

Economic Studies 194



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Political Careers, Government Stability,
and Electoral Cycles

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Daide Cipullo

Political Careers, Government Stability,
and Electoral Cycles



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Abstract

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Essay 1: This essay investigates the impact of voter support on the representation of women in the political profession. The empirical analysis exploits two-stage elections in the United States and Italy to hold the selection of candidates constant. In two-stage elections, candidates are admitted to the second round of voting based on the outcome of the first round. I find that among candidates who marginally qualify for the final round, women are 20 percent less likely than men to be elected to the US House of Representatives and 40 percent less likely to be elected mayor in Italian municipalities. Using a difference-in-discontinuities design, I then show that the gender gap in the probability of being elected has long-lasting effects on career trajectories. Women are substantially less likely than men to win future elections and to climb the political hierarchy. My findings suggest that one of the reasons that few women reach the top in politics is that female candidates face hurdles at the beginning of their careers.

Essay 2 (with Felipe Carozzi and Luca Repetto): This essay studies how political fragmentation affects government stability. Using a regression-discontinuity design, we show that each additional party with representation in the local parliament increases the probability that the incumbent government is unseated by 5 percentage points. The entry of an additional party affects stability by increasing both the probability of a single-party majority and the instability of governments when such a majority is not feasible. We interpret our results in light of a bargaining model of coalition formation featuring government instability.

Essay 3 (with André Reslow): This essay introduces macroeconomic forecasters as political agents and suggests that they use their forecasts to influence voting outcomes. We develop a probabilistic voting model in which voters do not have complete information about future states of the economy and have to rely on macroeconomic forecasters. The model predicts that prior to a referendum, it is optimal for forecasters with an economic interest (stake) in the outcome and influence over the public to publish biased forecasts. We test our theory using high-frequency data at the forecaster level surrounding the Brexit referendum. The results show that forecasters with greater stakes and influence released much more pessimistic and incorrect estimates of GDP growth under the Leave outcome scenario than other forecasters.

Essay 4 (with André Reslow): This paper documents the existence of *Political Forecast Cycles*. In a theoretical model of political selection, we show that governments release overly optimistic GDP growth forecasts ahead of elections to increase the reelection probability. The bias arises from lack of commitment if voters are rational and from manipulation of voters' beliefs if they are naive and do not expect the incumbent to be biased. Using high-frequency forecaster-level data from the United States, the United Kingdom, and Sweden, we document that governments overestimate short-term GDP growth by 10 to 13 percent during campaign periods. Furthermore, we find that the bias is larger when the incumbent government is not term-limited or constrained by a parliament led by the opposition. Consistent with the model, we also find that the election timing and amount of available information determine the size of the bias at different forecast horizons.

Keywords: Gender gaps, Self-selection, Political careers, Sticky floor, Voting, Government stability, Fragmentation, No-confidence votes, Bargaining, Brexit, Interest Groups, Forecaster behavior, Electoral cycles, Political selection, Macroeconomic forecasting

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Al mio babbo

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Introduction

Economic policies are the outcome of complex interactions of many agents' choices in the political arena. At the time of an election, voters choose between candidates and parties based on their individual preferences and strategies. In turn, candidates and parties take voters' preferences into account when designing platforms or implementing policies as they desire to be elected or to survive in office. In addition, interest groups and mass media also have their objectives and can affect the decision process. On the one hand, interest groups may offer campaign contributions to candidates that pursue their agenda. On the other hand, mass media influence the debate by selecting which topics to cover.

Political institutions set the stage for the interaction of different political agents, providing them with alternative incentives and constraints. For instance, under a proportional representation (PR) voting rule, a party gains the majority in parliament if it receives support from the majority of voters nationwide. Under a majoritarian voting rule, a party instead receives the majority in parliament if it is the most voted party in more than half of the districts. In turn, institutional rules have been shown to shape economic outcomes: countries subject to PR voting rules redistribute more broadly across districts than countries where politicians are elected under a majoritarian system (e.g., Austen-Smith, 2000; Milesi-Ferretti et al., 1999; Persson & Tabellini, 1999, 2003). Instead, in majoritarian countries, politicians put most of their effort into winning a relatively small number of *swing* districts (e.g., Strömberg, 2008).

