ECONSTOR
Make Your Publications Visible.

A Service of
ZBW
Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Thomas, Tobias; Heß, Moritz; Wagner, Gert G.

Working Paper

Reluctant to reform? A note on risk-loving politicians and bureaucrats

SOEPpapers on Multidisciplinary Panel Data Research, No. 933

Provided in Cooperation with:
German Institute for Economic Research (DIW Berlin)

Suggested Citation: Thomas, Tobias; Heß, Moritz; Wagner, Gert G. (2017) : Reluctant to reform? A note on risk-loving politicians and bureaucrats, SOEPpapers on Multidisciplinary Panel Data Research, No. 933, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin

This Version is available at:
https://hdl.handle.net/10419/171288

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

SOEP The German Socio-Economic Panel study

933 2017

SOEPpapers
on Multidisciplinary Panel Data Research

SOEP – The German Socio-Economic Panel study at DIW Berlin 933-2017

Reluctant to Reform? A Note on Risk-Loving Politicians and Bureaucrats

Tobias Thomas, Moritz Heß, Gert G. Wagner

DIW SOEP

SOEPpapers on Multidisciplinary Panel Data Research at DIW Berlin

This series presents research findings based either directly on data from the German Socio-Economic Panel study (SOEP) or using SOEP data as part of an internationally comparable data set (e.g. CNEF, ECHP, LIS, LWS, CHER/PACO). SOEP is a truly multidisciplinary household panel study covering a wide range of social and behavioral sciences: economics, sociology, psychology, survey methodology, econometrics and applied statistics, educational science, political science, public health, behavioral genetics, demography, geography, and sport science.

The decision to publish a submission in SOEPpapers is made by a board of editors chosen by the DIW Berlin to represent the wide range of disciplines covered by SOEP. There is no external referee process and papers are either accepted or rejected without revision. Papers appear in this series as works in progress and may also appear elsewhere. They often represent preliminary studies and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be requested from the author directly.

Any opinions expressed in this series are those of the author(s) and not those of DIW Berlin. Research disseminated by DIW Berlin may include views on public policy issues, but the institute itself takes no institutional policy positions.

The SOEPpapers are available at
http://www.diw.de/soeppapers

Editors:
Jan **Goebel** (Spatial Economics)
Martin **Kroh** (Political Science, Survey Methodology)
Carsten **Schröder** (Public Economics)
Jürgen **Schupp** (Sociology)

Conchita **D'Ambrosio** (Public Economics, DIW Research Fellow)
Denis **Gerstorf** (Psychology, DIW Research Director)
Elke **Holst** (Gender Studies, DIW Research Director)
Frauke **Kreuter** (Survey Methodology, DIW Research Fellow)
Frieder R. **Lang** (Psychology, DIW Research Fellow)
Jörg-Peter **Schräpler** (Survey Methodology, DIW Research Fellow)
Thomas **Siedler** (Empirical Economics, DIW Research Fellow)
C. Katharina **Spieß** (Education and Family Economics)
Gert G. **Wagner** (Social Sciences)

ISSN: 1864-6689 (online)

German Socio-Economic Panel (SOEP)
DIW Berlin
Mohrenstrasse 58
10117 Berlin, Germany

Contact: soeppapers@diw.de

Reluctant to Reform?
A Note on Risk-Loving Politicians and Bureaucrats

by Tobias Thomas*, Moritz Heß** and Gert G. Wagner***

September 2017

Abstract

As from a political economy perspective, politicians often fail to implement structural reforms, we investigate if the resistance to reform is based on the differences in the risk preferences of voters, politicians, and bureaucrats. Based on the empirical results of a survey of the population in Germany, 175 members of the Federal German Parliament (Bundestag), and 106 officials ("bureaucrats") from German ministries, this is not the case. Since both politicians and bureaucrats have a higher risk appetite than the general population, their risk preferences cannot be seen as an explanation for the resistance to structural reform. Hence, it must be caused by other reasons. These can be for instance – as public choice scholars argue – interventions by veto players, wars of attrition by powerful interest groups, or reform logjams initiated. However, another point of view could be that modern democracies are doing better than many believe. During times of populist campaigns, the election process can put forth candidates with very high risk appetites, but the constitutions of democracies turn out to be rather smart if hazardous actions and measures by political rookies and gamblers are inhibited by checks and balances.

