Returns to Politics Under A Changing Political System

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Motivation

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- There is strong empirical evidence that politicians use public office to serve private interests. They can do so in various ways:
  - Monetary (e.g. Eggers & Hainmuller, 2009; Fisman et al., 2014)
  - Nepotism (Dal Bo et al., 2009; Fafchamps & Labonne, 2017, Folke et al., 2017)
  - Ideology (Mian et al., 2010)
- The literature also investigates under which circumstances politicians can accrue returns from politics. Factors that matter:
  - High-corruption environment (Fisman et al., 2014)
  - Electoral competition and the media (Svaleryd & Vlachos, 2009)
  - Opaque public procurement (Baltrunaite, 2020)
- Contemporary literature teaches that features of the political system influence the degree to which politicians can engage in rent-seeking activity.

This Study

- Most studies are static in nature and do not focus on the institutional determinants of political rents.
- This study focuses on a *dynamic* environment in which the political system changes: the case of the Netherlands (1860-1917)
- Many aspects of the political system changed:
  - Political party formation and party politics
  - The rise of the career politician
  - Suffrage extensions and universal suffrage
- Setting allows me to investigate the influence of changing institutions on the magnitude of these returns

The case of the Netherlands

- 19th century political changes comparable to many other (European) countries
  - Repeated suffrage extensions (1887, 1896) culminating in universal suffrage
  - From political factions to explicit political parties (Protestants, Catholics, Liberals)
- Bicameral system: a Lower House and an Upper House
  - Politics concentrated in Lower House: from 75 to 100 seats
  - Modest formal salary (2500 guilders)
- The Netherlands had a district system from 1848-1917
  - Many elections and many close elections
  - Detailed electoral data allow to estimate the dynamic returns to politics
  - Returns to subsequent periods of political office

Data & Methodology

Sources

- Elections: *Repositorium 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
  - On this basis, I calculate the electoral margin and find candidates in close elections
- Probate inventories: *Memories van Successie*
  - Archival source available from 1877-1921
  - Measure of returns to politics: wealth at death
  - Main reason for absence: archival accessibility, probate inventory registered in other place than place of death.

Other Sources

- *HDNG Database*, containing information about Dutch Municipalities, including demographics, religious composition, taxes levied, professional composition at various points in time
  - Used to extract birthplace and district characteristics
- *Newspaper recommendations*:
  - Newspaper recommendations of each candidate, turnout, no. of times participated, year of election, extracted from the *Repositorium*
  - Used to extract several other election- and candidate characteristics
- *Politiek Documentatie Centrum*:
  - Used to find demographic characteristics for politicians
  - Age at election, lifespan, year of death
  - Nonpoliticians: from *Delpher* and genealogy websites

Close Elections

- 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 prioritized data collection for close elections: Out of 6,197 candidate-election pairs, I collected probate inventories for 2,893 candidate-election pairs.
  - These pertain to 515 unique candidates, whereas in total, there are 1,590 unique candidates.
- There are 2,877 candidate-election combinations in relatively close elections
  - For 1,527 of which I collected their personal wealth (53%).

Basic Specification

- Baseline empirical specification, for candidates that, if elected, would be elected for the t'th time:

$$\log(w_i) = \alpha + \gamma_t^{ITT} \cdot 1_{\text{Margin}_i > 0} + \eta \cdot f(\text{Margin}_i) + X_i\beta + \epsilon_i$$

- Using local linear polynomial regression on each side of the threshold (Cattaneo et al., 2014)
- Optimal bandwidth, forced equal bandwidth at both sides of the threshold
- Robustness checks w.r.t. dep. var., bandwidth, kernel, loss function, bias-corrected vs. standard asymptotic CIs

Decomposition

- I assume the following structure at the margin of being elected:

$$w_i = \sum_{\tau=1}^{\infty} \theta_\tau b_{i,\tau} + \sum_{t=2}^{\infty} \gamma_t c_{i,t} + u_i$$

