Political Rents Under A Changing Electoral 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 that investigates under which circumstances politicians can accrue political rents. 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

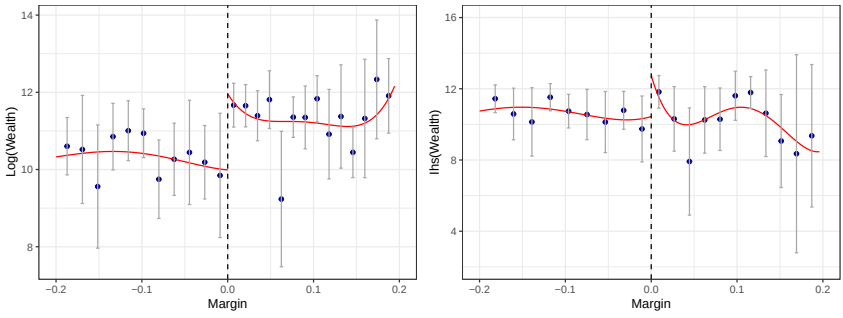
- Most studies are static in nature and do not focus on the institutional determinants of political rents.
- This study focuses on a *dynamic* environment in which the political system changes: the case of the Netherlands (1860-1917)
- Many aspects of the political system changed:
  - The rise of the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

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)
- Elections on the basis of a district system at the time $\rightarrow$ Many (close) elections
- I employ a regression discontinuity methodology based on close elections to estimate political rents using the method of Cattaneo et al. (2019)
  - Detailed data on characteristics of politicians to examine what allows politicians to accrue rents

Results - Overview

- I first replicate the methodology from the contemporary literature to show the existence of politcal rents in the 19th century Netherlands:



- And then set out out to find the influence of career paths, party politics & organization and suffrage extensions on political rents.

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 Margin and find candidates in close elections
- Probate inventories: *Memories van Successie*
  - Archival source available from 1877-1921
  - Measure of political rents: wealth at death
  - Finding rate: about 70% of inventories
  - Main reason for absence: 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 then regard an individual as having taken part in a close election if $|\text{Margin}_{i,e}| < 0.2$. Using this criterion, about 600 close elections (out of approx. 2400)

Method

- I use the methodology by Cattaneo et al. (2019), who implement a local linear MSE-optimal RD Estimator
- This estimator optimally trades off bias and variance when picking the bandwidth
  - Consistent with recommendations of Imbens and Gelman (2018)
  - Bias-corrected (Robust) confidence intervals for inference
- Specification:

$$g(W_i) = \alpha + \delta \cdot 1_{\text{Margin}_i > 0} + \eta \cdot \text{Margin}_i + X_i\beta + \epsilon_i$$

- I use two variants of g: $g(.) = \log(.)$ and $g(.) = \text{ihs}(.)$

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	0.16	0.14	0.693	0.16	0.22	0.354	0.034 (0.132)
Rec: Liberal	0.34	0.29	0.242	0.37	0.32	0.506	-0.204 (0.166)
Rec: Socialist	0.04	0.02	0.370	0.03	0.00	0.045**	0.036 (0.033)
Rec: Catholic	0.20	0.16	0.283	0.17	0.20	0.577	-0.100 (0.137)
Panel B: Pre-Election Demographic Characteristics							
Lifespan	20.73	19.67	0.290	20.17	20.24	0.973	-0.469 (4.065)
Age at Election	51.14	49.16	0.022**	51.18	46.20	0.005***	4.995 (4.200)
Year of Death	1906.39	1900.77	0.000***	1904.95	1900.38	0.039**	4.479 (4.073)
Panel C: Election Characteristics							
Year of Election	1885.60	1880.99	0.000***	1884.67	1880.03	0.029**	4.964 (4.289)
No. Participated	2.62	0.59	0.000***	1.77	0.71	0.002***	1.547 (0.942)
Log Turnout	8.38	7.90	0.000***	8.58	8.29	0.109	0.180 (0.343)
Log Turnout Previous	8.05	7.72	0.000***	8.31	7.99	0.059*	0.169 (0.314)