JEL: D71, D78, H11, H70, P16, Z13

Keywords: political reforms, political decision-making, principal agent-theory, risk aversion, German, SOEP

---

* EcoAustria – Institute for Economic Research, Austria and Düsseldorf Institute for Competition Economics (DICE), Email: thomas@dice.hhu.de
** Institute of Gerontology at TU Dortmund University, Email: mhess@post.uni-dortmund.de
*** German Institute for Economic Research (DIW Berlin) and Max Planck Institute for Human Development (MPIB), Berlin, Email: gwagner@diw.de

1. Introduction

"Our countries have different traditions in dealings between state, industry, trade unions and social groups, but we share a conviction that traditional conflicts at the workplace must be overcome. This, above all, means rekindling a spirit of community and solidarity, strengthening partnership and dialogue between all groups in society and developing a new consensus for change and reform." *Tony Blair and Gerhard Schröder (1998)*

With these words written in the programmatic paper, *The Third Way,* Tony Blair and Gerhard Schröder, the sitting Prime Minister of the United Kingdom and Chancellor of Germany, the way for a couple of structural reforms was paved. As a result, in Germany we saw– in particular with respect to the labor market –the most comprehensive social security reform since the World War II.

However, such kind of reforms seldom take place and politicians often turn out to be conservative preserver rather than risk taking gambler. Consequently, the Berlin-based journalist Anna Sauerbrey (2017) points out, "To most German the politicians are boring straight arrows – which is how we want them." Beside the fact that preserving a good status quo can be beneficial, conservatism can be problematic if needed structural reforms are not initiated. Hence, the reluctance to implement reform is criticized by a number of economists, as potential gains in welfare and economic growth might not be realized. Therefore, the emergence of, and resistance to, reforms is one of the fundamental questions of modern political economy (see Alesina and Drazen 1991, Alesina et al, 2006, or Fernandez and Rodrik 1991). Here, the reasons for the absence of reform are, for instance, seen in the blockage by veto players whose agreement is required for a change of the status quo (Tsebelis 1995) or in powerful interest groups involved in wars of attrition (Alesina and Drazen 1991, p1170f) as well as in reform logjams initiated (Haggard and Webb 1993, p143f).

In an additional branch of the literature, uncertainty and variations of risk aversion are seen as reasons for the resistance to reform. For instance, in the work of Fernandez and Rodrik (1991, 1146f) uncertainty in the distribution of the winners and losers of a proposed reform leads to a strong status quo bias and, hence, resistance to reform. The

authors assume that voters are, on average, risk-neutral and stick to the median voter model. Consequently, this also implies risk-neutrality for politicians on average.[1]

Another explanation for reform resistances are based on results from behavioral science:[2] For instance, in the prospect theory of Kahneman and Tversky (1991, 1039f) individuals evaluate the options to act concerning the expected change in their wealth situation in comparison to a reference point. In the model of Kahneman and Tversky, potential profits have a lower impact on individual decisions than potential losses. In the political context, this can result in a resistance to change.[3] Thus, the model of Kahneman and Tversky shows that it can be perfectly rational to have a status quo bias – if people are risk averse.

A potential explanation for the absence of structural reforms could be founded in deviations in the risk preferences of voters, politicians, and bureaucrats. Voters, politicians, and bureaucrats interact in a multiple principal-agent relationship. Dixit (2006) as well as Dixit, Grossman and Helpman (1997) analyze the principal-agent problem between politicians and bureaucrats as their agents, while Kau and Rubin (1979), Kalt and Zupan (1984), and Peltzman (1985) analyze if U.S. Congressional representatives, as political agents, serve the interests of their principal narrowly. Merville and Osborne (1990, 40) come the conclusion that the U.S. Constitution can be seen as a "poor agency contract" and see political agents as either risk averse or risk neutral. If the risk appetite of politicians (and bureaucrats) turns out to be smaller than the risk appetite of the voter, this could lead to reluctance for reform from the voter's perspective.