- where w_i is a candidate's end-of-life wealth, $b_{i,\tau}$ is an indicator reflecting whether candidate i is first elected at their τ'th try. $c_{i,t}$ is an indicator reflecting whether a politician is elected for the t'th time after having been elected initially.
  - Assuming no differential effects of various triers after first election
- Taking the total derivative with respect to being elected for the k'th time gives:

$$\gamma_k^{ITT} = \frac{dw_i}{dc_{i,k}} = \frac{\partial w_i}{\partial c_{i,k}} + \sum_{t'>k} \gamma_{t'} \cdot \frac{\partial c_{i,t'}}{\partial c_{i,k}}$$

$$= \gamma_k^{ATT} + \sum_{t'>k} \gamma_{t'}^{ATT} \cdot \pi_{(t'-k)}$$

Incumbency Advantages

- I assume that the incumbency advantages are stationary, irrespective of the number of times one has been elected.
  - The incumbency advantage for the j'th election after having won for the n'th time is the same as the incumbency advantage for the j'th election after having won for the first time.
- To estimate incumbency advantages, I also use the methodology by Cattaneo et al. (2019).
- Specification:

$$\mathcal{I}[c_{i,k} = 1] = \alpha + \pi_{i,k} \cdot 1_{\text{Margin}_{i,e}>0} + \eta \cdot f(\text{Margin}_{i,e}) + X_i\beta + \epsilon_i$$

- These estimates allow me to recursively compute ATT effects
  - Identification assumption: for some $t*$, $\gamma_{t*}^{ATT} = \gamma_{t*}^{ITT}$

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			
	Politicians	Non-Politicians	p-val.	Politicians	Non-Politicians	p-val.	RD Estimate (SD)
Panel A: Newspaper Recommendations							
Rec.: Protestant	0.13	0.12	0.855	0.12	0.11	0.759	-0.175 (0.043)
Rec.: Liberal	0.14	0.10	0.036**	0.14	0.06	0.012**	0.034 (0.053)
Rec.: Socialist	0.08	0.07	0.760	0.07	0.13	0.106	0.007 (0.035)
Rec: Catholic	0.11	0.11	0.844	0.11	0.09	0.563	-0.163 (0.046)
Panel B: Demographic Characteristics							
Lifespan	21.55	21.92	0.669	22.55	20.79	0.286	1.915 (1.520)
Age at Election	45.93	45.08	0.349	44.93	44.92	0.998	2.246 (1.572)
Year of Death	1904.22	1899.64	0.015**	1905.69	1900.02	0.108	4.047 (3.617)
Year of Election	1880.31	1876.81	0.009***	1881.05	1879.42	0.529	-0.204 (2.495)

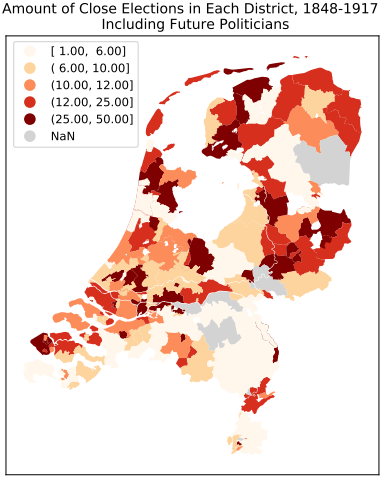
Covariate Balance - Continued

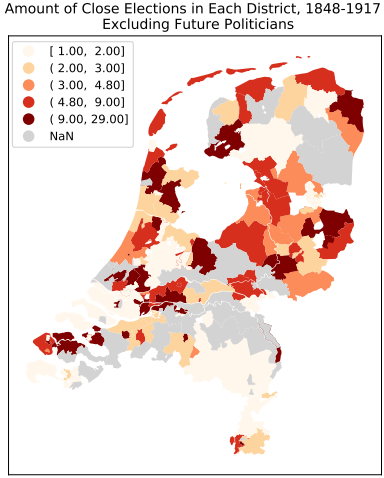
- While there are imbalances between politicians and non-politicians, at the margin, they disappear

Panel C: Election Characteristics							
Log Turnout	7.88	7.81	0.178	7.84	7.83	0.917	-0.568 (0.133)
Log Turnout Previous	7.82	7.70	0.042**	7.84	7.81	0.790	-0.424 (0.118)
Panel D: Birthplace Characteristics							
Log Population 1859	9.52	9.63	0.586	9.33	9.70	0.319	-0.153 (0.335)
Share Protestant	0.63	0.63	0.858	0.63	0.55	0.125	0.019 (0.040)
Share Catholic	0.34	0.33	0.783	0.34	0.41	0.189	-0.013 (0.042)
Labor Force Share Agricul.	0.05	0.04	0.019**	0.06	0.03	0.002***	0.007 (0.017)
Labor Force Share Industry	0.20	0.19	0.173	0.20	0.19	0.796	-0.011 (0.016)
Taxes Per Capita 1859	4.03	4.36	0.018**	3.68	4.57	0.001***	-0.040 (0.277)
Taxes Per Capita 1889	4.89	5.26	0.007***	4.71	5.42	0.008***	-0.001 (0.247)
Distance to the Hague	95.24	89.69	0.325	106.59	90.60	0.148	6.476 (9.331)
Panel E: District Characteristics							
Share Protestant	0.63	0.62	0.774	0.60	0.55	0.190	-0.004 (0.032)
Share Catholic	0.34	0.35	0.697	0.37	0.43	0.182	0.014 (0.033)
Labor Force Share Agricul.	0.06	0.07	0.206	0.06	0.05	0.178	0.020 (0.014)
Labor Force Share Industry	0.21	0.22	0.218	0.20	0.21	0.577	-0.004 (0.012)

