Personal Wealth and Voting Behavior of Politicians

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Motivation

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- Many (Western) European countries underwent radical changes between roughly 1850 and 1920.
  - All of them experienced high economic growth and were rapidly industrializing.
  - Most of them transitioned to universal suffrage
  - Some of them established the groundwork of social security.
- Politicians can either obstruct or facilitate these changes
- What determines the behavior of politicians to do so?

Motivation

- Common visions on what determines the voting behavior of politicians:
  - Electoral responsiveness: the principal-agent view of politics implies that well-monitoring politicians act in the interest of their principal, the electorate (Peltzman, 1982; Levitt, 1996)
  - Special cases of which are the threat of revolution (Aidt & Franck, 2019), or more broader constituent interests (Kalt & Zupan, 1984)
  - Interest groups (Fisman et al., 2004; Mian et al., 2010)
  - Ideology: politicians have an innate conviction or preference for a certain degree of redistribution.
- In this paper:
  - Does self-interest of politicians influence their voting behavior?

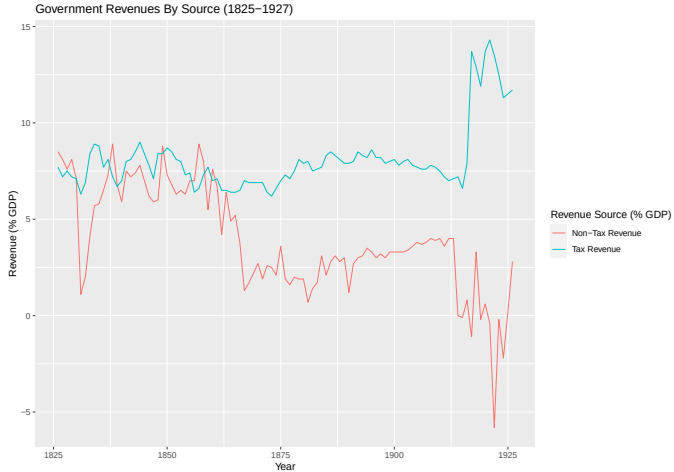
Motivation

- I focus on several important laws that instigated **fiscal reforms** in the Netherlands throughout the late 19th and early 20th centuries
- Excellent case to find out whether politicians prioritize their self-interest:
  - Fiscal reforms are very likely to affect politicians' personal finances.
  - Various parliaments, laws with varying impact
  - Varying degree of consensus
  - Other high-profile laws to check robustness
- Implications for the role of politicians in (inclusive) economic development

Fiscal Reforms

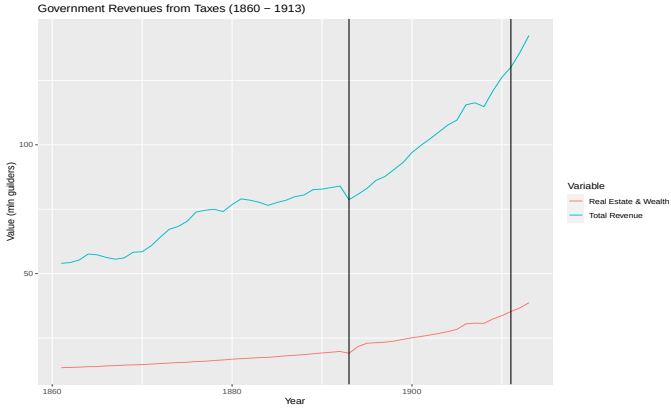
How far did fiscal reforms reach?

- After about 1870, majority of government revenues came from **taxation**.