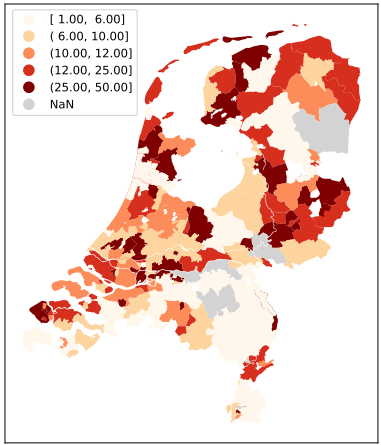
Covariate Balance - Cont'd

	Margin < 0.2			Margin < 0.05			
	Politicians	Non-Politicians	p-val.	Politicians	Non-Politicians	p-val.	RD Estimate (SD)
Panel D: Birthplace Characteristics							
Birthplace % Cath.	0.31	0.28	0.333	0.31	0.28	0.494	-0.020 (0.104)
Birthplace % Prot.	0.65	0.69	0.116	0.65	0.68	0.325	0.006 (0.098)
Birthplace % Agri	0.03	0.07	0.000***	0.02	0.07	0.004***	-0.045 (0.031)
Birthplace % Industry	0.22	0.20	0.049**	0.23	0.20	0.028**	0.033 (0.035)
BP Taxes per Cap (1859)	3.66	3.82	0.305	3.87	3.96	0.771	1.144 (0.755)
BP Taxes per Cap (1889)	4.32	4.69	0.031**	4.55	4.73	0.539	1.122 (0.764)
Distance BP-The Hague	187.25	83.60	0.067*	91.34	83.91	0.530	-6.350 (30.337)
Panel E: District Characteristics							
District % Prot.	0.70	0.70	0.916	0.70	0.71	0.592	0.060 (0.089)
District % Cath.	0.26	0.27	0.627	0.25	0.25	0.959	-0.073 (0.088)
District % Agri	0.06	0.07	0.275	0.04	0.05	0.938	-0.018 (0.042)
District % Industry	0.23	0.24	0.210	0.23	0.24	0.361	0.000 (0.036)

Geographic Variation

- The elections also seem to be spread out geographically:

Amount of Close Elections in Each District, 1848-1917
Including Future Politicians



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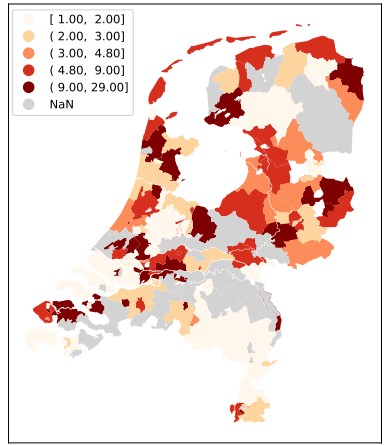


Main Results

- The results show a significant and positive effect, irrespective of the inclusion of several covariates.

	Log(Wealth)		lhs(Wealth)	
	(1)	(2)	(3)	(4)
Panel A: Baseline Estimates				
Coefficient	2.142	1.995	3.383	2.096
SE (BC)	(0.978)**	(0.662)***	(1.646)**	(1.171)**
SE (Rob.)	(1.191)*	(0.797)***	(1.928)**	(1.402) *
Mean DV Politicians (1%)	11.846	11.846	11.888	11.888
Mean DV Non-Politicians (1%)	10.134	10.134	9.504	9.504
N (Politicians)	323	323	348	348
N (Non-Politicians)	258	258	263	263
Bandwidth	Optimal	2 x Optimal	Optimal	2 x Optimal
Panel B: Estimates With Selected Covariates				
Coefficient	2.170	1.799	2.623	1.345
SE (BC)	(0.935)**	(0.573)***	(1.213)***	(0.879)**
SE (Rob.)	(1.088)**	(0.766)***	(1.648)*	(1.236)
Mean DV Politicians (1%)	11.846	11.846	11.888	11.888
Mean DV Non-Politicians (1%)	10.134	10.134	9.504	9.504
N (Politicians)	254	254	275	275
N (Non-Politicians)	249	249	253	253
Bandwidth	Optimal	2 x Optimal	Optimal	2 x Optimal

Mechanisms: Career Paths

Career Paths

- Did politicians accrue rents by means of their network? Were they able to capure privileged, exclusive positions afterwards?
  - Most of the politicians staying in politics stayed in the Lower House or became *burgemeesters*