The election of U.S. senators in Georgia in January 2021 is a striking example. Both President-elect Biden and outgoing President Trump campaigned heavily for two seats to determine the Senate's majority. The democratic party got the Senate's control by winning the two seats by a very narrow margin. A marginal swing to the parliament's control can dramatically change the scenario. For instance, Lee et al. (2004) find that members of U.S. congress elected in districts where the democratic party barely won the election cast more liberal votes than representatives elected in districts where the republican party won the election by a narrow margin of votes.

This example is one of the many that motivate conducting research in political economics. Traditionally, public finance theory assumes that the government provides public goods and redistributes resources as a benevolent social planner that maximizes individuals' aggregate utility in society. In this tradition, the government does not have specific objectives — potentially unaligned

with voters' — and is not subject to elections, interest groups, or mass media. Instead of asking normative questions, such as *what should the government do to maximize welfare?*, political economics focuses on positive questions, such as *what decisions do different governments take?* or *how does the democratic process affect policy outcomes?*

Answering positive questions requires a combination of game-theoretical and econometric tools. On the one hand, game theory allows specifying each agent's preferences and choice set and model the interactions between them. Theoretical models show the consequences of political interactions if all the key players rationally pursue their best feasible strategies and clarify the main trade-offs and incentives agents face. On the other hand, empirics allows to test whether the theoretical predictions are fulfilled and provides additional insights about the magnitude of each effect.

The interaction of multiple players opens up a critical empirical challenge: endogeneity. Voters' choices interact with the choices of politicians; media reports interact with voters' demand for news; politicians are subject to institutional constraints that they set up and may modify. To identify each channel empirically, we need to look out for cases in which an exogenous variation is available. To give a practical example, suppose we are interested in estimating the career returns from winning – instead of losing — an election. Comparing winning and losing candidates' career outcomes would likely lead to biased estimates. Such candidates are different across unobserved characteristics that may drive why some are winning and others are losing. Formally, the *assignment mechanism* (Imbens & Rubin, 2015) is not under the researcher's control.

One prominent way to circumvent this issue is the *close-election approach* (Lee, 2008). Instead of comparing *all* winning candidates with *all* losing candidates, let us restrict the attention to candidates who win their seats supported by, e.g., 51 percent of voters and candidates that lost the election receiving 49 percent of the votes. These candidates should be much more comparable in terms of the characteristics that are not under the researcher's control. The downside is the limited external validity of the resulting estimates. Indeed, we can only draw conclusions valid locally for a specific subsample of marginal individuals who are not representative of all candidates.

This thesis collects four independent essays that pose questions and propose answers about several political agents. My co-authors and I combine theoretical predictions with empirical results that exploit various countries and institutional contexts, searching for feasible data and plausibly exogenous variations. Whenever possible, we combine empirical results from multiple settings to improve the external validity of the results. In the first essay, I ask whether voters are more likely to support male candidates than female candidates in an election and to what extent gender differences in voter support shape men and women's future career trajectory in politics. To answer the question, I propose a novel econometric approach and use data from elections held in

the United States and Italy. In the second essay, joint with Felipe Carozzi and Luca Repetto, we combine a theoretical model of legislative bargaining with data from Spain to establish a causal relationship between the number of parties represented in the legislative assembly and the stability of incumbent governments. In the third and fourth essays, both co-authored with André Reslow, we add to the political arena a new agent who has her objectives and available information to exploit: macroeconomic forecasters. In one essay, we show theoretically that forecasters with stakes in and influence over a voting outcome have incentives to publish biased GDP growth estimates to affect voters' beliefs. We find empirical support for the theoretical predictions in the context of the Brexit referendum held in the United Kingdom in 2016. In the other essay, we show that governments overestimate GDP growth ahead of elections. We test theoretical predictions from a political selection model using data from the United States, the United Kingdom, and Sweden.

Overall, this thesis reflects my philosophy and aptitude as a researcher and a human being: a journey across different players, methods, and countries to explore and deepen knowledge about topics that I care about, and I deem, broadly speaking, that we should all care about. Because, at the end of the day, not many things impact our everyday lives more than politics.

The Essays

1. Gender Gaps in Political Careers: Evidence from Competitive Elections

The lack of female representation in top jobs is particularly pervasive in the political arena. For instance, the recent election of Kamala Harris as the new Vice-President of the United States is a ground-breaking step. She is the first woman ever to hold such a position in The United States; a country where no women had been elected as the President either.

Women might be under-represented because of differences in selection into an election or because of differences in the career returns from participating in an election — which depend on the support that candidates receive from voters.

