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**Working Paper**

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CREMA Working Paper, No. 2017-05

**Provided in Cooperation with:**

CREMA - Center for Research in Economics, Management and the Arts, Zürich

*Suggested Citation:* Braendle, Thomas; Stutzer, Alois (2017) : Voters and Representatives: How Should Representatives Be Selected?, CREMA Working Paper, No. 2017-05, Center for Research in Economics, Management and the Arts (CREMA), Zürich

This Version is available at:

<https://hdl.handle.net/10419/214598>

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Center for Research in Economics, Management and the Arts

# Voters and Representatives: How Should Representatives Be Selected?

Working Paper No. 2017-05

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# Voters and Representatives: How Should Representatives Be Selected?\*

Thomas Braendle<sup>†</sup> and Alois Stutzer<sup>‡</sup>

April 15, 2017

## Abstract

Institutions systematically affect which individuals gain positions in the different branches of democratic government. Given agents' discretion in decision-making, their characteristics matter for policy choices. This perspective of political selection replaces the representative political agent by a heterogeneous set of political decision makers with different skills and motivations. Selecting political agents becomes a means to align the interests of the elected delegates with those of the citizens. Our comparative analysis reviews demand- and supply-side conditions in the market for competent and honest politicians. On the demand side, parties and electoral rules (including reservations and quotas) play an important role in determining who is recruited, nominated and finally elected. On the supply side, we focus on the various types of compensations associated with political office. Finally, institutions affecting the attractiveness of a political mandate for people with a specific professional background are considered and related to policy outcomes.

*Keywords:* Political selection, electoral rules, political parties, paying politicians, incompatibility, citizen-candidates model

*JEL classifications:* D72, D73, H11

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\*We are grateful to Armando Meier for helpful comments. This chapter solely expresses the opinion of the authors.

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# 1 Introduction

Delegates in the executive, legislative and the judicial branches of government are influential in politics, for better or worse. Mundane as well as historic events and developments are understood to be affected by their decisions. This reasoning is known from personal talk, the news, famous people's biographies and narratives about history. Obviously, political decision makers have some discretionary power.<sup>1</sup> However, to what extent are these people situated in a specific position at a particular point of time by chance? Or, do institutions systematically affect which individuals hold particular public positions? If the latter case holds, political selection becomes relevant from a comparative institutional perspective. Imagine a principal-agent relationship. The degree to which the decisions of politicians deviate from citizens' preferences crucially depends on the incentives, the motivation and the competence of the politicians. In terms of principal-agent theory, institutions are understood to influence the political process via two conceptually separate channels. On the one hand, institutions provide a structure of reward and punishment that affect agents' behavior. On the other hand, institutions affect the determination of who becomes an agent. Given the discretionary power these agents have in decision making, their (different) qualities will have an impact on the policy choice they make.

This perspective applied to political economics emphasizes four lines of reasoning: First, the representative political agent is replaced by a heterogeneous set of political decision-makers with different skills and motivations. These motivations may well extend beyond narrow material self-interest. Second, the selection of political agents is a complementary means to align the interests of agents with those of the principals. It is complementary to imposing or threatening with sanctions, i.e. the standard means for exacting compliance emphasized in political agency models. Third, institutions impact politics beyond disciplining agents and providing them with proper incentives while in office. They also affect who gets into public office. These two channels by which institutions affect politics may both be either conducive to good governance or detrimental to it by reinforcing harmful government (in)activity. In some situations, new trade-offs emerge, because prospects for beneficial selection effects are often accompanied by limited possibilities to exert ex post control (and vice versa). Fourth, institutionally determined selection affects policy choices and, more generally, economic and societal outcomes. These consequences are not random or idiosyncratic but systematic, depending on the process of (self-)selection.<sup>2</sup>

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<sup>1</sup>An alternative perspective is one of historical determinism. Events are understood as outcomes of heavily constrained decisions or – in short – as being historically predetermined by various forces. Historic events are merely assigned to individual decision makers in specific positions ex post.

<sup>2</sup>This reasoning does not negate the potentially important role of idiosyncratic selection effects attributable to random events in economics and politics. In fact, Jones and Olken (2005) show that individual national leaders exert an impact on economic growth in autocratic countries.