	Colonial		Business		Politics	
	Yes	No	Yes	No	Yes	No
	(1)	(2)	(3)	(4)	(5)	(6)
Without Covariates						
Coefficient	1.709	2.257	1.46	2.413	3.832	1.957
SE (BC)	(1.389)	(1.000)**	(1.404)	(0.927)***	(1.363)***	(1.052)*
SE (Rob.)	(1.685)	(1.218)*	(1.705)	(1.128)**	(1.618)***	(1.268)
N Treated	35	288	62	261	47	276
N Control	258	258	258	258	258	258
With Covariates						
Coefficient	1.067	1.852	1.479	2.052	3.648	1.948
SE (BC)	(1.526)	(1.092)	(1.490)	(1.023)**	(1.315)***	(0.996)**
SE (Rob.)	(1.878)	(1.316)	(1.800)	(1.231)*	(1.586)**	(1.202)*
N Treated	28	214	49	193	32	210
N Control	241	241	241	241	241	241

Career Paths

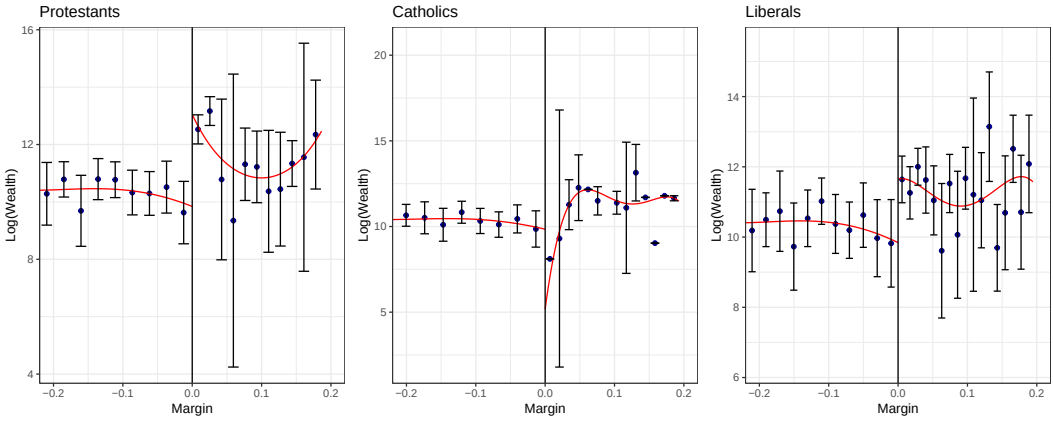
- Politicians who stayed in the Lower House for a long time were also able to collect more rents
  - I analyze the rents acquired by politicians with a longer period of stay in the Lower House compared to those with a shorter period of stay (*Tenure*)

	Log(Wealth)		Ihs(Wealth)	
	Tenure > 20	Tenure < 5	Tenure > 20	Tenure < 5
	(1)	(2)	(3)	(4)
Coefficient	3.087	1.897	3.528	2.566
SE (BC)	(1.541)**	(0.954)**	(2.083)*	(2.069)
SE (Rob.)	(1.800)*	(1.169)	(2.314)*	(2.401)
N (Politicians)	44	72	50	85
N (Non-Politicians)	241	241	245	245
Bandwidth	Optimal	Optimal	Optimal	Optimal

Mechanisms: Party Organization

Party Organization - Differences between parties

- I focus on the difference *between* parties.
- Very large effect for Protestant politicians, intermediate for liberals and invisible for Catholic politicians.



Party Organization - Within Parties

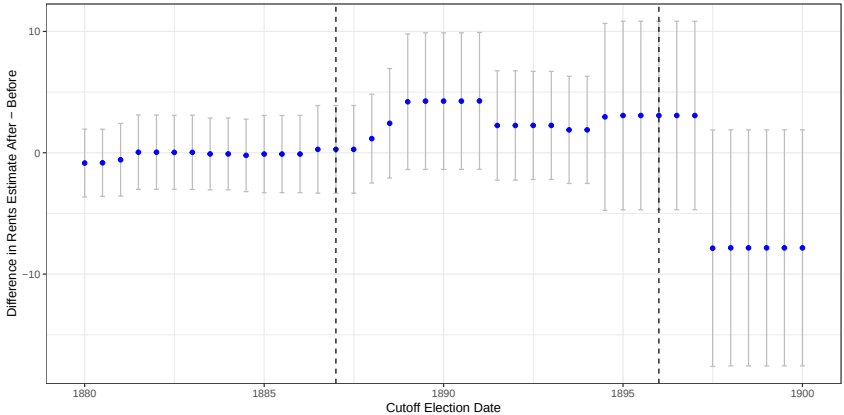
- I exploit the establishment of political parties to find out whether politicians with the same political allegiance have been able to accumulate more or less rents after establishment (and joining of) a political party.
  - I can do this using newspaper recommendations to identify party alignment