In the first essay, I investigate the impact of voter support on women's representation in politics. To account for unobserved self- or party-appointed selection of candidates, I propose a novel empirical strategy that exploits two-stage elections. In two-stage elections, the first round selects a subset of candidates admitted to the second round. In turn, the winner of the second round wins the seat.

The empirical strategy exploits that politicians who qualify to the final round by a narrow margin of votes and those that just miss the qualification are arguably comparable in observed and unobserved characteristics. I provide

evidence based on two different settings: the election of members of the U.S. House of Representatives — where the partisan primary makes up the first round, and the general election makes up the second round — and the election of mayors in large municipalities in Italy, subject to a runoff system.

My results show that, in both countries, voters are substantially more likely to choose male candidates that barely make it to the last round than female candidates who compete in comparable environments and who performed equally well in the first round. Also, I investigate whether the gender gap in the probability of being elected has long-lasting effects on career trajectories. More specifically, I implement a cross-sectional difference-in-discontinuities design to compare gender differences in future careers of candidates who marginally qualify for the second round with the corresponding differences among those who just miss the qualification. The results show that gender gaps in the current election have persistent effects on future elections to the same position and future promotions to more prestigious positions.

This findings of this essay contribute to the broad literature on the determinants of gender gaps in the economy and the literature on gender differences in electoral success. First, politics can also be seen as one of the relatively many professions dominated by men, and the lessons that we learn from politics may apply to other contexts. My empirical strategy and settings provide a unique opportunity to estimate the returns from participating in such professions, holding selection constant. Second, this essay reconciles under the same framework the existing literature on gender differences in political success — in which the focus is to estimate whether the impact from winning or losing an election depends on the gender of the candidate — with the literature on voter bias against female candidates. The main innovation is that participating in an election is a different signal for men and women since male candidates are relatively more likely to win, while female candidates are relatively more likely to lose.

Taken together, the results of this essay show empirical support for the sticky floor hypothesis (Bjerk, 2008), according to which few women make it to the top in politics because of the early challenges they face in the start of their careers.

2. Political Fragmentation and Government Stability. Evidence from Local Governments in Spain

(accepted for publication in the *American Economic Journal: Applied Economics*)

Unstable governments have been historically associated with fragmented parliaments. For instance, during the Weimar Republic in Germany, many parties could enter parliament due to the lack of an electoral threshold and 16 governments served in only 14 years. More recently, Spain had its first event of a successful vote of no-confidence against the government in 2018, during the

legislature with most parties represented in parliament since the transition to democracy.

Despite the abundance of anecdotes, we lack rigorous evidence on whether the association between fragmentation and stability is causal. In the second essay, Felipe Carozzi, Luca Repetto, and I study the effect of fragmentation on the probability that the incumbent government is unseated via a vote of no-confidence. To guide the empirical analysis, we develop a two-period sequential game of coalition formation. Our analysis is partly motivated by the observation that the number of parties represented in parliaments has been increasing in the last decades in several OECD countries.

The empirical analysis exploits data from 50,000 local elections in Spain and a minimum vote-share requirement for a party to enter the council. Municipalities in which one party obtained a vote-share just above this threshold have, on average, more parties in the council than municipalities in which the party fell just below the threshold.

We find that the entry of an additional party in the municipality council has a substantial, negative impact on incumbent governments' stability. The probability that a vote of no-confidence unseats the incumbent depends on the number of parties with representation via two channels. First, more fragmented legislatures are less likely to have stable single-party majorities. Second, coalition governments elected by more fragmented parliaments are more likely to be unseated because coalition members tend to be smaller and can be persuaded to support a no-confidence vote.

Our findings indicate that designers of electoral rules can use the admission threshold to parliament as a tool to achieve more stability. Keeping the observed vote-share distributions fixed, we estimate that increasing the vote-share threshold from 5% to 6% would reduce the number of parties and, correspondingly, the probability of unseating the government by one-fourth of the baseline probability. Similarly, lowering the threshold from 5% to 4% would increase the likelihood of replacing the government.

3. Biased Forecasts to Affect Voting Decisions: The Brexit Case

Rational agents lack incentives to collect costly information before voting because the probability of casting the decisive vote to swing the election outcome is negligible. Therefore, special interest groups might exploit their availability of information to affect voters' beliefs and, in turn, the election outcome (see, e.g., Baron, 1994; Besley & Coate, 2001; Grossman & Helpman, 1996).