In this chapter, we discuss underlying institutional conditions (policies and rules) that affect the (self-)selection into politics and how, in turn, the qualities of the selected politicians affect policy outcomes.<sup>3</sup> Obviously, elections play a crucial role when trying to understand selection into politics, and the considerations related to selection are themselves closely linked to behavioral incentives. From a selection perspective, voters see elections as an opportunity to choose good candidates as their representatives, i.e., competent individuals who credibly represent the interests of the voters. It is theoretically assumed that voters, at least to some extent, are able to differentiate between good and bad candidates. If the electoral process partly allows the selection of good candidates, then the disciplining of bad politicians is implied. These considerations complement traditional public choice theory where elections induce accountability directly. In Downs (1957), candidates anticipate that they are not elected unless they serve the pivotal voter better than the best competitor does. In this model framework of pre-election politics, campaign promises are binding and enforceable. Similarly, in traditional models of post-election politics, politicians anticipate that they will not be re-elected if they do not comply with their commitments vis-à-vis the voters (e.g., Barro 1973). These original contributions reduce politicians to policy platforms. Politicians are primarily motivated by the rewards from holding office and respond to electoral punishment.

In contrast to these models' assumptions, there are now new models that emphasize the selection of politicians who have known policy preferences (in the absence of binding campaign promises). These models which are known as citizen-candidates models, were introduced by Besley and Coate (1997) and Osborne and Slivinski (1996). Lee et al. (2004) propose an empirical test to compare the traditional Downsian view with the new selection view without binding campaign promises. Focusing on the U.S. House of Representatives, they study whether voters affect policies by inducing policy convergence where there is sufficient electoral competition or whether they elect policies by choosing ideologically oriented politicians who fit their preferences best (accepting that politicians will follow their own preferences once in office). The empirical evidence supports the latter view of voters electing policies. Members of the House follow stable individual policy positions, independently of swings in policy preferences in the electorate.

The selection perspective emphasizes motivational heterogeneity and aims at better understanding individual politicians' policy positions. First of all, this approach considers a politician's identity and personality. Second, a politician's interests are argued to emerge from, for example, his or her professional background, gender, economic status and region of origin. Third, the politician is viewed to bring in different sets of competence or skills to his or her office.

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<sup>3</sup>The review partly draws on and extends Braendle (2016). Earlier overviews include the inspiring account of political selection by Besley (2005), as well as the contributions by Mansbridge (2009), Fearon (1999) and Padovano (2013) which emphasize the complementary aspects of sanctions and selection in political representation.

And fourth, politicians can be characterized as possessing a greater or lesser degree of integrity and honesty. Regarding the idea of good politicians, most people would agree that higher levels of competence and honesty are generally desirable. With respect to the other characteristics, normative positions often emphasize discrepancies between descriptive and substantive representation (e.g., Pitkin 1967). Moreover, considerations about selection raise issues about conflicts of interests (Peters et al. 2012). We concentrate more on positive aspects when we examine the economics of political selection from a comparative institutional perspective. We focus on institutions that affect demand- and supply-side conditions in the market for politicians. Regarding the general selection mechanism, the emphasis is on elections.<sup>4</sup>

The remainder of the chapter is structured as follows. In Section 2, the focus is on the demand side and the role of parties and electoral rules (including reservations and quotas) for who is recruited, nominated and finally elected. Section 3 discusses aspects that are more relevant for the supply side, in particular, different kinds of monetary compensation related to political offices. We leave out considerations about formal eligibility criteria such as age, sex and residency (see, e.g., Masicotte et al. 2004) as well as wealth requirements (Corvalan et al. 2015). In Section 5, regulations affecting the attractiveness of a political mandate for people with a specific professional background are taken up and related to policy outcomes. Section 6 offers some concluding remarks.

## 2 Parties and electoral rules

Political parties play an important role as intermediaries in the electoral process. The derived demand for candidates is driven by competing parties and is primarily influenced by their selection procedures and electoral rules. In the most simple models, parties ask for competent and loyal candidates who serve the interests of the party leaders. In this section, we first concentrate on contributions that study the interplay between parties' demand for candidates and electoral rules with respect to the quality of politicians. Second, we highlight the role of reservations and electoral quotas which impact political selection. Moreover, whether good candidates are, in fact, selected by parties and subsequently elected or re-elected by the electorate also critically depends on the available information about their quality. Major institutions that help to increase transparency in politics are independent and competing media, audit institutions and disclosure rules.<sup>5</sup> Another institutional mechanism generating information about candidates'

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<sup>4</sup>However, there are alternative selection procedures such as the rotation of mandates in units of self-governance, or mechanisms that involve a random element. Of particular interest is the selection by lot as it was applied in Athenian partial demarchy (Manin 1997) or is still applied for the selection of jury members.