	No Covariates			With Covariates		
	After	Before	Diff. (p-value)	After	Before	Diff. (p-value)
	(1)	(2)		(3)	(4)	
Panel A: All control observations						
Coefficient	2.073	2.216	-0.143	2.296	3.552	-1.256
SE (BC)	(0.952)**	(1.180)**	0.462	(0.963)**	(1.209)***	0.204
SE (Rob.)	(1.161)*	(1.416)*		(1.166)**	(1.435)***	
N Treated	202	121		202	121	
N Control	258	258		258	258	
Covariates	No	No		Yes	Yes	
Panel B: Contemporaneous control observations						
Coefficient	1.635	2.705	-1.07	1.887	4.683	-2.796
SE (BC)	(1.080)	(1.798)	0.305	(1.035)*	(1.807)**	0.091
SE (Rob.)	(1.320)	(2.074)		(1.268)	(2.170)**	
N Treated	202	92		202	92	
N Control	151	107		151	107	
Covariates	No	No		Yes	Yes	

Mechanisms: Suffrage Extensions

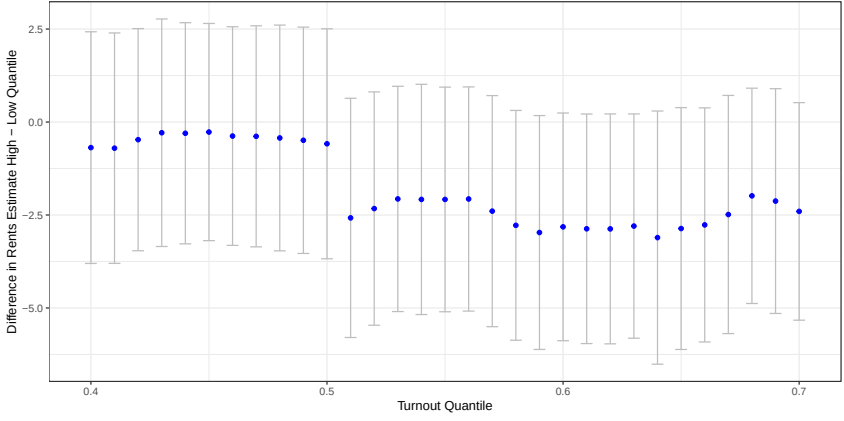
Electoral Competition over Time

- Do political rents change significantly following suffrage extensions?
  - The graph shows CI's based on bootstrapped standard errors.



Electoral Competition - Turnout

- At the level of the district, does more turnout mean more monitoring, and lower rents?
  - I estimate the difference in rents between upper-quantile observations (in terms of relative turnout) and lower-quantiles.