In the third essay, co-authored with André Reslow, we argue that also macroeconomic forecasters face analogous incentives and may exploit their information advantage to influence the voting process. We propose a theoretical model of referendum voting in the presence of an oligopoly of forecasters – some of which prefer one alternative over the other – and we test the fundamental

predictions using data from the Brexit referendum. The key novelties of this essay consist, on the one hand, of introducing macroeconomic forecasters as a new agent in the political arena; on the other hand, of introducing political incentives among the strategic motives behind the releases of forecasts.

In the theoretical model, we assume that forecasters decide which estimate to release to the public based on multiple incentives. First, forecasters with stakes over the referendum outcome want to use their estimates to affect voters. Second, forecasters aim to minimize the expected forecast error and the revision between two adjacent forecast releases. Third, forecasters with interest over the referendum outcome face a *common pool problem* since each of them is affected by the others' releases.

In turn, the model predicts that influential forecasters with an economic interest threatened by the vote are more likely than other forecasters to release incorrect predictions before an election. After the election, forecasts take some periods to converge to unbiased levels.

In the empirical analysis, we compare the monthly forecasts for GDP growth published by influential financial institutions – which likely have high stakes in support of remaining in the EU – to those released by other institutions before and after the Brexit referendum. We find empirical support for our theoretical predictions: forecasters with stakes and influence over the referendum outcome released significantly more incorrect short-run GDP growth rate estimates than the estimates released by other institutions.

A policy conclusion from this essay is that voters and policymakers ought consider that forecasters may be motivated by election incentives to avoid voting mistakes. Not taking forecasters' *propaganda bias* properly into consideration would reduce welfare compared to a world with unbiased forecasters if voters are induced to cast a vote for the unpreferred choice.

4. Electoral Cycles in Macroeconomic Forecasts

Incumbent governments tend to increase spending or cut taxation ahead of an election in an attempt of survive in office (see, e.g. Alesina et al., 1992; Rogoff & Sibert, 1988). This is the well-known *Political Budget Cycle*. A theoretical rationale behind budget cycles is that voters use observable signals – such as fiscal policy outcomes – to infer incumbent politicians' unobservable innate ability.

If the effects of policy decisions made by the incumbent government are not yet realized at the election time, voters need to make inferences on fiscal policy's future effects and the leader's ability, given observable information. Macroeconomic forecasts released by governments are often published in the media and observable by voters regularly. Voters may use these forecasts when forming beliefs about the economy and the incumbent politician's ability. In

turn, the incumbent leader might gain an electoral advantage by publishing optimistic forecasts before an election.

This is the central intuition behind the final essay of this thesis, also co-authored with André Reslow. In this essay, motivated by the third chapter's results, we document the existence of *Political Forecast Cycles*.

We derive several theoretical predictions employing a model of political selection. First, the model predicts the existence of political forecast cycles. Second, the incumbent government overestimates GDP growth only in the presence of contingent reelection incentives (i.e., if the leader is not term-limited). Third, we show that the bias depends on the incumbent government's political strength in the parliament. For instance, a government that is politically aligned with the parliament releases more biased estimates than a government facing a parliament controlled by the opposition. Lastly, we show that governments bias forecasts for GDP growth in the current period if elections take place early in the year; otherwise, the government prefers to release biased estimates for GDP growth in the next period.

We also show that the cycle is present both if voters are naive (i.e., they do not expect the incumbent government to bias its releases) or have rational expectations about the incumbent's strategy. In the former case, biased forecasts increase the equilibrium probability of reelection for the incumbent politician, who exploits an *incumbency advantage* compared to an opponent that does not have the opportunity of releasing biased estimates. In the latter case, biased forecasts lead to an inefficient outcome because voters expect the incumbent to release biased estimates. Voters and the politician find themselves in a sort of prisoner's dilemma: the politician has an incentive to release biased forecasts as long as voters expect her to do so, and voters have an incentive to expect the government to bias its releases if the politician might do so.

Empirically, we compare, in a Difference-in-Differences setting, forecasts released by the government with forecasts released by other institutions, close and far from an election in the United States, Sweden, and the United Kingdom. For all three countries, we detect large electoral cycles in the forecast bias for short-term GDP growth. We also find empirical support for the other theoretical predictions. First, electoral cycles in the United States are more pronounced when the incumbent president is politically aligned with congress or can run for re-election. Second, governments release biased predictions only for GDP growth in the current year in the United Kingdom, where elections occur during the Spring. On the contrary, governments release biased predictions only for GDP growth in the next year in the United States, where elections occur during the Fall.

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