[1] For a critical discussion of Fernandez and Rodrik (1991), see Ciccone (2004). Beside this specific criticism, the median voter model can be questioned in general as well. In this line, Stadelmann, Portmann, and Eichenberger (2016) as well as Stadelmann and Portmann (2017) analyze empirically if politicians represent the voter's preferences narrowly. The authors investigate in parts huge differences and state that the explanatory power of the media voter model for political action is rather limited.

[2] For an overview see Heinemann et al (2008).

[3] In addition, Kahneman and Tversky (1986) find that the way you "frame" options in a decision situation has an important impact of the decision itself. For instance, in the case of an illness, individuals systematically opt for a therapy connected with a 90 percent probability to survive in comparison to a therapy connected with a 10 percent probability to die. In the context of political reforms, this can result in a resistance to opt for reforms, if they are framed from the perspective of losers. Two additional findings from behavioral science can be of special importance in the context of reforms: the confirmatory bias, which describes the tendency of individual to behave consistently over time (Rabin 1998), and the conformity bias, which shows the tendency of individuals to conform their behavior to that of their peer group (Bernheim 1994). As a result, in their integrative approach Göbel et al. (2010) show that, after taking biases into account after a shock, individuals will adjust their behavior, but with a delay and in suboptimal ways. In the political context, this can lead to suboptimal reform behavior in terms of size and timing.

Table 1: Dual Principal Agent Relationship between Voter, Bureaucrats, and Politicians

Voter	**Politicians (Members of Parliament)**	**Bureaucrats (Officials from Ministries)**
Principal	Agent	
	Principal	Agent

However, despite the multitude of arguments to explain the absence of structural reforms, politicians actually seem to reform all the time. For instance, between 2002 and 2013, 1,569 legal acts passed the German Bundestag.[4] One explanation for the coexistence of the huge number of legislative acts, on the one hand, and the complaints by many economists, on the other, is that the majority of these reforms can be seen as incremental, if not symbolic, rather than structural. This gradualism is well discussed by Dewatripont and Roland (1992a, 1992b, 1995).

Now the puzzle is: are politicians and bureaucrats actually risk neutral or risk averse as the literature suggests and, if so, why do so many gradual reforms take place? In our short note presented here, we attempt to disentangle the puzzle. Based on a unique dataset containing three surveys, we investigate empirically how (in Germany) the risk preferences of voters, politicians and bureaucrats look like and if risk aversion is one of the reasons for the resistance to reform structurally. The remainder of this paper is structured as follows: Section 2 presents our data and Section 3 the empirical results. Section 4 offers some concluding remarks and discussion.

2. Data

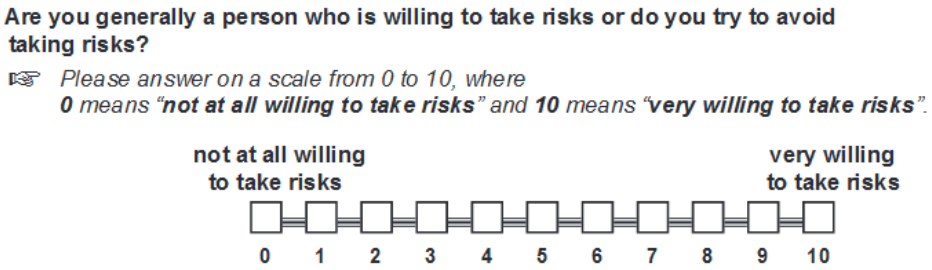
Survey among the general population (voter)

Annually, in the German Socio-Economic Panel Study (SOEP), about 20,000 respondents are asked questions about their socio-economic status, attitudes and values (Wagner et al. 2007, Siedler et al. 2009). One question of the survey focuses on risk appetite, respectively, risk aversion: On a scale of 0 (not at all willing to take risks) to 10 (very

4 In detail: 2002-2005: 400; 2005-2009: 616; and 2009-2013: 553.

willing to take risks) respondents indicated the degrees of their risk appetite, respectively risk aversion. The questions posed in the SOEP have been validated multiple times and replicated in other surveys around the world. For validation see Dohmen (2011).