Geographic Variation

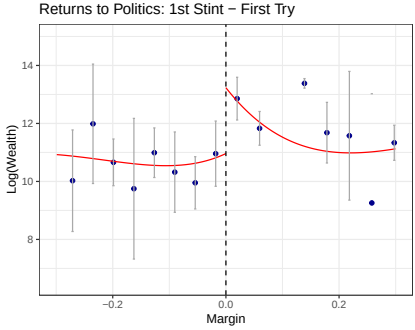
- The elections also seem to be spread out geographically:

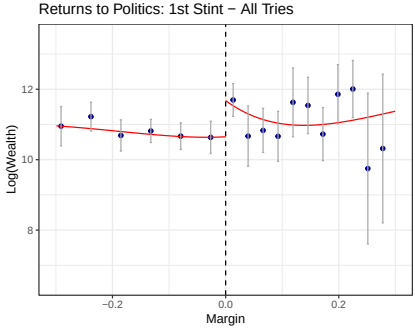




Main Results

- I first estimate the aggregate effect on personal wealth of being elected for the first time
  - While comparing candidates that have stood as a candidate the same number of times:





Main Results

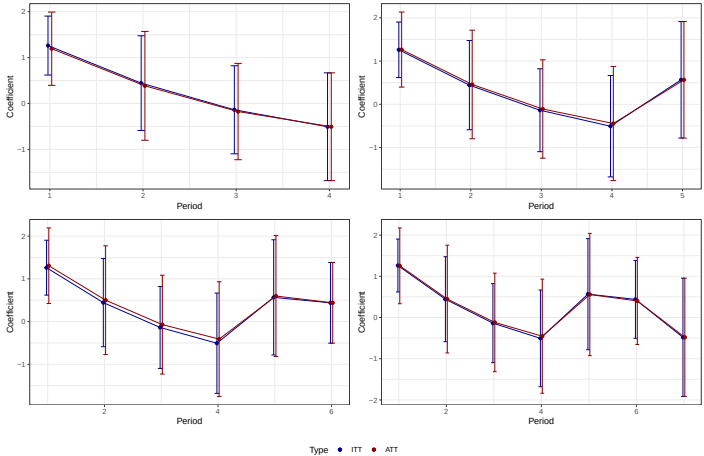
- I focus on the ITT effect for the first period
  - Comparing the end-of-life wealth of elected and non-elected candidates at the same number of tries
  - Results show a significant and positive effect, irrespective of the inclusion of several covariates.

	First Triers				Second Triers		All Triers	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Coefficient (ITT)	1.731	1.861	2.041	2.123	1.446	1.256	0.995	0.754
SE (BC)	(0.716)*	(0.539)***	(0.784)**	(0.600)***	(0.910)	(0.716)*	(0.496)**	(0.377)**
Mean DV Treated (1%)	12.849	12.849	12.901	12.901	11.059	11.059	12.375	12.375
Mean DV Control (1%)	10.193	10.193	10.887	10.887	9.759	9.759	10.706	10.706
N (Politicians)	103	103	86	86	65	65	295	295
N (Non-Politicians)	172	172	158	158	182	182	774	774
Bandwidth	Optimal	2x Optimal	Optimal	2x Optimal	Optimal	2x Optimal	Optimal	2x Optimal

Note: Table showing Bias-corrected standard errors clustered at the individual-level. The first two columns show univariate regressions under the optimal MSE bandwidth, and twice the optimal bandwidth. In columns 3 and 4, selected covariates are added, in particular, covariates that seemed to be unbalanced at the 2% cutoff. Columns 5 and 6 focus on second-triers and columns 7 and 8 pool all attempts. *: $p < 0.10$, **: $p < 0.05$, ***: $p < 0.01$.

