candidate, turnout, no. of times participated, year of election, on the basis of the *Repositorium*
- Demographic characteristics:
 - Age at election, lifespan, year of death from the PDC and genealogy websites

Method

- I use the methodology by Cattaneo et al. (2019), who implement a local linear MSE-optimal RD Estimator
- This estimator optimally trades off bias and variance when picking the bandwidth
 - Consistent with recommendations of Imbens and Gelman (2018)
 - Bias-corrected (Robust) confidence intervals for inference
- Specification:

$$g(W_i) = \alpha + \delta \cdot 1_{\text{Margin}_i > 0} + \eta \cdot \text{Margin}_i + X_i \beta + \epsilon_i$$

- I use two variants of g : $g(.) = \log(.)$ and $g(.) = \text{lhs}(.)$

Analysis

Covariate Balance

- The identifying assumption of the design implies that the control group (non-politicians) should be similar to the politicians at the margin: this gives evidence that the potential outcomes are not discontinuous at the cut-off point.

	Margin < 0.2			Margin < 0.05			RD Estimate (SD)
	Politicians	Non-Politicians	p-val.	Politicians	Non-Politicians	p-val.	
Panel A: Newspaper Recommendations							
rec_ar	0.16	0.14	0.693	0.16	0.22	0.354	0.034 (0.132)
rec_lib	0.34	0.29	0.242	0.37	0.32	0.506	-0.204 (0.166)
rec_soc	0.04	0.02	0.370	0.03	0.00	0.045**	0.036 (0.033)
rec_kath	0.20	0.16	0.283	0.17	0.20	0.577	-0.100 (0.137)
Panel B: Pre-Election Demographic Characteristics							
lifespan	20.73	19.67	0.290	20.17	20.24	0.973	-0.469 (4.065)
age_at_election	51.14	49.16	0.022**	51.18	46.20	0.005***	4.995 (4.200)
yod	1906.39	1900.77	0.000***	1904.95	1900.38	0.039**	4.479 (4.073)
Panel C: Election Characteristics							
yoe	1885.60	1880.99	0.000***	1884.67	1880.03	0.029**	4.964 (4.289)
howmany_before_alg	2.62	0.59	0.000***	1.77	0.71	0.002***	1.547 (0.942)
log(turnout)	8.38	7.90	0.000***	8.58	8.29	0.109	0.180 (0.343)
log(turnout_previous_el)	8.05	7.72	0.000***	8.31	7.99	0.059*	0.169 (0.314)

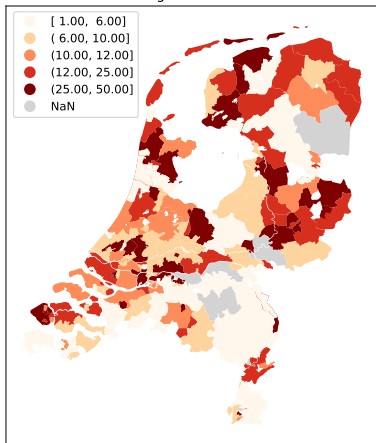
Covariate Balance

	Margin < 0.2			Margin < 0.05			RD Estimate (SD)
	Politicians	Non-Politicians	p-val.	Politicians	Non-Politicians	p-val.	
Panel D: Birthplace Characteristics							
birthplace_share_cath	0.31	0.28	0.333	0.31	0.28	0.494	-0.020 (0.104)
birthplace_share_prot	0.65	0.69	0.116	0.65	0.68	0.325	0.006 (0.098)
birthplace_agri	0.03	0.07	0.000***	0.02	0.07	0.004***	-0.045 (0.031)
birthplace_indus	0.22	0.20	0.049**	0.23	0.20	0.028**	0.033 (0.035)
taxespercap_1859	3.66	3.82	0.305	3.87	3.96	0.771	1.144 (0.755)
taxespercap_1889	4.32	4.69	0.031**	4.55	4.73	0.539	1.122 (0.764)
distance_bp_hag	187.25	83.60	0.067*	91.34	83.91	0.530	-6.350 (30.337)
Panel E: District Characteristics							
district_share_prot	0.70	0.70	0.916	0.70	0.71	0.592	0.060 (0.089)
district_share_cath	0.26	0.27	0.627	0.25	0.25	0.959	-0.073 (0.088)
district_agri	0.06	0.07	0.275	0.04	0.05	0.938	-0.018 (0.042)
district_indus	0.23	0.24	0.210	0.23	0.24	0.361	0.000 (0.036)