Fiscal Reforms

- The share of tax revenue that came from real estate and wealth remained low
  - Steadily rising after the introduction of the 1893 income tax
  - Fiscal reforms encompassed (mildly) *progressive* taxes
  - Lagged effects



Fiscal Reforms

- Variation in plausible impact on politicians' personal wealth:
- Politicians' wealth would have certainly have been impacted by the Successiewet:
  - Tariffs up to 10 % (1878)
  - The poorest (net wealth $<$ 1,000 guilders) were exempted
  - The 1911 implied a sharp increase in tariffs for lineal descendants
- The income tax was progressive, but the maximum tariff implied liability of only 3,2% of earned income (Fritschy, 2005)
- The revision in 1914 implied a maximum marginal tariff of 5%. (Own calculations, IB1914)

Data

Voting Records

- Voting behavior in various important votes that lead to the acceptance or rejection of various far-reaching laws throughout the period 1870-1920.
- *Handelingen*, statengeneraaldigitaal.nl
  - Find the data on which the final roll call vote on a law took place
  - Data contain a *verbatim* transcription of debates leading up to a vote
  - List of names of politicians who voted in favor, and against

Politicians' Wealth

- I use the *Memories van Successie*: probate inventories were administered by the Dutch tax administration for the purpose of levying inheritance taxes
  - Universal from 1877 onwards
  - Publicly available until 1927
- Detailing the inventory of all assets and debts held by the deceased.
- Detailed description also allows us to research the effect of **asset composition** on likelihood to vote in favor of fiscal legislation.

Controls

- Data regarding politicians' careers, district representation, ideological and party affiliation, and social origin from the Politiek Documentatie Centrum
- Electoral controls: turnout, nearest competitor, newspaper recommendation, etc. (for lower house members) from this repository by Ron De Jong
- Data on the frequency and location of strikes from the IISG Labour Conflicts database
- Data on demographic and economic characteristics of districts from a database administered by Onno Boonstra
  - Aggregated from the municipality to the district level (if applicable)

Descriptive Statistics

- Preliminary evidence of the importance of wealth

Table 1: Eerste Kamer

law	Median No	Sd No	Median Yes	Sd Yes
Inkomstenbelasting 1893	155251	420383	127210	311877
Inkomstenbelasting 1914	NA	NA	11899	413868
Staatsschuldwet 1914	NA	NA	29822	367319
Successiewet 1878	210817	247463	300009	180113
Successiewet 1911	NA	NA	72990	353457
Successiewet 1916	55974	68298	43343	736006
Successiewet 1921	132055	88750	45948	100367

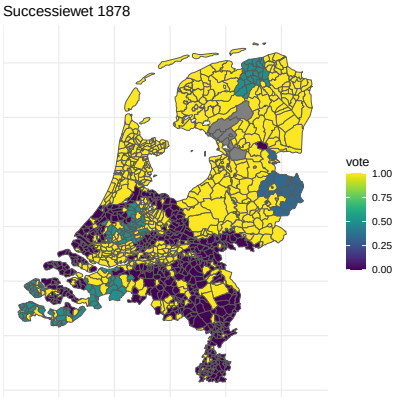
Descriptive Statistics

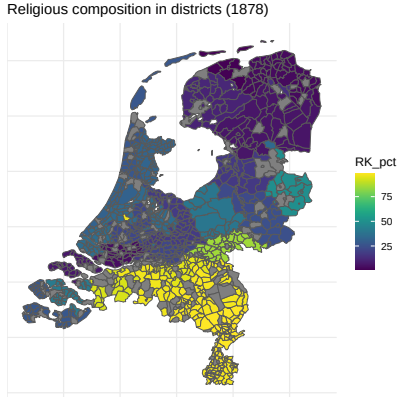
Table 2: Tweede Kamer

law	Median No	Sd No	Median Yes	Sd Yes
Inkomstenbelasting 1893	36814	151295	67715	363728
Inkomstenbelasting 1914	24450	49451	35651	244857
Staatsschuldwet 1914	32611	244466	3163	20070
Successiewet 1878	89491	308197	73436	207066
Successiewet 1911	87017	321911	24133	307677
Successiewet 1916	27068	197906	29162	251791
Successiewet 1921	34312	83742	1400	16734