Conclusion

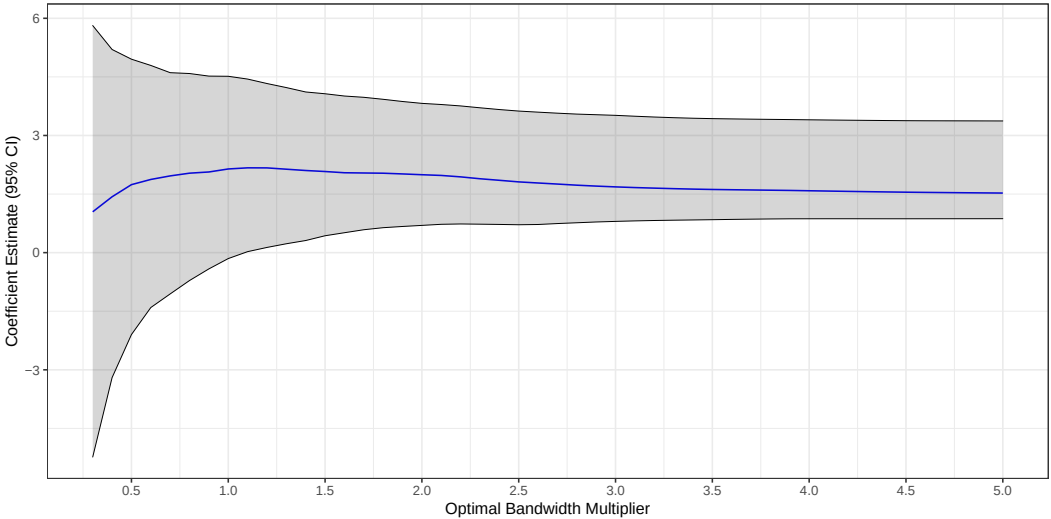
Conclusion

- 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 through staying longer in politics
  - Access to other political functions with discretion
  - Possibility of rent-seeking, superior information
- Political rents mainly concentrated among Protestant and Liberal politicians
  - Large contrast with Catholics, possibly because of low value of rents for Catholic politicians
- These politicians are not constrained (enough) by their party
  - Consistent with voting behavior serving as a signal, or as catering to interest groups
  - Still, political parties limit voting freedom and thus the possibility to accrue rents
- Electoral discipline and monitoring plays a very small role

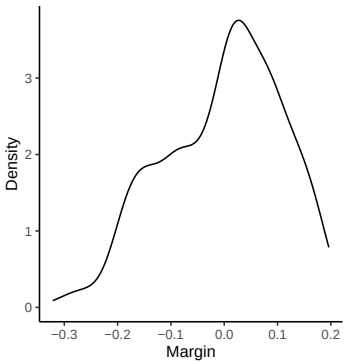
Robustness Checks

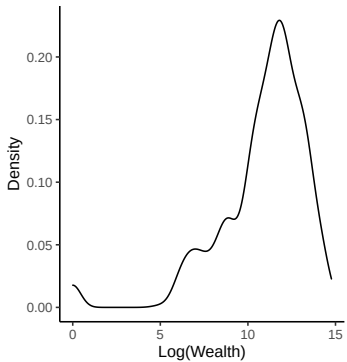
Sensitivity of Estimates to Bandwidth

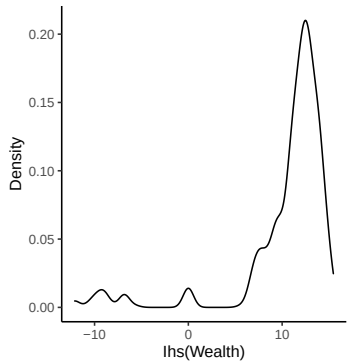
- Standard estimates (with covariates) appear not to be sensitive to the particular bandwidth choice:



