

Democratization, Personal Wealth of Politicians and Voting Behavior

Bas Machielsen

Utrecht University

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Motivation

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- From about 1850 to 1920, a wave of democratization and liberalization swept over Western Europe, bringing about universal suffrage and an expansion of government.
- The double transition from autocracy to parliamentary democracy, and from passive government to a welfare state, has been widely studied in various disciplines.
 - Threat of revolution (Acemoglu and Robinson, 2000)
 - Electoral expedience (Lizzeri and Perisco, 2004)
 - Electoral competition (Llavador and Oxoby, 2005)
- The conception of politicians' self-interest in these studies revolves around safeguarding political power.
- However, politicians might also care about a more superficial form of self-interest: their personal wealth (Ferraz and Finan, 2009; Tahoun and Van Lent, 2019).

This study

- I use the setting of the Netherlands to analyze politicians' voting behavior in parliament on all suffrage extensions and tax hikes between 1872-1921
 - Inheritance taxation (*Successiewet*)
 - Income taxation (*Inkomstenbelasting*)
- I employ newly-collected probate inventories collected from various archival sources to identify the relationship between politicians' personal wealth and their voting behavior.
- Using data on the portfolio composition of politicians' wealth, I estimate their net wealth at the time of voting, and relate this to the voting outcome.
- I provide instrumental variable (IV) estimates of personal wealth on the propensity to vote for reforms.
 - Politician's wealth is instrumental by parental wealth by an indicator whether the politician's father was also politically active.
 - I undertake various efforts to make the exclusion restriction plausible.

Results - Overview

- Major finding: richer politicians are more likely to vote against fiscal legislation than *ceteris paribus* poorer politicians
 - Instrumental variable analyses suggest there is a direct effect of fiscal legislation on personal future wealth.
 - The effects are robust to the inclusion of many control variables and alternative instruments, but they are absent in legislation *not directly affecting* politicians' personal wealth (suffrage extensions)
- Consistent with the historiography, ideology and party are major determinants of voting behavior
 - But the effect of personal wealth is strong enough to materially influence the voting outcome
- Pioneering laws are the primary drivers for the effect
 - Consistent with politicians the effect being more pronounced when expected costs of acceptance are higher

Background

Suffrage Extensions

- From 1848 onward, government formation and legislative power were subjected to parliamentary control
- Initially, very few were enfranchised: based on tax burden (*Censuskiesrecht*) (van der Kolk et al., 2018)
 - Failed attempt at expansion in 1872: questions of suffrage and income taxation were intertwined
 - In 1887, constitutional revisions granted suffrage to significantly more men, other criteria than taxation included.
 - Followed by another failed attempt in 1892 and a significant expansion in 1896.
- Main causes of disagreement: specific numbers and precise criteria. Not a debate dominated by abstract principles.

Fiscal Legislation

- From the 1850's onward, the government oversaw liberalization and harmonization in all sorts of domains (Knippenberg et al., 2000).
- Nevertheless government size was still very limited, and while defense spending slightly decreased following more modest geopolitical ambitions (Van den Berg and Vis, 2013), government expenditures per capita did not see a structural increase (van Riel, 2018).
- This started to change from the 1870's onward:
 - In 1878, a law project passed which introduced inheritance taxation for lineal descendants.
 - In 1893, liberal government introduced the first income taxation.
- These precedents set the path for successive increases in rates based on the architecture set by the two preceding laws.

Personal Impact on Politicians

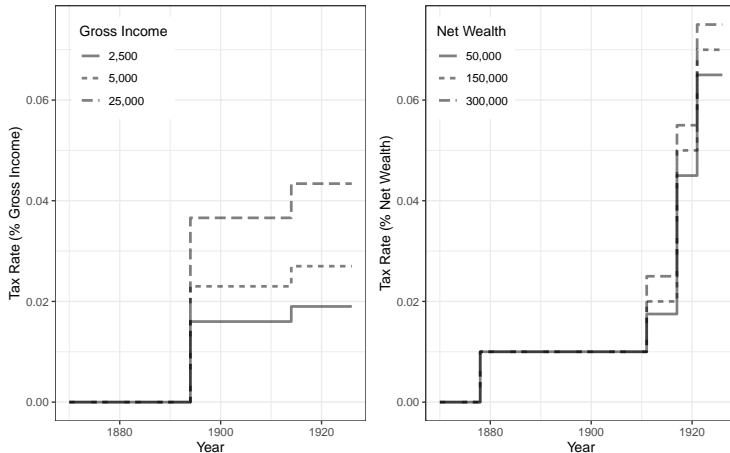


Figure 1: Tax Rates on Income (Left) and Wealth (Right)

Method

Empirical Model

- I firstly pool all laws, and model $V = \Pr(p_i = 1)$ as a function of a politician's wealth and party, augmented by controls:

$$V_{i,j} = \alpha + \beta \cdot \text{Wealth}_{i,j} + \delta \cdot \text{Party}_i + \gamma \cdot \text{LawDum}_j + \eta \cdot \text{Controls}_{i,j} + \varepsilon_{i,j}$$

- In other specifications, I separately estimate regressions for suffrage extensions and fiscal legislation.
- I use the following recursive relationship to estimate a politician's wealth at the time of voting on law k as a function of their (deflated) wealth at death:

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

Endogeneity

- Even after correcting for differential wealth returns, politicians' wealth could be endogenously determined, because particular voting behavior might be rewarded by interest groups, and other behavior is not (Fisman et al., 2014, Tahoun and van Lent, 2019)
- I use a dummy variable indicating whether a politician died within $x \in \{2, 5\}$ years after having cast the vote on a particular law, and estimate the following model:

$$V_{i,j} = \alpha + \beta_1 \cdot \text{lhs Wealth}_{i,j} + \beta_2 \cdot \text{Died within X years}_i + \\ \beta_3 \cdot \text{lhs Wealth} \times \text{Died within X years}_{i,j} + \\ \beta_4 \cdot \text{Party}_i + \beta_5 \cdot \text{LawDum}_j + \gamma \cdot \text{Controls}_{i,j} + \varepsilon_{i,j}$$