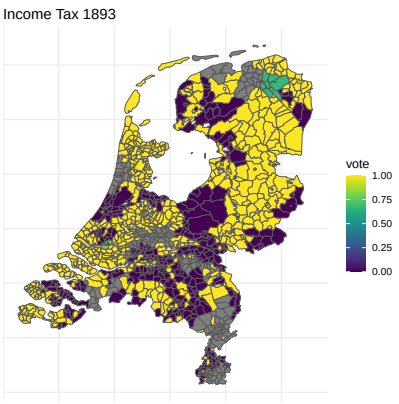
Descriptive Statistics

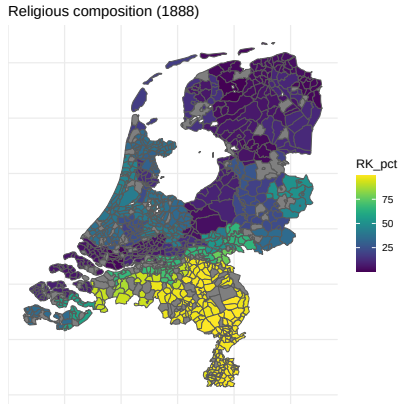
- A correlation between region (religion) and voting behavior?





Descriptive Statistics





Method

Empirical Challenges

- Reverse causality:
  - Politicians' voting behavior might be rewarded by interest groups.
  - Politicians who vote against laws
  - Risk to **overestimate** the effect of personal wealth on voting behavior
- Instrumental variable: parental wealth
  - Assumed to be strongly correlated with politicians' wealth before voting
  - No direct influence on politicians' voting behavior (other than through politicians' wealth)

Empirical Model

- Baseline model (politician i, roll-call vote k):

$$V_{i,k} = \alpha + \beta_1 \cdot \text{Wealth}_{i,k} + \beta_2 \cdot \text{Wealth}_{i,k} \cdot \text{LawDum}_k + \gamma \cdot \text{Controls}_{i,k} + u_{i,k}$$

- In other words, I pool laws and estimate a linear probability model
- Calculate wealth at the time of voting from wealth at death:

$$\text{Wealth}_{i,t+1} = \sum_J \text{AssetShare}_{i,j,t} \cdot \text{AssetReturn}_{i,j,[t,t+1]}$$

- Since I know wealth at death, and the portfolio composition, calculate the (average) real returns on asset class j and estimate the wealth at the time of voting.
- Historical returns provided by Jorda et al. (2019)

Results

Baseline Results - Regression

- This estimate addresses the influence of wealth *within-party*.
- Plausible magnitude: a 1% increase in wealth decreases the probability of voting in favor with 1.8 percentage point.

Table 3: Baseline regressions

	Dependent variable:			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.024^{**}	-0.018^{*}	-0.022	-0.031^{*}
	(0.011)	(0.011)	(0.014)	(0.017)
Constant	0.942^{***}	0.660^{***}	0.586^{***}	0.987^{***}
	(0.123)	(0.118)	(0.146)	(0.192)
House	Both	Both	TK	EK
Controls	None	Party	Party	Party
Observations	482	480	313	167
R^2	0.010	0.197	0.284	0.105
Note:				*p<0.1; **p<0.05; ***p<0.01
				Robust standard errors in parentheses

Baseline Results - Full controls

- Effect keeps existing after controlling for religion, region, constituent interests

Table 4: Estimates with various sets of controls

	Dependent variable:			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.026^{**}	-0.020^{*}	-0.026^{**}	-0.025^{*}
	(0.012)	(0.012)	(0.012)	(0.015)
Constant	0.603^{***}	0.529^{***}	0.755^{***}	0.754^{***}
	(0.136)	(0.135)	(0.150)	(0.186)
House	TK	TK	TK	TK
Basic Controls	Law+Party	Law+Party	Law+Party	Law+Party
Other Controls	None	Strikes	2 + Religion	3 + Economy
Observations	313	295	285	209
R^2	0.465	0.491	0.505	0.516
Note:				*p<0.1; **p<0.05; ***p<0.01

Baseline Results - Full controls

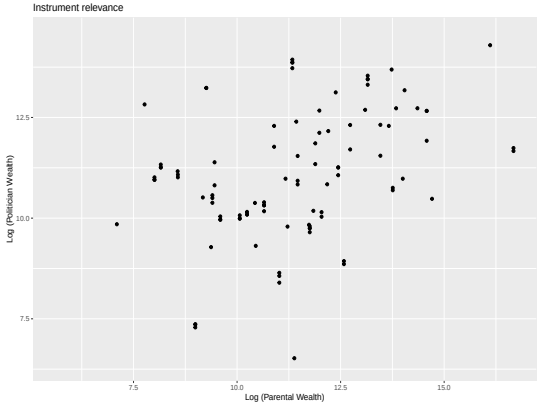
- In the Upper house, the results are less robust to the inclusion of controls
  - Though the coefficient borders on significance and the point estimate is negative