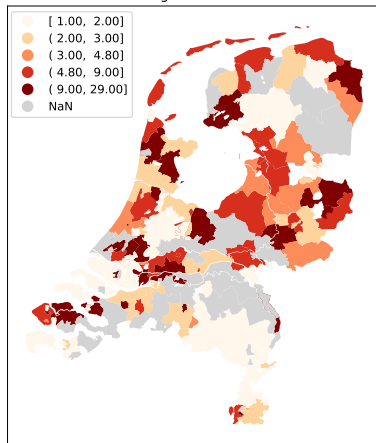
Geographic Variation

- The elections also seem to be spread out geographically:

Amount of Close Elections in Each District, 1848-1917
Including Future Politicians



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Excluding Future Politicians

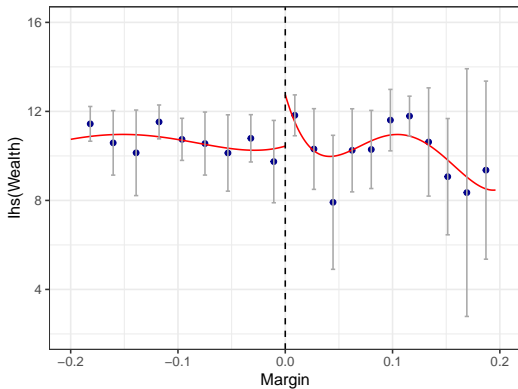
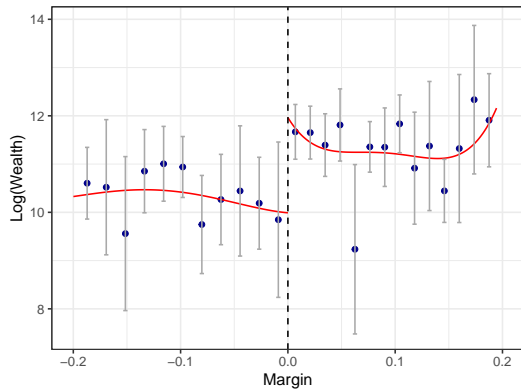


Main Results

- The results show a significant and positive effect, irrespective of the inclusion of several covariates.

	Log(Wealth)		lhs(Wealth)	
	(1)	(2)	(3)	(4)
Panel A: Baseline Estimates				
Coefficient	2.142	1.995	3.383	2.096
SE (BC)	(0.978)**	(0.662)***	(1.646)**	(1.171)**
SE (Rob.)	(1.191)*	(0.797)***	(1.928)**	(1.402) *
Mean DV Politicians (1%)	11.846	11.846	11.888	11.888
Mean DV Non-Politicians (1%)	10.134	10.134	9.504	9.504
N (Politicians)	323	323	348	348
N (Non-Politicians)	258	258	263	263
Bandwidth	Optimal	2 x Optimal	Optimal	2 x Optimal
Panel B: Estimates With Selected Covariates				
Coefficient	2.170	1.799	2.623	1.345
SE (BC)	(0.935)**	(0.573)***	(1.213)***	(0.879)**
SE (Rob.)	(1.088)**	(0.766)***	(1.648)*	(1.236)
Mean DV Politicians (1%)	11.846	11.846	11.888	11.888
Mean DV Non-Politicians (1%)	10.134	10.134	9.504	9.504
N (Politicians)	254	254	275	275
N (Non-Politicians)	249	249	253	253
Bandwidth	Optimal	2 x Optimal	Optimal	2 x Optimal