Endogeneity

- There might still be many reasons why this approach does not isolate the effect of personal wealth on voting behavior.
 - For example, politicians' consumption and investment behavior might be correlated with their voting behavior: politicians who vote against might have consumed more of their income, reducing the observed correlation between personal wealth and voting behavior.
 - More generally, unobserved politician fixed effects might be correlated with wealth.
- I use instrumental variable estimation to address this.
 - Two unrelated instruments: *Father Politician* and *Expected Inheritance*
- Threats to identification imply that instrument might in itself suffer from endogeneity bias.
 - Politicians whose fathers were politically active could share a latent encompassing ideology (e.g. a penchant for increasing the size of the government)
 - They could therefore be inclined to vote in favor of laws that expand government
 - Robustness checks to make exclusion restriction plausible

Results

Descriptive Statistics

Table 1: Dissent in Voting Behavior in Key Laws

Category	Law	Year	N	Pct. In Favor	Status	Party Line			Dissent		
						Confessional	Liberal	Socialist	Confessional	Liberal	Socialist
Suffrage Extension	Electoral Law	1872	67	0.46	Rejected	Con	Pro	-	0.21	0.21	-
		1887	81	0.81	Accepted	Pro	Pro	-	0.34	0.03	-
		1892	98	0.42	Rejected	Con	Pro	Pro	0.15	0.35	0.00
		1896	91	0.74	Accepted	Pro	Pro	Pro	0.42	0.15	0.00
		1918	72	0.86	Accepted	Pro	Pro	Pro	0.30	0.00	0.00
Fiscal Legislation	Income Tax	1872	70	0.37	Rejected	Con	Pro	-	0.22	0.47	-
		1893	89	0.62	Accepted	Con	Pro	None	0.31	0.12	0.50
		1914	79	0.85	Accepted	Pro	Pro	Pro	0.32	0.00	0.00
	Inheritance Tax	1878	80	0.60	Accepted	Con	Pro	-	0.29	0.08	-
		1911	68	0.93	Accepted	Pro	Pro	Pro	0.14	0.00	0.00
		1916	77	0.62	Accepted	Con	Pro	Pro	0.17	0.00	0.00
		1921	72	0.76	Accepted	Pro	None	Pro	0.26	0.50	0.00

Party Line is defined as the median vote per party: 'Pro' if in favor, 'Con' if against, 'None' if no discernible party line (equally split), and '-' if N.A.

Dissent is defined as the percentage of politicians of each faction having voted against the party line.

OLS Estimates

- OLS Estimates of Wealth on the Propensity to Vote for Suffrage and Fiscal Legislation
 - Results show small but significant relationship

	Pooled			Suffrage	Fiscal
	Model 1	Model 2	Model 3	Model 4	Model 5
Personal Wealth		-0.007*** (0.003)		-0.008 (0.005)	-0.009* (0.005)
Personal Wealth x Fiscal			-0.007** (0.004)		
Personal Wealth x Suffrage			-0.007* (0.004)		
Liberal	0.385*** (0.027)	0.433*** (0.033)	0.433*** (0.033)	0.383*** (0.071)	0.373*** (0.062)
Socialist	0.523*** (0.034)	0.602*** (0.047)	0.602*** (0.047)	0.568*** (0.113)	0.281*** (0.080)
Law Fixed Effects	Yes	Yes	Yes	Yes	Yes
N	1028	675	675	249	270
Adj. R2	0.35	0.36	0.36	0.29	0.43

Vote is defined as 1 if the politician is in favor of the reform, 0 otherwise.

The reference political allegiance is confessional. Personal Wealth is defined as $\ln(\text{Wealth at Time of Vote})$.

Heteroskedasticity-robust standard errors in parentheses. Results for lower house voting outcomes.

Control variables omitted from the table.

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

Endogeneity Test

Table 2: Endogeneity Test for Suffrage Extension and Fiscal Legislation

	Pooled		Suffrage		Fiscal	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Personal Wealth	-0.008* (0.004)	-0.010** (0.004)	-0.012* (0.007)	-0.013* (0.007)	-0.009 (0.006)	-0.016* (0.008)
Died W 2 Yrs	0.028 (0.063)	0.033 (0.069)	0.032 (0.109)	0.023 (0.107)	0.031 (0.095)	-0.036 (0.107)
Personal Wealth x Died W 2 Yrs	0.002 (0.006)	0.006 (0.006)	0.011 (0.009)	0.013 (0.009)	0.002 (0.008)	0.009 (0.009)
Liberal	0.457*** (0.034)	0.376*** (0.045)	0.365*** (0.070)	0.361*** (0.072)	0.389*** (0.058)	0.368*** (0.061)
Socialist	0.496*** (0.043)	0.381*** (0.060)	0.612*** (0.106)	0.600*** (0.111)	0.327*** (0.072)	0.277*** (0.086)
Law Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
N	629	571	257	249	314	275
Adj. R2	0.33	0.36	0.30	0.31	0.41	0.42

Vote is defined as 1 if the politician is in favor of the reform, 0 otherwise.

The reference political allegiance is confessional. Personal Wealth is defined as $\ln(\text{Wealth at Time of Vote})$.

Heteroskedasticity-robust standard errors in parentheses. Results for lower house voting outcomes.

Control variables omitted from the table.

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

IV Estimates

Robustness Checks