<sup>5</sup>See, for instance, Stromberg and Snyder (2012) for the effect of the congruence between political markets and media markets on the selection of high quality politicians and Ferraz and Finan (2008) for

quality can be seen in the decentralized structure of government. For instance, Cooter (2002) argues that elections on different levels of government serve as (quality) filters. The issue of transparency in politics is taken up separately in Section 4.

## 2.1 Party competition and electoral rules

Party leaders face many trade-offs when defining their nomination strategies that depend on the electoral system in place. We take up some of these trade-offs that have recently been theoretically characterized. Mattozzi and Merlo (2015) propose a model of ex-ante selection in which two competing parties may not necessarily recruit and nominate the best candidates in terms of winning elections. While recruiting candidates of high quality enhances the electoral prospects of the party, parties also rely on the willingness of their members to exert effort in the electoral process. In order to maximize the collective effort on behalf of the party, party leaders prefer to select mediocre but homogeneous and committed members as candidates. Nomination as a candidate is considered the reward for loyal party services. The selection of high-quality candidates might, in turn, discourage party members from providing political support. Their model suggests that in a majoritarian electoral system, an equilibrium with mediocre politicians is less likely, as the more candidate-centered and more competitive nature of the electoral process in this system increases the electoral returns derived from selecting high-quality candidates.

Galasso and Nannicini (2011) take up the issue of parties strategically selecting and allocating candidates of differing quality depending on the intensity of political competition. In their model, two parties compete in a majoritarian electoral system. Depending on the degree of political competition, the parties first select how large their shares of expert candidates (high-quality candidates) or loyal candidates (low-quality candidates) should be. The former group is highly valued in terms of winning elections, but more costly for the parties as the probability of these politicians to deviate from the party leader's position is higher. In the second stage, parties send the experts (high-quality candidates) to the most contested electoral districts. Based on data on Italian parliamentarians between 1994 and 2006, the empirical analysis supports the beneficial effect of political competition. The closer district elections are, the more parties rely on high-quality candidates, measured by years of schooling, previous market income and previous local government experience. With regard to discipline, the study shows that politicians elected in close races display a lower absenteeism rate.

Another line of recent research endogenizes the strategic decision of parties to adopt open or closed candidate selection procedures, i.e., adopting more or less intra-party competition (see Crutzen et al. 2010, Serra 2011, 2013, and Snyder and Ting 2011). These contributions highlight the effect of public audit releases on the re-election of politicians.

that more competitive procedures reveal information about candidates' quality which might be valuable for improving political selection. While these contributions are important in order to better understand selection by and within parties, empirical counterparts are lacking and would constitute a promising field for research.

## 2.2 Reservations and quotas

An important dimension of heterogeneity in the pool of politicians is gender. Women are argued to have different policy priorities than men. In fact, recent economic research finds that women in politics systematically influence political outcomes. For instance, Chattopadhyay and Duflo (2004) show that political reservations for women in India increase local public goods provision relevant to their gender. Rehavi (2008) reports a positive relationship between women elected to U.S. state legislatures and public health spending. A similar finding is reported by Braendle and Colombier (2016) for Swiss cantons. Svaleryd (2009) finds that a larger share of women in Swedish local councils increases spending on childcare and education relative to elderly care.<sup>6</sup> The question of what influences the selection of women into politics in the first place has been primarily studied in political science and in cross-country contexts. In this literature, societal change and the electoral framework such as electoral rules, party size and quotas have been identified as important determinants of the selection of women into politics.<sup>7</sup>

Going one step further, Besley et al. (2017) focus on electoral quotas for women and study the relationship between quotas and the quality of politicians. In their model, it is shown that the survival concerns of a mediocre male party leader create incentives for gender imbalance (fewer women) and more incompetent men in office. A gender quota can force mediocre leaders to put greater weight on voter preferences, which boosts both gender diversity and male competence. These predictions are confronted with data on candidates in Swedish municipalities over seven elections (1988-2010). For the measure of competence, Besley et al. (2017) propose a labor-market performance-based indicator which exploits variation in income conditional on occupation, education, location and age. They find that where political competition was weak, the quota increased the competence of men in the municipalities where the initial share of women and competent men were both relatively low.