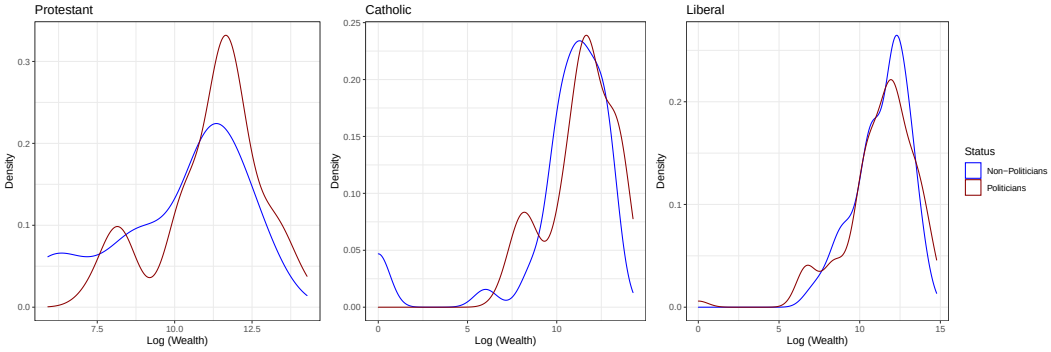
Density Plot







Wealth Densities per Party and Status

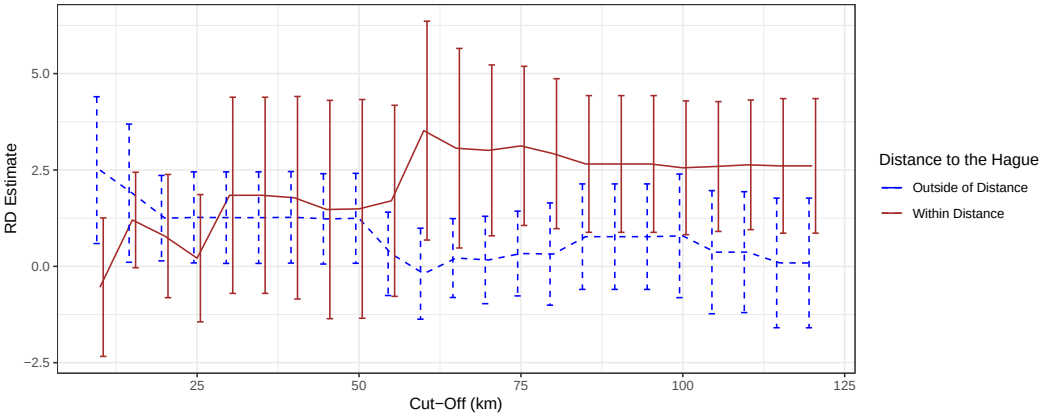


Flexible Optimal Bandwidth on Both Sides

	Log(Wealth)		Ihs(Wealth)	
	(1)	(2)	(3)	(4)
Panel A: Baseline Estimates				
Coefficient	1.951	2.004	2.989	2.217
SE (BC)	(0.750)***	(0.529)***	(1.272)***	(0.946)***
SE (Rob.)	(0.906)**	(0.686)***	(1.571)**	(1.184)**
Mean DV Politicians (1%)	11.846	11.846	11.888	11.888
Mean DV Non-Politicians (1%)	10.134	10.134	9.504	9.504
N (Politicians)	323	323	348	348
N (Non-Politicians)	258	258	263	263
Bandwidth	Optimal	2 x Optimal	Optimal	2 x Optimal
Panel B: Estimates With Selected Covariates				
Coefficient	2.055	1.715	2.728	1.399
SE (BC)	(0.701)***	(0.477)***	(0.804)***	(0.674)***
SE (Rob.)	(0.931)**	(0.697)***	(1.308)**	(1.077)*
Mean DV Politicians (1%)	11.846	11.846	11.888	11.888
Mean DV Non-Politicians (1%)	10.134	10.134	9.504	9.504
N (Politicians)	254	254	275	275
N (Non-Politicians)	249	249	253	253
Bandwidth	Optimal	2 x Optimal	Optimal	2 x Optimal

Metropolitan vs. Rural Areas

- Political Rents for politicians who have been born inside and outside a radius of x km of the Hague (governmental capital)
  - Politicians born within the Randstad (radius of about 60/70 km within the Hague) garner much more rents than politicians born outside.



Flexible Optimal Bandwidth - Career Paths

- I estimate the rents for long-serving (tenure > 20) and short-serving (tenure < 5) politicians in the Lower House.
  - Politicians who stay longer are able to obtain more rents than politicians who stay shorter.

	Log(Wealth)		Ihs(Wealth)	
	Tenure > 20	Tenure < 5	Tenure > 20	Tenure < 5
	(1)	(2)	(3)	(4)
Coefficient	3.533	1.872	3.579	2.442
SE (BC)	(1.401)**	(0.890)**	(1.837)*	(1.773)
SE (Rob.)	(1.618)**	(1.100)*	(1.988)**	(2.075)
N (Politicians)	44	72	50	85
N (Non-Politicians)	241	241	245	245
Bandwidth	Optimal	Optimal	Optimal	Optimal

Flexible Optimal Bandwidth - Party Organization

- These estimates use the optimal bandwidth estimated at each side of the cut-off point
  - The estimates in (4) are again significant at the 10% level

	No Covariates			With Covariates		
	After	Before	Diff. (p-value)	After	Before	Diff. (p-value)
	(1)	(2)		(3)	(4)	
Panel A: All control observations						
Coefficient	1.977	2.178	-0.143	2.29	3.555	-1.265
SE (BC)	(0.751)***	(1.006)**	0.462	(0.890)***	(1.071)***	0.204
SE (Rob.)	(0.906)**	(1.214)*		(1.078)**	(1.296)***	
N Treated	202	121		202	121	
N Control	258	258		258	258	
Covariates	No	No		Yes	Yes	
Panel B: Contemporaneous control observations						
Coefficient	1.594	3.098	-1.504	1.939	4.876	-2.937
SE (BC)	(0.997)	(1.608)*	0.237	(0.983)*	(1.767)***	0.081
SE (Rob.)	(1.213)	(1.941)		(1.202)	(2.074)**	
N Treated	202	92		202	92	
N Control	151	107		151	107	
Covariates	No	No		Yes	Yes	