Figure 1: Survey Question



Survey among members of parliament (politicians)

In December 2011, Hess et al. (2013) surveyed risk attitudes of members of the German Parliament (Bundestag). The question was designed in analogy to the question asked in the SOEP-Survey among the general population. Of the 620 members of parliament who received the postal survey questionnaire, 175 responded. The data allow conclusions about all members of parliament, as the socio-demographic composition of this sample corresponds by and large to that of the parliament overall.

Survey among higher officials from ministries (bureaucrats)

In June and July 2014, Haucap et al. (2015) followed this approach and conducted an Email survey of higher officials from ministries on the federal- and state-levels in Germany.[5] The question about their risk-appetite was designed in analogy to the SOEP-Survey. Of 106 higher officials from ministries, 60 were federal and 46 state. These data are not yet analyzed in detail.

[5] The question on the risk appetite was part of a larger survey among members of parliament and higher officials from ministries. The survey was conducted by the Dusseldorf Institute for Competition Economics (DICE) and Econwatch – Society for Policy Analysis in collaboration with the German National Library of Economics (ZBW). It focussed mainly on the question "Who are the economists the respondents did value most for their personal work". The answers are one pillar of the Economist-Impact-Ranking, published annually since 2013 in the *Frankfurter Allgemeine Zeitung*.

3. Results

The results of the surveys are summarized in Table 2. The survey of politicians in 2011 shows that the members of the German Federal Parliament (*Bundestag*) are risk-seekers: On average, they indicate a risk-appetite of 6.4. This is 1.9 points more than the general population,[6] which can be seen as a good proxy for the voter in the analysis presented here. In comparison to the 2012 result for the general population, the difference decreases, but remains, at 1.6, remarkable. In terms of the principal agent relationship between the voter and the politician, the agent (politician) has a much higher tendency to take risks than the principal (voter). It is unlikely that this is due to strategically distorted responses on the part of the members of parliament, as particular risk attitudes do not seem to be socially desirable or undesirable. As the surveys were strictly anonymous, no link to specific members of parliament or political parties can be made.

Table 2: Empirical Results

Voter	**Politicians (Members of Parliament)**	**Bureaucrats (Officials of Ministries)**
4.5 (2011) 4.8 (2012)	6.4 (2011)	5.7 (2014)

On average, in 2014 bureaucrats indicate their risk-appetite at 5.7. This is remarkable 0.7 points less than politicians in 2011. However, bureaucrats still have a greater risk-appetite than the general population: in comparison to the survey results of 2011 it is 1.2 points higher and in comparison to the survey results of 2012, it is still remarkable at 0.9.

A closer inspection shows that bureaucrats are just a little bit more risk loving than the educational group they belong to. All the Federal bureaucrats surveyed hold a university degree. It is well known (Dohmen et al. 2010) that higher education comes with an above-average risk appetite. Moreover, most bureaucrats are males. Thus, the proper comparison group for the bureaucrats are males with a university degree. In the SOEP

[6] Kam (2012) shows, focusing on the U.S., that people with risk-loving attitudes are more likely to participate in political meetings, distribute leaflets, and be active in campaigns. The author explains this with the pleasure derived from new experiences and the excitement to be found with political action, which risk-loving people tend to seek more than risk-averse ones.

survey, males with higher education have a risk-attitudes-score of 5.4 (in 2012) (and females a score of 4.7). Thus, the federal bureaucrats are just slightly above this score. However, as we focus on members of parliament as representatives of the whole population and bureaucrats as agents for all politicians, the comparison to other people of the same educational group is not relevant for the argument presented here.

The bottom-line is: it is not just the politicians who are more risk loving the general population, but also the bureaucrats who support the politicians.