A similar result is found by Baltrunaite et al. (2014). They exploit the introduction of gender quotas in candidate lists in Italian municipal elections in the 1990s. Using a difference in differences approach, they find that gender quotas are associated with an increase in the quality

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<sup>6</sup>However, no evidence is found for effects of women in politics on public spending by Ferreira and Gyourko (2014) for U.S. cities.

<sup>7</sup>See, for instance, the review by Waengnerud (2009) which discusses the issue of women in politics from the point of view of descriptive and substantive representation.



of elected politicians as measured by the average number of years of education. This effect is due not only to the higher number of elected women, who are, on average, more educated than men, but also to the lower number of low-educated elected men. The positive effect on quality persists in the long run and is robust when controlling for ideology and political competition.<sup>8</sup>

All these contributions highlight the positive effect that specific electoral institutions have on the average quality of politicians via the channel of increased political competition. However, there are also contributions that focus on the consequences of the degree of political competition within a given system for political selection. For instance, for local governments in Italy, De Paola and Scoppa (2011) find a positive relationship between measures of political competition, such as the margin of victory, and the quality of politicians in terms of average years of school attendance. Aidt et al. (2011) utilize data on criminal charges lodged against the candidates of India's lower house of representatives. They document that parties are more likely to select alleged criminal candidates when confronting greater electoral uncertainty and in parliamentary constituencies whose populations exhibit lower levels of literacy. They interpret the nomination of known criminals as a function of the capacity of these candidates to intimidate voters. To substantiate this, they show that criminal candidates depress electoral turnout. In addition, their results suggest that India's well-known incumbency disadvantage stems from the better electoral performance of allegedly criminal candidates, who drive incumbents out of office. While most studies emphasize a beneficial effect of political competition, the study by Aidt et al. (2011) points to negative effects of political competition in terms of the criminalization of politics.

### 3 Material and non-material compensation

The decision to run for political office can be considered the result of a cost-benefit calculus. There are many factors that might contribute to the attractiveness of a political office (e.g., income, status, intrinsic pleasure, learning opportunities and power) as well as factors that might reduce it (e.g., work load, media pressure and fear of assaults). We first focus on politicians' pay as an important determinant of the decision to enter politics. Second, we discuss outside earnings as an additional monetary return to political office. Third, we address the amount of extractable rents from political office in general (potentially including the former two sources) as a determinant of political selection. For a perspective on rents, we highlight the importance of the quality of the institutional environment, in particular, with respect to transparency in

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<sup>8</sup>Gagliarducci and Paserman (2012) study gender interactions and gender differences with regard to government stability. They find that in Italian municipalities headed by female mayors, the probability of early termination of the legislature is higher. The likelihood that a female mayor remains in office until the end of her term is lowest when the council is entirely male and in regions with less favorable attitudes towards working women.

politics.

### 3.1 Pay for politicians

The effect that pay has on a politician's discipline and performance has been primarily analyzed in political agency frameworks. For instance, in a model with the possibility of re-election proposed by Besley (2004), politicians are more likely to abstain from rent-seeking and behave more in line with citizens' preferences as the value of office holding increases. How changes in salary influence the incentive to run for political office in the first place has just more recently been addressed. According to Besley (2005), the attractiveness of holding a political office stems primarily from three sources: pay, public service motivation and extractable rents. While low-quality politicians ("bad politicians") respond to pay and extractable rents, high-quality politicians ("good politicians") are motivated by pay and public service motivation. In order to evaluate how various factors change the composition of the pool of candidates and politicians, Besley (2005) proposes an attractiveness ratio defined as  $(\text{rents} + \text{wages}) / (\text{public service motivation} + \text{wages})$ . The smaller the attractiveness ratio is, the more high-quality candidates will enter politics. Accordingly, the effect of an increase in pay on the selection of high-quality politicians depends on the relative strength of rents and public service motivation in attracting candidates. If public service motivation is more important than rents for many citizens, an increase in pay will lead to a lower average quality of politicians. If rents are more relevant than public service motivation for many citizens, an increase in pay will lead to a situation in which holding a political office becomes more attractive to high-quality candidates. In a related citizen-candidates model, Caselli and Morelli (2004) assume that there is a positive relationship between political competence and competence in the private market. In their model, low-quality politicians have a comparative advantage in holding office because they face worse opportunities in the private sector. By implication, a higher relative pay in politics increases the average quality of politicians, as candidates with higher opportunity costs self-select into politics.