Dynamic Returns

- I identify the returns to subsequent periods of political activity under an assumption that for some t^*, $\gamma_{t^*}^{ATT} = \gamma_{t^*}^{ITT}$.
  - The incumbency advantages are very small, hence ATT's are close to the ITT's



Explanations

Party Organization

- Party discipline might force politicians to act according to party policy rather than self-interest: returns to politics disappear after party formation
  - I identify candidates' party affiliation before parties existed by *newspaper recommendations*

	First Triers		Other Triers		All Triers	
	(1)	(2)	(3)	(4)	(5)	(6)
Coefficient (Without Party)	1.167	1.186	1.493	1.504	1.282	1.304
SE (Without Party)	(0.573)**	(0.568)**	(0.912)*	(0.913)*	(0.527)***	(0.531)***
Coefficient (Within Party)	-0.694	-0.577	0.007	0.053	-0.259	-0.160
SE (Within Party)	(0.745)	(0.735)	(0.727)	(0.756)	(0.543)	(0.570)
p-value Difference	0.058	0.074	0.272	0.458	0.09	0.122
Mean DV Treated	12.123	12.123	12.002	12.002	12.086	12.086
Mean DV Control	10.355	10.355	10.727	10.727	10.494	10.494
N Treated	207	210	120	120	327	330
N Control	485	491	286	292	771	783
Bandwidth	Optimal	Optimal	Optimal	Optimal	Optimal	Optimal

Note: I report standard errors clustered at the individual-level. The first two columns show estimates for the first-triers for the first stint, the second two estimates for second-triers, and the third pair shows the results for all triers. Columns (1), (3) and (5) contain estimates with covariates including party, lifespan, number of votes, age, and number of candidates. Columns (2), (4) and (6) control for number of tries, party, district economic composition and total amount of votes. *: $p < 0.1$, **: $p < 0.05$, ***: $p < 0.01$.

Indirect Benefits: Career Paths

- Did politicians accrue rents by means of their network? Were they able to capture privileged, exclusive positions afterwards?
  - Winners no more likely than losers to occupy these positions, contradicting the 'out of office' explanations

	Finance		Colonial		Mayor	
	(1)	(2)	(3)	(4)	(5)	(6)
Coefficient	0.002	0.003	0.001	0.000	-0.007	-0.020
SE (BC)	(0.021)	(0.021)	(0.030)	(0.029)	(0.031)	(0.030)
Mean DV Treated (1%)	0.062	0.059	0.062	0.059	0.000	0.000
Mean DV Control (1%)	0.028	0.028	0.056	0.056	0.042	0.042
N (Politicians)	587	593	587	593	587	593
N (Non-Politicians)	1112	1126	1112	1126	1112	1126
Bandwidth	Optimal	Optimal	Optimal	Optimal	Optimal	Optimal

Note: Table showing the effect of being elected into politics on three future career paths: taking up a position in finance (business), continuing in non-lower house politics (as a mayor), and taking up a career in the colonies. Bias-corrected and Robust standard errors clustered at the individual-level. All effects are estimated under the MSE-optimal bandwidth. I use two sets of covariates. *: $p < 0.10$, **: $p < 0.05$, ***: $p < 0.01$.

Conclusion

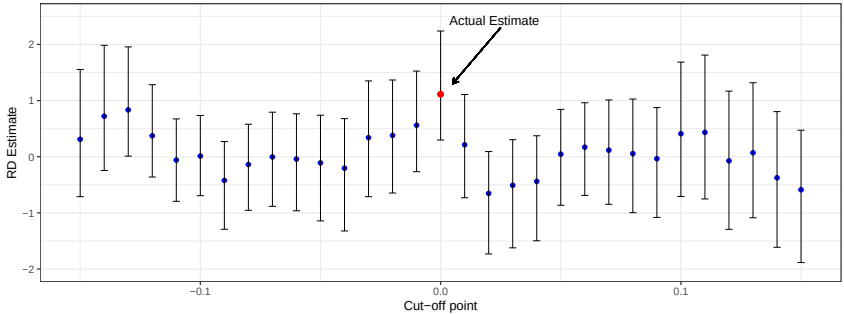
Conclusion

- Politicians who just won elections are substantially wealthier at the end of their life than their contenders who just lost
  - Even though pre-election, they were equal in many aspects.
- Rewards obtained in the first period of political activity
  - In the second and further periods, point estimates close to zero and insignificant
  - Implies rents from politics are a depletable resource
- Convex adjustment costs?
  - Effect of media, reallocation of rents toward family members?
- Anecdotal & indirect evidence in favor of an in-office rent-seeking explanation
  - Strengthened by disciplining role of political parties
  - Indirect benefits explanations made unlikely