4. Discussion

As, from the political economy perspective, politicians are often not successful in implementing structural reforms, we investigate if the resistance to reforms is found in the differences in the risk preferences of voters, politicians and bureaucrats.

Based on the empirical results of three surveys among 20,000 German households, 175 members of the German Parliament (Bundestag), and 106 higher officials from German ministries, this cannot be argued. In the principal agent relationship between the voter (principal) and the politician (agent), the agent has a much greater tendency to take risks than the principal. This hints at a greater tendency to reform in comparison to the risk preferences of the general population. The results are inverted in the principal agent relationship between the politician (principal) and the bureaucrat (agent). Here, the agent has a lower risk preference than the principal. As bureaucrats are needed in order to prepare and administer a reform, this could mitigate the risk appetite of politicians. However, as bureaucrats also have a higher risk appetite than the general population, this still cannot be seen as an explanation for resistance to reform.

Our result of risk loving politicians is compatible to the common experience in western democracies, where politicians actually do reforms all the time. However, most of the legal acts passing the legislative process cannot be seen as structural reforms that are game changers (for example, the introduction of completely new taxation schemes or public health insurance). Hence, the majority of these reforms can be seen as incremental, if not symbolic, rather than structural. This "conservatism," which is criticized by a number of economists, is not an indication of risk aversion. Hence, it must be caused by other reasons, such as interventions by veto players (Tsebelis 1995), wars

of attrition by powerful interest groups (Alesina and Drazen 1991), or reform logjams initiated (Haggard and Webb 1993).

However, it could be the case that modern democracies are doing better than many believe: The political process selects above average risk loving politicians (and bureaucrats) who are, in general, willing to take risks and action. In turn, the democratic institutions, different interests, and different pressure groups control them. Although bureaucrats have an above-average risk appetite (compared to the electorate), they are less risk loving than politicians and may act as another "control device". During times of populist campaigns, the election process can put forth candidates with very high risk appetites, but the constitutions of democracies turn out to be rather smart, if they inhibit hazardous actions and measures by political rookies and gamblers by checks and balances.

References

Alesina, A. & Drazen, A. (1991), Why are Stabilizations Delayed?, *American Economic Review*, Vol. 81, No. 5, 1170-1188.

Alesina, A., S. Ardagna & F. Trebbi (2006), Who Adjusts and When? The Political Economy of Reforms, *IMF Staff Papers,* Vol. 53, Special Issue, 1-29.

Bernheim, B. D. (1994). A theory of conformity, *Journal of Political Economy*, Vol. 102, 841–877.

Blair, T. & Schröder G. (1998). The third way, *Friedrich Ebert Foundation*, download (14.07.2017): http://library.fes.de/pdf-files/bueros/suedafrika/02828.pdf

Ciccone, A. (2004), Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty: Comment, *American Economic Review*, Vol. 94, No. 3, 785-795.

Dewatripont, M., Roland, G., 1992a. The virtues of gradualism and legitimacy in the transition to market economy. *The Economic Journal* 102, 291–300.

Dewatripont, M., Roland, G., 1992b. Economic reform and dynamic political constraints. *Review of Economic Studies* 59, 703–730.

Dewatripont, M., Roland, G., 1995. The design of reform packages under uncertainty. *American Economic Review* 85, 1207–1223.

Dixit, A., (2006), Predatory States and Failing States: An Agency Perspective, Princeton University, Department of Economics, *Center for Economic Policy Studies Working Paper*, No 71.

Dixit, A., Grossman, G. M. and Helpman, E. (1997), Common Agency and Coordination: General Theory and Application to Government Policy Making, *The Journal of Political Economy,* Vol. 105, No. 4, 752-769.

Dohmen, T. et al. (2011), Individual Risk Attitudes: Measurement, Determinants and Behavioral Consequences, *Journal of the European Economic Association*, Vol. 9, No. 3, 522-550.

Downs, A. (1957): An Economic Theory of Democracy, New York.