Mattozzi and Merlo (2008) show in a dynamic equilibrium overlapping generations model of politicians' careers that an increase in the salary paid to politicians will have a different selection effect depending on whether the individual is a "career politician" (politician until retirement) or an individual with a "political career" (politician who stays in politics only for a while in order to signal his quality to the private sector). An increase in pay in politics renders politics more attractive to candidates of all quality levels. This lowers the quality of the worst citizen who becomes a politician (entry effect). Since political pay has become more attractive, high quality incumbents have, however, a stronger incentive to remain in politics (retention effect). The effect on the average quality of individuals with "political careers" is negative. The effect on the average quality of "career politicians" is ambiguous and depends on the relative strength

of the retention and the entry effect.

Ultimately, whether higher pay improves political selection is an empirical question. Ferraz and Finan (2009) analyze exogenous variation in the pay of local politicians across Brazilian municipalities for elections held in 2000 and 2004. They use the discontinuities in pay depending on municipality population thresholds to identify the causal effect of pay on selection by implementing a fuzzy regression discontinuity design. Their results indicate that higher pay improves the quality of candidates and elected politicians as approximated by education (average years of school attendance and the share with at least a high-school degree) and previous occupation (a larger fraction of politicians with high opportunity costs; i.e., more lawyers and businessmen are attracted). Moreover, more generous pay increases competition, which is indicated by more citizens who run for political office. Gagliarducci and Nannicini (2013) provide consistent evidence in a similar empirical setting for Italian mayors for the period 1993 until 2001 by implementing a sharp regression discontinuity design. A higher salary attracts candidates and elected mayors who have higher opportunity costs as approximated by years of schooling and a white-collar professional background. They find that a 33% higher pay for mayors increases the average years of schooling by 6.2%. Furthermore, the study exploits term limits in order to disentangle the selection and the incentive effects that pay has on in-office performance as approximated by budget indicators. Interestingly, most of the improved performance is driven by selection.

The empirical papers so far refer to the subnational level, and one might wonder whether they carry over to higher, arguably more important levels of government. At higher levels of government, monetary incentives may be less important, since becoming a politician is accompanied by more power and higher prestige. Kotakorpi and Poutvaara (2011) apply a differences-in-differences approach to an increase of 35% in Finnish parliamentary pay at the national level. Using candidates in local elections as the control group, they find this increase to be associated with a five percentage points larger fraction of female candidates with higher education (master's degree). No effect is found for male candidates. As an explanation for the finding, the authors mention the existing gender gap in outside wages as well as the fact that many highly educated women work in the public sector where the income distribution is narrower than in the private sector.

An exceptional pay harmonization reform at the supranational level, i.e., for the Members of the European Parliament (MEPs) is studied by two independent contributions, i.e., Fisman et al. (2015) and Braendle (2015). Prior to the reform that took place in 2009, base pay was aligned with that of national parliamentarians, a rule which entailed large differences between the delegations from the 27 member states. The harmonization introduced a base pay increase of 200% per national delegation on average. Fisman et al. (2015) find that increasing the salary increases the incumbency rate and the number of parties fielding a candidate. The ex-ante

quality of politicians as approximated by the selectivity of their university degree decreases as base pay increases. Braendle (2015) finds a similar positive effect on re-election rates. He finds no effect on the composition of the pool of politicians in terms of their formal education, previous political experience and occupational background. However, when restricting the analysis to newly elected MEPs, he finds that higher base pay is related to a lower fraction of MEPs with previous political experience at the highest national level. In order to better understand the dynamics at work, Braendle (2015) emphasizes that one has to take into account the European proportional electoral rule and the correspondingly important role of national parties in nominating candidates and allocating them to either the (sub)national level or the European level.<sup>9</sup>

### 3.2 Moonlighting

Assuming that the political market and other markets are not mutually exclusive, high-quality candidates will be more likely to run for office when there is no restriction in terms of outside earnings. Entering politics implies gaining visibility and access to new networks, which renders a political office more attractive for high-quality candidates. However, a trade-off emerges: The high-quality candidates, once elected, will be less dedicated to their office, as they prefer pursuing their private economic interests. Indeed, confronting these predictions with data for Italian parliamentarians between 1996 and 2006, Gagliarducci et al. (2010) show that the marginal returns (in terms of outside earnings) to quality are positive. Quality is approximated by previous market income. The ratio between outside income and pre-election income increases when moving up in the pre-election earnings quintiles, and the respective coefficient is larger than one when regressing outside income on pre-election income. This indicates that high-quality candidates have a comparative advantage in terms of outside earnings. Regarding discipline in office, they find that parliamentarians with higher outside income are less committed to parliamentary activities as proxied by voting attendance.<sup>10</sup>

