

# Personal Wealth and Voting Behavior of Politicians

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## Context

- Overarching theme: Politicians and personal interests
  - Consequences for economic growth & development (Netherlands, 19th and early 20th centuries)
- Ch. 1: The Wealth of the Dutch Political Elite
- Ch. 2: Does personal wealth influence voting behavior? (This paper)
- Ch. 3: Being elected in national politics → becoming richer?

# Motivation

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- Theoretical:
  - Principal-agent views of politics hold that politicians are agents on behalf of the electoral (the principals) (Duggan & Martinelli, 2017)
  - Politicians can decide to pursue their own interest (Mian et al., 2010)
  - One of the forms of pursuing self-interest is by increasing (non-decreasing) their wealth
- Historical:
  - Historiography points at party discipline and ideology as most important factors in late 19th and early 20th century (e.g. Lijphart 1975, De Jong, 1999)
  - Personal interests overlooked, even though:
    - Small political elite
    - Uncompetitive electoral system

# Results - Overview

- Major finding: richer politicians are more likely to vote against fiscal legislation than *ceteris paribus* poorer politicians
  - There is (likely) a direct effect of legislation on personal future wealth [Background](#)
- The effects seem to be absent in legislation *not directly affecting* politicians' personal wealth:
  - Suffrage expansion, other gov't intervention [Results](#)
- Consistent with the historiography, ideology and party are major determinants of voting behavior
  - But the effect of personal wealth implies that a 20% increase/decrease would suffice to dominate the effect of party affiliation.

# Approach

- Hypothesis: personal wealth influences voting behavior
- Voting behavior: voting records from lower & upper house Voting Data
  - Wealth: *Memories van Successie* Wealth Data
  - Control variables suggested by the literature
- Robustness checks:
  - Take into account alternative explanations (interest-groups)
  - Compare with laws that do not directly affect personal finances

# 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

## Results

## Results - Baseline model

- 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

	<i>Dependent variable:</i>			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.024** (0.011)	-0.018* (0.011)	-0.022 (0.014)	-0.031* (0.017)
Constant	0.942*** (0.123)	0.660*** (0.118)	0.586*** (0.146)	0.987*** (0.192)
House	Both	Both	TK	EK
Controls	None	Party	Party	Party
Observations	482	480	313	167
R <sup>2</sup>	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 (TK)

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

Table 4: Estimates with various sets of controls

	<i>Dependent variable:</i>			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.026** (0.012)	-0.020* (0.012)	-0.026** (0.012)	-0.025* (0.015)
Constant	0.603*** (0.136)	0.529*** (0.135)	0.755*** (0.150)	0.754*** (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 <sup>2</sup>	0.465	0.491	0.505	0.516

Note:

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

## Baseline Results - Full controls (EK)

- 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

	<i>Dependent variable:</i>			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.031* (0.017)	-0.027 (0.017)	-0.024 (0.017)	-0.024 (0.017)
Constant	0.987*** (0.192)	1.001*** (0.191)	0.787** (0.370)	0.787** (0.370)
House Controls	EK Party	EK 1 + Tenure	EK 2 + Age of Vote	EK 3 + Age of Entry
Observations	167	167	167	167
R <sup>2</sup>	0.105	0.117	0.120	0.120

Note:

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

## Alternative Explanations: Died Shortly After Vote

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

Table 6: Robustness analyses

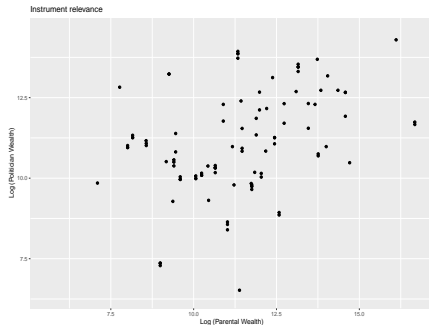
	<i>Dependent variable:</i>			
	Vote			
	<2 yr (1)	<2 yr (2)	<5 yr (3)	<5 yr (4)
Wealth x No	−0.014 (0.011)	−0.014 (0.011)	−0.017 (0.011)	−0.016 (0.011)
Wealth x Yes	−0.019* (0.011)	−0.017* (0.010)	−0.019* (0.011)	−0.017 (0.010)
Constant	0.642*** (0.119)	0.568*** (0.121)	0.656*** (0.118)	0.579*** (0.121)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

