

# 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; 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?

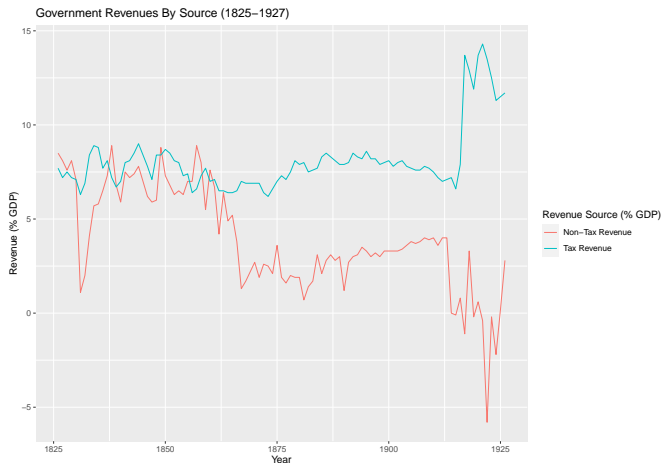
# Motivation

- 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
  - Other high-profile laws to check robustness
- Implications for the role of politicians in (inclusive) economic development

## Fiscal Reforms

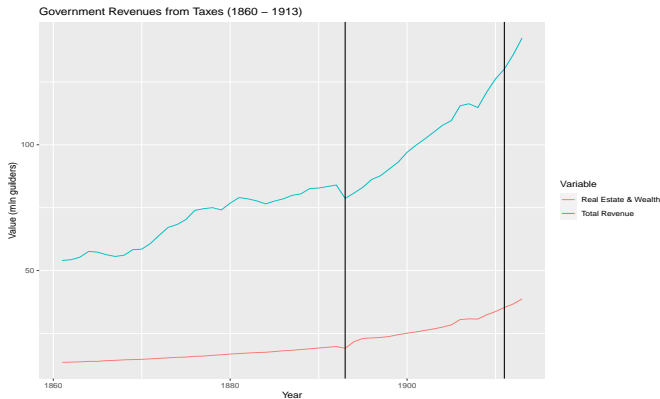
# How far did fiscal reforms reach?

- 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

- My principal research question is about the influence of politicians' self-interest on their voting behavior in various important votes that lead to the acceptance or rejection of various far-reaching laws throughout the period 1870-1920.
- More precisely, I attempt to identify the influence of politicians' personal wealth on their voting behavior on laws that **potentially affect** politicians' personal wealth.
- By paying close attention to the theory, I attempt to incorporate as many insights in the behavior of politicians as possible.
- I try to measure both factors suggested by political historians, as well as factors suggested by economists and political scientists.

# Descriptive Statistics



# 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)

## 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

## IV Estimates (Preliminary)

## Robustness Checks: Other Laws

[Effect on Electoral Expansion (0)]

[Effect on Social Intervention (0)]

# Robustness Checks: Wealth Composition

[With Real Estate Share etc. as Indep Vars]

## Conclusion

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