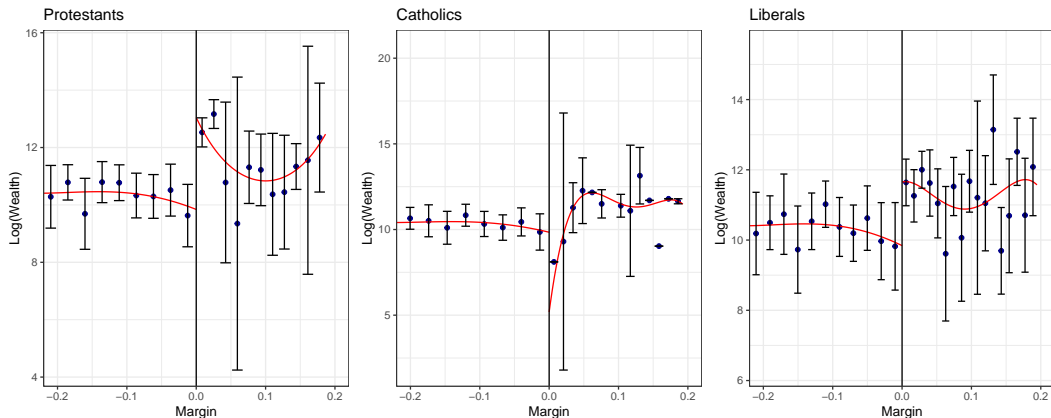
Main Results (Graphically)



Mechanisms

Party Organization - Differences between parties

- First, I focus on the difference between parties.
- Very large effect for Protestant politicians, intermediate for liberals and invisible for Catholic politicians.



Party Organization - Within Parties

- I exploit the establishment of political parties to find out whether politicians with the same political allegiance have been able to accumulate more or less rents after establishment (and joining of) a political party.

	No Covariates			With Covariates		
	After	Before	Diff. (p-value)	After	Before	Diff. (p-value)
	(1)	(2)		(3)	(4)	
Panel A: All control observations						
Coefficient	2.073	2.216	-0.143	2.296	3.552	-1.256
SE (BC)	(0.952)**	(1.180)**	0.462	(0.963)**	(1.209)***	0.204
SE (Rob.)	(1.161)*	(1.416)*		(1.166)**	(1.435)***	
N Treated	202	121		202	121	
N Control	258	258		258	258	
Covariates	No	No		Yes	Yes	
Panel B: Contemporaneous control observations						
Coefficient	1.635	2.705	-1.07	1.887	4.683	-2.796
SE (BC)	(1.080)	(1.798)	0.305	(1.035)*	(1.807)**	0.091
SE (Rob.)	(1.320)	(2.074)		(1.268)	(2.170)**	
N Treated	202	92		202	92	
N Control	151	107		151	107	
Covariates	No	No		Yes	Yes	

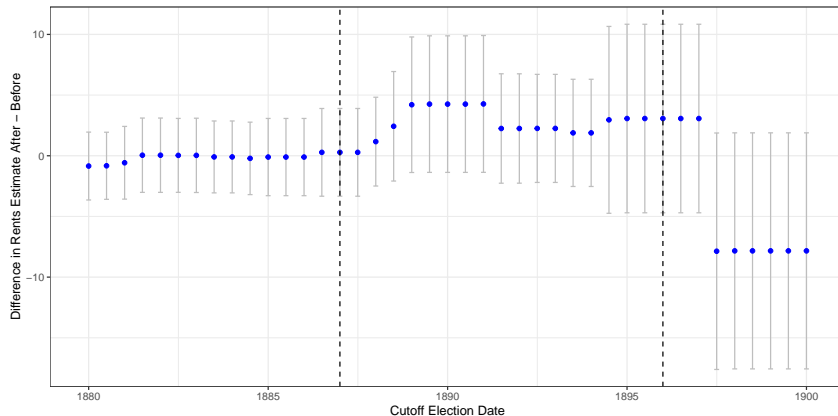
Career Paths

- Did politicians accrue rents by means of their network? Were they able to capture privileged, exclusive positions afterwards?