Robustness Checks

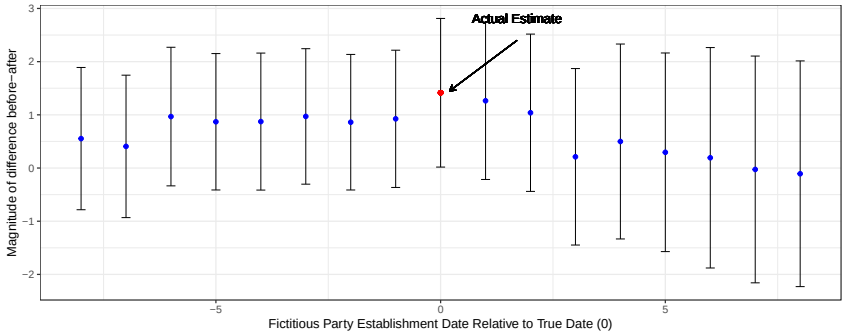
First Rents Placebo Test

- Estimating the effect at different margins gives wildly different results



Party Organization Placebo Test

- Artificially varying the party establishment data gives wildly different and insignificant results



Inverse Hyperbolic Sine

- The results are not sensitive to the definition of the dependent variable

	First Triers				Second Triers		All Triers	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Coefficient (ITT)	1.294	1.417	1.607	1.556	0.421	0.484	0.618	0.495
SE (BC)	(0.575)*	(0.455)***	(0.588)**	(0.474)***	(0.656)	(0.527)	(0.350)*	(0.276)*
Mean DV Treated (1%)	13.542	13.542	13.594	13.594	11.752	11.752	13.068	13.068
Mean DV Control (1%)	12.019	12.019	12.357	12.357	11.672	11.672	12.113	12.113
N (Politicians)	102	102	85	85	65	65	292	292
N (Non-Politicians)	167	167	153	153	176	176	761	761
Bandwidth	Optimal	2x Optimal	Optimal	2x Optimal	Optimal	2x Optimal	Optimal	2x Optimal

Selection of Non-Rent Seeking Politicians

- The results could potentially be due to selection after the first period.
- I examine the correlation between personal wealth and being elected for the n'th time after having been elected $n-1$ times
  - Should be negative, since after observing politicians' corruption, the electorate is able to filter out corrupt politicians
- Results show a positive or insignificant correlation in most cases

	(1)	(2)	(3)	(4)	(5)	(6)
Personal Wealth	0.016***	0.021**	−0.015	−0.031**	−0.002	−0.024
	(0.006)	(0.010)	(0.011)	(0.013)	(0.018)	(0.020)
N	1002	361	251	199	150	114
Adj. R2	0.25	0.10	0.11	0.03	−0.02	0.23
Party Controls	Yes	Yes	Yes	Yes	Yes	Yes
Electoral Controls	Yes	Yes	Yes	Yes	Yes	Yes
District FE	Yes	Yes	Yes	Yes	Yes	Yes

Selection of Non-Rent Seeking Politicians [2]

- Selection might also occur from the side of political parties.
  - Parties could filter out rent-seeking politicians, hence candidates might not attempt to run for office again.
  - Alternatively, parties might not accord rent-seeking candidates a recommendation again, making them less-likely to be elected
  - Correlation between wealth and prob. of candidacy:

	(1)	(2)	(3)	(4)	(5)	(6)
Personal Wealth	−0.002	−0.002	0.013	0.040***	0.002	0.044**
	(0.007)	(0.010)	(0.013)	(0.013)	(0.015)	(0.020)
N	1002	361	251	199	150	114
Adj. R2	0.10	0.10	0.07	0.11	0.13	0.05
Party Controls	Yes	Yes	Yes	Yes	Yes	Yes
Electoral Controls	Yes	Yes	Yes	Yes	Yes	Yes
District FE	Yes	Yes	Yes	Yes	Yes	Yes

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Indirect Benefits: Young vs. Old

- If the indirect benefits channel is active, young politicians should have higher returns than old politicians