Note:

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

# Alternative Explanations: Parental Wealth

- Wealth of politicians' parents proxies for politicians' wealth before voting
  - Assumed to be strongly correlated with politicians' wealth
  - No direct influence on politicians' voting behavior (other than through politicians' wealth)



## IV Estimates (Preliminary)

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

Table 7: IV estimates

	<i>Dependent variable:</i>	
	Wealth <i>OLS</i>	Vote <i>instrumental variable</i>
	(1)	(2)
$\log(1 + \text{par\_wealth})$	0.292*** (0.073)	
$\log(1 + \text{wealth\_timevote})$		-0.029 (0.082)
Constant	7.752*** (0.846)	0.698 (0.896)
Controls	Party	Party
Observations	99	99
R <sup>2</sup>	0.141	0.146

Note:

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$



## Conclusion

# Conclusion

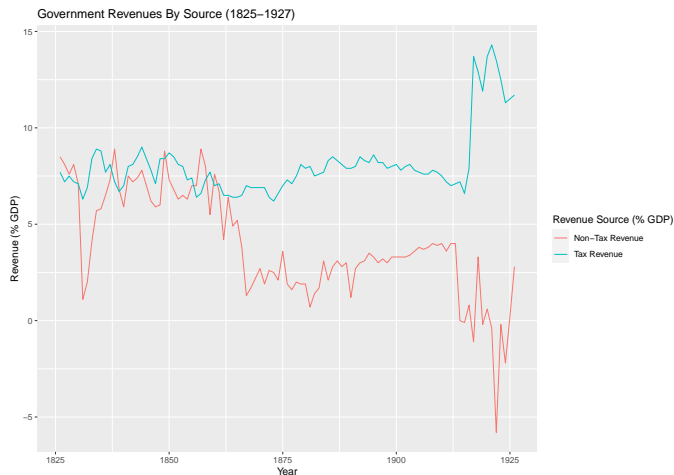
- I find a significant and persistent effect of personal interests on voting behavior of politicians.
  - The counterfactual implies that if you make a politician 20% richer, personal interests subsume party or ideological allegiance.
  - The effect seems to be persistent in the **lower house**.
- Politicians 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
- Confessional politicians have less party discipline
- Future: more observations in IV regression

Thank you for your attention!

## Appendix: Fiscal reform

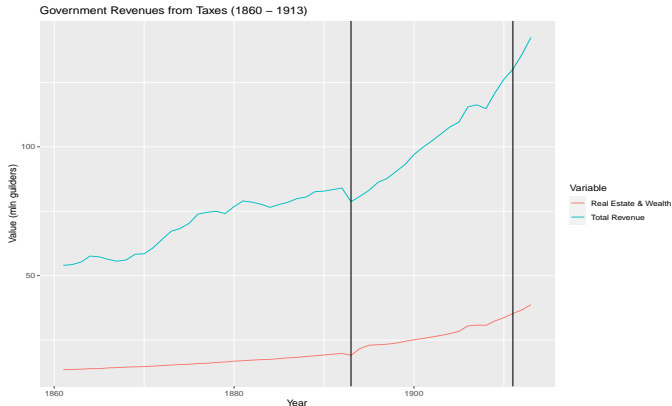
# How far did fiscal reforms reach?