	Colonial		Business		Politics	
	Yes	No	Yes	No	Yes	No
	(1)	(2)	(3)	(4)	(5)	(6)
Without Covariates						
Coefficient	1.709	2.257	1.46	2.413	3.832	1.957
SE (BC)	(1.389)	(1.000)**	(1.404)	(0.927)***	(1.363)***	(1.052)*
SE (Rob.)	(1.685)	(1.218)*	(1.705)	(1.128)**	(1.618)***	(1.268)
N Treated	35	288	62	261	47	276
N Control	258	258	258	258	258	258
With Covariates						
Coefficient	1.067	1.852	1.479	2.052	3.648	1.948
SE (BC)	(1.526)	(1.092)	(1.490)	(1.023)**	(1.315)***	(0.996)**
SE (Rob.)	(1.878)	(1.316)	(1.800)	(1.231)*	(1.586)**	(1.202)*
N Treated	28	214	49	193	32	210
N Control	241	241	241	241	241	241

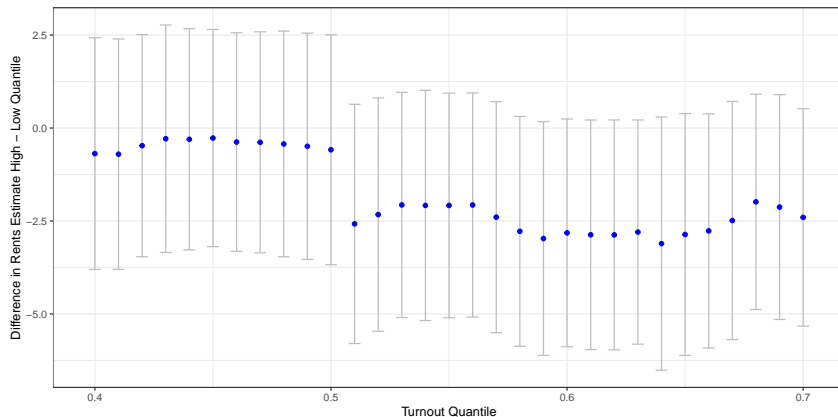
Electoral Competition over Time

- Do political rents change significantly following suffrage extensions?
 - The graph shows CI's based on bootstrapped standard errors.



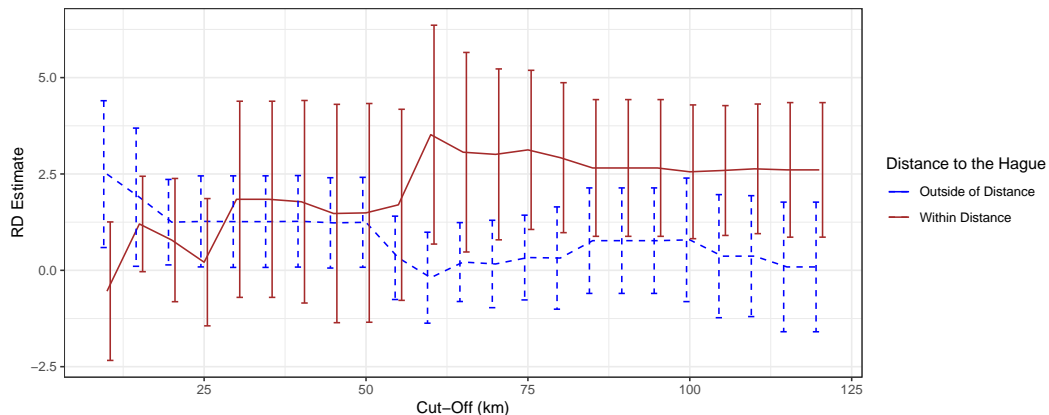
Electoral Competition - Turnout

- At the level of the district, does more turnout mean more monitoring, and lower rents?
 - I estimate the difference in rents between upper-quantile observations (in terms of relative turnout) and lower-quantiles.



Metropolitan vs. Rural Areas

- Political Rents for politicians who have been born inside and outside a radius of x km of the Hague (governmental capital)
 - Politicians born within the Randstad (radius of about 60/70 km within the Hague) garner much more rents than politicians born outside.



Conclusion

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- Protestant politicians
 - A lot of voting freedom
 - Although parties limit voting freedom and thus rents
- Rewards: staying longer in politics - access to other political functions with discretion, possibility of rent-seeking
- Primarily concentrated for politicians within a certain region
 - Especially large contrast with Catholic politicians, not from this region
- Electoral discipline and monitoring plays very small role