Table 5: Estimates with various sets of controls

	Dependent variable:			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.031^{*}	-0.027	-0.024	-0.024
	(0.017)	(0.017)	(0.017)	(0.017)
Constant	0.987^{***}	1.001^{***}	0.787^{**}	0.787^{**}
	(0.192)	(0.191)	(0.370)	(0.370)
House	EK	EK	EK	EK
Controls	Party	1 + Tenure	2 + Age of Vote	3 + Age of Entry
Observations	167	167	167	167
R^2	0.105	0.117	0.120	0.120
Note:				*p<0.1; **p<0.05; ***p<0.01
				Robust standard errors in parentheses

IV Estimates (Preliminary)

- Control for the possible influence of interest groups



IV Estimates (Preliminary)

- No significance yet, but same magnitude as OLS estimates.

Table 6: IV estimates

	Dependent variable:	
	Wealth	Vote
	OLS	*instrumental variable*
	(1)	(2)
log(1 + par_wealth)	0.292***	
	(0.073)	
log(1 + wealth_timevote)		−0.029
		(0.082)
Constant	7.752***	0.698
	(0.846)	(0.896)
Controls	Party	Party
Observations	99	99
R^2	0.141	0.146
Note:	*p<0.1; **p<0.05; ***p<0.01	

Robustness: Died Shortly After Vote

- Dying shortly after leaving office leaves little time to accumulate wealth from interest groups

Table 7: Robustness analyses

	Dependent variable:			
	Vote			
	<2 yr	<2 yr	<5 yr	<5 yr
	(1)	(2)	(3)	(4)
Wealth x No	−0.014	−0.014	−0.017	−0.016
	(0.011)	(0.011)	(0.011)	(0.011)
Wealth x Yes	−0.019*	−0.017*	−0.019*	−0.017
	(0.011)	(0.010)	(0.011)	(0.010)
Constant	0.642***	0.568***	0.656***	0.579***
	(0.119)	(0.121)	(0.118)	(0.121)
House	Both	Both	Both	Both
Controls	Party	Party+Law	Party	Party+Law
Observations	480	480	480	480
R^2	0.200	0.310	0.197	0.309

Note: *p<0.1; **p<0.05; ***p<0.01
Robust standard errors in parentheses

Robustness Checks: Other Laws

[Effect on Electoral Expansion (Null effect)]

[Effect on Social Intervention (Null effect)]

Robustness Checks: Wealth Composition

Table 8: Second-order effects

	Dependent variable:					
	Vote					
	(1)	(2)	(3)	(4)	(5)	(6)
Real Estate	-0.123^{*}	-0.089				
	(0.063)	(0.060)				
Foreign Assets			-0.168	-0.122		
			(0.130)	(0.125)		
Shares					-0.095	-0.159^{**}
					(0.083)	(0.079)
Constant	0.514^{***}	0.428^{***}	0.496^{***}	0.419^{***}	0.497^{***}	0.430^{***}
	(0.034)	(0.048)	(0.031)	(0.048)	(0.033)	(0.046)
House Controls	Both Party	Both Party+Law	Both Party	Both Party+Law	Both Party	Both Party+Law
Observations	516	516	516	516	516	516
R^2	0.174	0.295	0.171	0.293	0.170	0.297

Note: *p<0.1; **p<0.05; ***p<0.01
Robust standard errors in parentheses

Conclusion

Conclusion

- I find a significant and persistent effect of personal interests on voting behavior of politicians.
  - The counterfactual implies that if you make a politician 20% richer, personal interests subsume party or ideological allegiance.
  - The effect seems to be persistent in the **lower house**.
- Consistent with the view that politicians are imperfectly monitored
  - They are imperfect agents of the principal
- Politicians prioritize not only their ideology, but also their finances
  - But only when faced with imminent and real prospects of losing/winning
  - No convincing "general equilibrium" effects

Thank you for your attention!