Fedele and Naticchioni (2015) extend this framework and introduce citizens who differ in abil-

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<sup>9</sup>Carnes and Hansen (2016) take a different perspective and study whether pay in politics impacts economic diversity and, in particular, the selection of working class candidates into politics. For U.S. state legislatures, they find that higher pay in politics does not or even reduces the share of working class candidates elected to politics.

<sup>10</sup>Regarding in-office effort, Becker et al. (2009) show for members of the German parliament elected in the majoritarian tier of the electoral system that the more contested the electoral districts are, the less the politicians engage in outside activities. Arnold et al. (2014) study whether outside earnings are correlated with absence and parliamentary activity. They find that outside earnings are not correlated with absence rates and speeches. However, the findings suggest that outside earnings are somewhat negatively correlated with oral contributions, interpellations, and group initiatives. It is argued that the results for Germany do not corroborate evidence on other countries such as Italy, because party discipline, institutions, and political cultures differ across countries.

ity and motivation. They define motivated, or public-fit, individuals as agents who have value congruence (work values and work goals) with the public sector environment and non-motivated agents, or market-fit, individuals as those who have work values and goals that are market oriented. Public-fit individuals are assumed to gain higher motivational rewards from entering politics than market-fit individuals. Due to the high opportunity costs of being committed to their duties in public office and the lower motivational rewards from serving as politicians, market-fit high-ability citizens shirk once elected. In the empirical analysis, public-fit is roughly proxied by a previously held political position (at the subnational or supranational level or in a party). Consistent with the theoretical model, they find that for both public-fit and market-fit parliamentarians, there is a positive selection into politics compared to the Italian population in terms of pre-election income. The marginal returns to quality are larger for market-fit parliamentarians. This indicates that market-fit high-ability candidates tend to use their office to gain visibility and access to new networks, while public-fit high-ability parliamentarians engage less in moonlighting. Regarding in-office effort, a positive relationship between outside income and absenteeism is found for market-fit parliamentarians. No such effect is found for public-fit parliamentarians. Regarding re-election, it is observed that public-fit politicians have a higher probability of re-running for office. This is in line with the two kinds of political careers proposed by Mattozzi and Merlo (2008).<sup>11</sup>

### 3.3 Extractable rents from office and transparency in politics

An excellent analysis of the importance of the amount of extractable rents as a determinant of political selection is conducted by Brollo et al. (2013). They present a career concern model with endogenous entry of heterogeneous candidates and study the effects of windfall government revenues. An increase in non-tax governmental revenues (implying a larger government budget) allows the incumbents to grab more political rents without disappointing rational but incompletely informed voters. Moreover, as extractable rents increase with budget size and assuming that these rents are more valuable for low quality candidates, the average quality of individuals entering politics declines. This negative selection effect, in turn, reinforces the incumbents' incentives to extract rents as less able opponent candidates enter politics. Despite the higher level of corruption, a windfall of government revenues increases the chances of re-election. The empirical analysis focuses on federal transfers in Brazil and uses a (fuzzy) regression discontinuity design with population discontinuities as an instrument for transfers. Consistent with the theoretical predictions, higher federal transfers increase corruption and reduce the quality

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<sup>11</sup>Besides pay in office and outside earnings, a third monetary component for the attractiveness of a political office is post-office returns. Recent empirical contributions are Eggers and Hainmueller (2009) and Kotakorpi et al. (2013). An overview on moonlighting and post-office returns is given in Geys and Mause (2013).

of new candidates as proxied by educational attainment. Furthermore, incumbents receiving larger transfers have a higher re-election probability.

A major determinant of the degree of extractable rents is transparency in politics. Institutions generating transparency might thus systematically affect who decides to become a politician. Such selection effects can result from increased public attention on politicians' behavior due to independent media or due to stricter disclosure rules for politicians.