	Median		30 vs. 70		20 vs. 80	
	(1)	(2)	(3)	(4)	(5)	(6)
Coefficient (Young)	-0.175	0.459	-0.056	0.689	-0.922	-0.062
SE (Young)	(0.712)	(0.597)	(1.168)	(1.023)	(1.528)	(1.240)
Coefficient (Old)	1.521	1.786	1.618	1.552	1.835	1.464
SE (Old)	(0.679)**	(0.652)***	(0.724)**	(0.685)**	(0.897)**	(0.883)
Mean DV Treated	12.225	12.214	12.644	12.791	12.393	12.714
Mean DV Control	10.666	10.497	10.954	11.114	10.650	10.775
N Treated	283	342	159	194	95	122
N Control	733	814	444	492	296	328
Bandwidth	Optimal	Optimal	Optimal	Optimal	Optimal	Optimal

Note: The table shows RD estimates using the MSE-optimal bandwidth. I report bias-corrected standard errors clustered at the individual level. The first two columns show estimates of the returns for individuals aged above and below the median age, the second two estimates the results for individuals aged above the 70th quantile and below the 30th quantile, and the third pair shows the results for individuals aged above the 80th quantile and below the 20th quantile. *: $p < 0.1$, **: $p < 0.05$, ***: $p < 0.01$.

Indirect Benefits: Young vs. Old [2]

- Elected Young & Died Young vs. Elected Young & Died Old
  - If the indirect benefits channel is active, elected young & died old should have higher returns

	Median Cut-Off		40q Cut-Off		30q Cut-Off	
	(1)	(2)	(3)	(4)	(5)	(6)
Coefficient (Died Young)	-0.748	-0.116	-1.151	-0.279	-1.463	-0.287
SE (Died Young)	(0.948)	(0.899)	(1.162)	(1.079)	(1.715)	(1.430)
Coefficient (Died Old)	0.331	0.721	0.566	0.889	0.494	0.772
SE (Died Old)	(0.754)	(0.564)	(0.698)	(0.562)	(0.538)	(0.449)
Mean DV Treated	11.598	11.520	11.598	11.520	11.598	11.520
Mean DV Control	10.920	10.433	10.920	10.433	10.920	10.433
N Treated	151	177	151	177	151	177
N Control	369	407	369	407	369	407
Bandwidth	Optimal	Optimal	Optimal	Optimal	Optimal	Optimal

ATT Decomposition Results

- Table for decomposition of ATT for $t^* = \{4, 7\}$

	t=1	t=2	t=3	t=4	t=5	t=6	t=7
Panel A: t* = 4							
Coefficient (ITT)	1.062	0.342	0	-0.685			
SE (ITT)	(0.399)***	(0.611)	(0.613)	(0.633)			
Coefficient (ATT)	0.997	0.283	-0.053	-0.685			
SE (ATT)	(0.492)**	(0.704)	(0.661)	(0.633)			
N Treated	295	219	172	141			
N Control	774	145	98	78			
Mean DV Treated	12.375	11.709	11.594	12.224			
Mean DV Control	11.004	10.505	11.944	12.677			
Panel B: t* = 7							
Coefficient (ITT)	1.062	0.342	0	-0.685	0.746	-0.129	-0.771
SE (ITT)	(0.399)***	(0.611)	(0.613)	(0.633)	(0.937)	(0.562)	(0.83)
Coefficient (ATT)	0.997	0.282	-0.054	-0.686	0.672	-0.189	-0.771
SE (ATT)	(0.574)*	(0.785)	(0.762)	(0.769)	(1.016)	(0.627)	(0.83)
N Treated	295	219	172	141	101	75	52
N Control	774	145	98	78	43	42	23
Mean DV Treated	12.375	11.709	11.594	12.224	11.657	12.194	12.112
Mean DV Control	11.004	10.505	11.944	12.677	11.997	13.187	13.103

Lifespan

- There is no discontuinity in lifespan for elected vs.nearly-elected candidates

	First Triers				Second Triers		All Triers	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Coefficient (ITT)	1.032	1.301	1.742	1.239	3.186	3.793	0.510	1.115
SE (BC)	(2.427)	(1.973)	(2.639)	(2.137)	(2.942)	(2.408)	(1.522)	(1.215)
Mean DV Treated (1%)	23.934	23.934	24.316	24.316	24.813	24.813	23.619	23.619
Mean DV Control (1%)	17.092	17.092	18.770	18.770	21.443	21.443	21.630	21.630
N (Politicians)	150	150	122	122	114	114	447	447
N (Non-Politicians)	258	258	167	167	201	201	842	842
Bandwidth	Optimal	2x Optimal	Optimal	2x Optimal	Optimal	2x Optimal	Optimal	2x Optimal

Suffrage Extensions

- Pattern of rents over time changes but does not coincide with suffrage extensions