Fernandez, R., Rodrik D. (1991): Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty, *American Economic Review,* Vol. 81, No. 5, S. 1146-1155.

Göbel, M., A. Schneider and T. Thomas, Consumption Behavior and the Aspiration for Conformity and Consistency", *Journal of Neuroscience, Psychology, and Economics,* 3 (2010), 83-94.

Haggard, S., Webb, S. B. (1993), What do we know about the Political Economy of Economic Policy Reform?, *The World Bank Research Observer*, Vol. 8 (2), 143-168.

Haucap, J., T. Thomas & G. G. Wagner (2015), Welchen Einfluss haben Wissenschaftler in Medien und auf die Wirtschaftspolitik?, *Wirtschaftsdienst*, Vol. 95, 68-75.

Heinemann, F., Förg, M., Jonas, E., Traut-Mattausch, E. (2008): Psychologische Restriktionen wirtschaftspolitischer Reformen, *Perspektiven der Wirtschaftspolitik*, Vol. 9 (4), S. 383-404.

Hess, M., C. von Scheve, J. Schupp, & G. G. Wagner (2013), Members of German Federal Parliament More Risk-Loving Than General Population, in: *DIW Economic Bulletin*, No. 4, 20-24.

Kam, C. D. (2012), Risk Attitudes and Political Participation, *American Journal of Political Science*, Vol. 56. No. 4, 817-836.

Kalt, J. P. and Zupan, M. A. (1984), Capture and Ideology in the Economic Theory of Politics, *American Economic Review,* Vol. 74, 279-300.

Kan, J. B. and P. H. Rubin (1979), Self-Interest, Ideology, and Logrolling in Congressional Voting, *Journal of Law and Economics*, Vol. 22, 365-384.

McDermott, R., J. H. Fowler, & O. Smirnov 82008), On the Evolutionary Origin of Prospect Theory Preferences, *The Journal of Politics*, Vol. 70, No. 2, 335–50.

Merville, L. J. and D. K. Osborne (1990), Constitutional Democracy and the Theory of Agency, *Constitutional Political Economy*, Vol. 1, No. 3, 21-47.

Peltzman, S. (1985), An Economic Interpretation of the History of Congressional Voting in the Twentieth Century, *American Economic Review*, Vol. 75, 656-675.

Rabin, M. (1998), Psychology and economics, *Journal of Economic Literature*, Vol. 36, 11–46.

Sauerbrey, A. (2017), Will Russia try to hack Germany?, *New York Times (International Edition)*, July 22, 2017.

Siedler, T. et al. (2009), The German Socio-Economic Panel (SOEP) as Reference Data Set, *Schmollers Jahrbuch,* Vol. 129. No. 2, 367-374.

Stadelmann, D. and Portmann, M. (2017), Testing the Median Voter Model and Moving Beyond its Limits: Do Personal Characteristics Explain Legislative Shirking?, *Social Science Quarterly*, published online first: 15 February 2017.

Stadelmann, D., Portmann, M. and Eichenberger R. (2016), Preference Representation and the Influence of Political Parties in Majoritarian vs. Proportional Systems: An Empirical Test, *British Journal of Political Science*, published online first: 5 December 2016.

Tsebelis, G. (1995), Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism, *British Journal of Political Science,* 25, No. 3, 289-325

Tversky, A. und D. Kahneman (1973), Availability: A Heuristic for Judging Frequency and Probability, *Cognitive Psychology*, Vol. 5, 207–232.

Tversky, A. und D. Kahneman (1986), Rational Choice and the Framing of Decisions, *Journal of Business,* Vol. 59, 251–278.

Tversky, A. und D. Kahneman (1991), Loss Aversion in Riskless Choice: A Reference-Dependent Model, *The Quarterly Journal of Economics*, Vol. 106, 1039–1061.

Wagner, G. G., J. R. Frick & J. Schupp (2007), The German Socio-Economic Panel Study (SOEP) – Scope, Evolution and Enhancements, *Schmollers Jahrbuch,* Vol. 127, No. 1, 139-170.