Initial research relates the quality of the institutional environment in terms of transparency and the degree of extractable rents to the selection of politicians with a specific occupational background. A particularly interesting case is the selection of businessmen into politics. Compared to campaign financing or lobbying, their presence in politics can be considered a complementary or/and a substitutive channel of (direct) political influence.<sup>12</sup> On the one hand, businessmen entering politics are likely to contribute professional experience that is relevant to political decision-making. Given their outside activity, their contribution to legislative decision making is likely to be more independent of narrow party leaders' interests. On the other hand, businessmen in politics face substantial conflicts of interest.

One study that relates leaders' occupational background to policy choices is presented by Dreher et al. (2009). In a panel data study for 72 countries, former entrepreneurs are found to be more likely to implement market-liberalizing reforms. Taking one step back and focusing on the selection into politics, Gehlbach et al. (2010) investigate in which institutional environment businessmen run for office rather than to rely on other means of political influence. In their theoretical model, they demonstrate that the incentives of businessman candidates to run for political office are weak when democratic institutions are relatively well developed and where high levels of political accountability prevent rent extraction in the political sphere. In contrast, when democratic institutions are weak, businessmen can obtain rents in the political sphere. By running for office, they additionally avoid lobbying costs. Gehlbach et al. (2010) rely on Russian gubernatorial elections between 1991 and 2005 to provide empirical evidence. Consistent with the theoretical prediction, they find that the likelihood of businessman candidacy is decreasing in media freedom and government transparency (as proxies for strong democratic institutions). Gehlbach et al. (2010) also argue that if the extractable rents from holding a political office

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<sup>12</sup>While the most direct channel where businessmen run for political office themselves - a phenomenon quite frequently observed - has not yet been subjected to much scholarly attention, there is a fast growing literature in finance and corporate finance on the value of political connections for business that primarily focuses on firm profitability. The literature suggests that political connections are associated with improved operational and stock market performance (see, e.g., Fisman 2001, Faccio 2006, 2010, Ferguson and Voth 2008, Goldman et al. 2009, and Luechinger and Moser 2014), preferential access to credit markets (see, e.g., Faccio et al. 2006, Khwaja and Mian 2005), as well as favorable regulation (Bunkanwanicha and Wiwattanakantang 2009). Political connections are found to be particularly attractive in weak institutional environments (Faccio 2006, Faccio and Parsley 2009, and Amore and Bennesen 2013).

are very high, the opportunity costs of other (professional/career) politicians are lower. Accordingly, businessman candidates are crowded out of the race. In order to test the crowding out of businessmen by (professional/career) politicians when there are weak democratic institutions accompanied by a high level of extractable rents, they study the differential effect of the share of employment in natural resource extraction industries (as a proxy for extractable rents) in conjunction with the development of democratic institutions. Only for regions with weak democratic institutions, do they find resource abundance to be associated with a decrease in the probability of businessmen running for political office. In a closely related study, Szakonyi (2016) by implementing a RDD-design finds that businessmen elected to politics in Russia can increase their firms' revenues and profitability. It is shown that this result is due to gaining access to bureaucrats rather than signaling legitimacy to financiers. Interestingly, while the value of winning a seat increases in more democratic regions, it decreases with the share of businessmen elected to politics.

Li et al. (2006) examine the impact of market, rather than political institutions on the presence of businessmen in politics. They argue that entering politics is favorable to businessmen, as it gives them decision-making power over issues that may concern their own firms. In addition, engagement in politics offers businessmen new personal contacts with important government bureaucrats (who are often part of the same legislative body), which facilitates access to preferential treatment. The weaker the political and market institutions, the more businessmen rely on entering politics to pursue their economic interests. For China, they find that businessmen are more frequently present in politics in regions where market and political institutions which support market functioning are underdeveloped. The institutional environment is proxied using the openness of the product and credit markets, the intensity of state regulation, the informal tax burden, and the availability of legal services as a measure of trust in the rule of law.

Rosenson (2006) approximates transparency in politics as provided by the institutional framework with the different ethic laws in place and relates it to the presence of businessmen in politics. For the U.S. state legislatures, she finds that the stricter the rules of financial disclosure are, the smaller is the fraction of businessmen in politics. She argues that stricter disclosure rules, which aim at enhancing transparency in politics, might have negative selection effects if high-quality candidates have a strong preference for privacy and the partisan and journalistic use of disclosed information makes public life compromising for them. Van Aaken and Voigt (2011) find no negative relationship between disclosure rules and the share of businessmen in politics at the country level.