- 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 revision 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)

## Appendix: 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](http://statengeneraaldigitaal.nl)
  - Find the dates 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

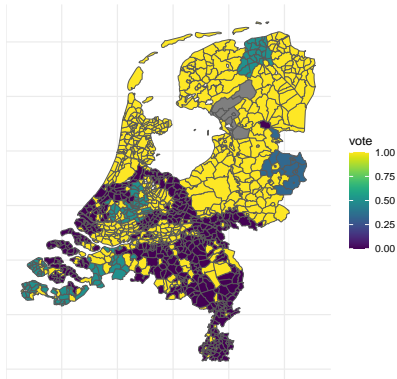
- Data regarding politicians' careers, district representation, ideological and party affiliation, and social origin from the Politiek Documentatie Centrum
- Electoral controls: turnout, nearest competitor, newspaper recommendation, etc. (for lower house members) from this repository by Ron De Jong
- 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)

## Appendix: Spatial descriptive statistics

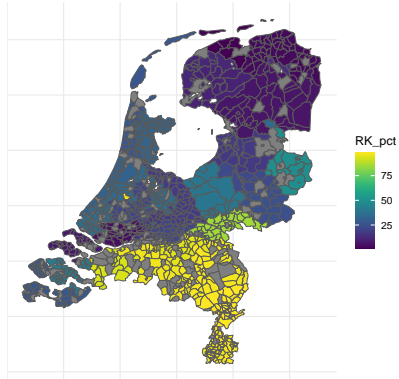
# Descriptive Statistics

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

Successiewet 1878

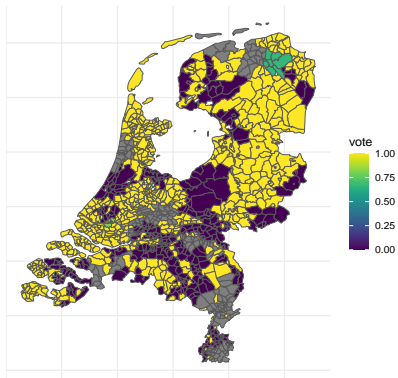


Religious composition in districts (1878)

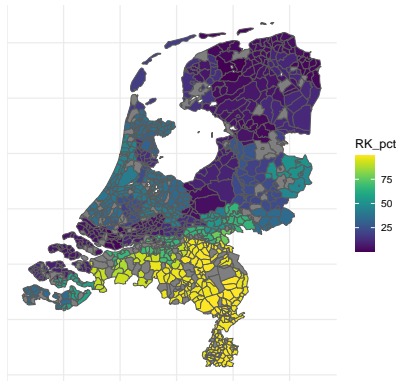


# Descriptive Statistics

Income Tax 1893



Religious composition (1888)



## Appendix: 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)

## Appendix: Additional results

# Robustness Checks: Social Redistribution

Table 8: Social Redistribution

	<i>Dependent variable:</i>			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.001 (0.008)	0.001 (0.009)	-0.0002 (0.010)	-0.0002 (0.010)
Constant	0.148 (0.107)	0.138 (0.118)	0.167 (0.148)	0.167 (0.149)
Controls	Strikes	1+Religion	2+Economy	3+Electoral
House	TK	TK	TK	TK
Observations	556	532	373	373
R <sup>2</sup>	0.453	0.449	0.429	0.429

Note:

\* p<0.1; \*\* p<0.05; \*\*\* p<0.01

# Robustness Checks: Suffrage Expansion

Table 9: Suffrage Extension

	<i>Dependent variable:</i>			
	Vote			
	(1)	(2)	(3)	(4)
Wealth	-0.010 (0.016)	-0.015 (0.016)	-0.011 (0.018)	-0.008 (0.018)
Constant	0.367** (0.183)	0.470** (0.199)	0.437* (0.225)	0.445** (0.224)
Controls	Strikes	1+Religion	2+Economy	3+Electoral
House	TK	TK	TK	TK
Observations	246	243	214	214
R <sup>2</sup>	0.300	0.300	0.273	0.283

Note:

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

# Robustness Checks: Wealth Composition

Table 10: Second-order effects

	<i>Dependent variable:</i>					
	Vote					
	(1)	(2)	(3)	(4)	(5)	(6)
Real Estate	-0.123* (0.063)	-0.089 (0.060)				
Foreign Assets			-0.168 (0.130)	-0.122 (0.125)		
Shares					-0.095 (0.083)	-0.159** (0.079)
Constant	0.514*** (0.034)	0.428*** (0.048)	0.496*** (0.031)	0.419*** (0.048)	0.497*** (0.033)	0.430*** (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 <sup>2</sup>	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

The End