## 4 Conflicts of interest and occupation-specific regulations

The political selection perspective highlights that rules set up to reduce agency problems also affect who is attracted to enter politics. Besides disclosure rules, there are several further institutions that aim to prevent conflicts of interest. One such institution is the rule of incompatibility for persons holding both an executive and legislative position.

Interestingly, public servants form the single largest occupational group present in most national legislatures. This sparks concerns regarding descriptive and substantive representation. More importantly, personal unions and affiliations between the legislature and the public service as well as the perk of guaranteed re-employment might compromise the constitutionally proposed political neutrality of the public service. Moreover, it might undermine the separation of powers. It can be argued that their double role as agents in public service and as principals who supervise the public service in parliament generates a conflict of interest. Persons holding both a legislative and an executive position may face decisions as legislators that affect their role in the executive branch, for instance, when voting on their own department's budget. In contrast to all other members of parliament, this conflict of interest is immanent, as it involves a sovereign area of government activity. However, public servants also form a pool of people with first-hand information about public service issues and a revealed interest in these matters. When insiders are elected to parliament and become accountable to the electorate, they might be considered a source of expertise and even an additional check in legislative decision-making.

Braendle and Stutzer (2010) study the institutional determinants of the selection of public servants into politics for the German Laender from a supply-side perspective. The analysis investigates issues of incompatibility and a wide set of related institutions that determine the cost-benefit calculus of running for a seat in parliament.<sup>13</sup> Based on repeated cross-section data for German subnational parliaments, they find sizable restrictive effects of incompatibility rules on the political selection of public servants. This is consistent with the hypothesis that a stricter rule increases the opportunity costs incurred by public servants when pursuing a political office. Moreover, institutional privileges granted to public servants when pursuing a political career, in particular the compensation for holding one's office in abeyance and special pension benefits, are found to increase the share of public servants in parliament.

In a related paper, Braendle and Stutzer (2016) document the phenomenon of the strong pres-

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<sup>13</sup>In a complementary (demand-side) perspective, occupational background can also be considered a cue for voters. For instance, Mechtel (2014) argues that candidates' occupations play an important role in their electoral success due to their occupation's public reputation and the relevance of their occupation-specific competences for politics. Looking at polls on the reputation and prestige of certain jobs, Mechtel (2014) finds a strong correlation between an occupation's reputation and the electoral success that a candidate with this occupation has in local, arguably low-information, elections.



ence of public servants in national parliaments for 76 countries for the period covering 2000 to 2010.<sup>14</sup> They also study constitutional provisions that primarily aim to inhibit conflicts of interest; i.e., the different regimes that define the ineligibility or (in)compatibility between public service employment and a legislative mandate. Compared to Braendle and Stutzer (2010), the latter evidence is based on a wider variation in (in)compatibility regimes and for more heterogeneous institutional environments. They find that stricter rules (ineligibility or strict incompatibility regimes) significantly decrease the share of public servants in parliament by about seven percentage points on average (as compared to less strict rules on dual office holding).

With respect to consequences for the political process, Braendle and Stutzer (2013) propose a framework that incorporates the heterogeneity of legislators in terms of their occupational background in a politico-economic analysis of legislative oversight. When engaging in oversight, public servants elected to parliament face a conflict of interest, but also have lower control costs due to their experience and information advantage. If held accountable, oversight becomes a relatively attractive activity for them to win votes. The empirical findings for the German Laender parliaments support the hypothesis that public servants have a monitoring advantage. With regard to consequences for public spending, supplementary evidence presented in Braendle and Stutzer (2016) shows that the share of public servants in parliament is positively related to government consumption, though not to government effectiveness. Hyytinen et al. (2016) analyze the effect of municipal employees' political representation in a municipal council on local public spending. Studying close elections in Finland, they find that an additional councilor from the public sector increases spending by about one percent. The effect is largely driven by the largest party and is specific to the employment sector of the municipal employees.<sup>15</sup>

Lawyers form another profession group that is prominent in politics. Considerations concerning the consequences that arise when lawyers hold political offices cover a wide range of issues, such as the hazard that they might bias legislation in favor of their own professional interests or, conversely, that they might benefit their political office through their particular educational training and professional experience assuming a fiduciary function as politicians. Here again, the question of what determines their selection into politics is open. A first piece of evidence is presented by Rosenson (2006). For U.S. state legislatures, she finds that restrictions on the representation of clients before state entities (one facet of ethics laws) are negatively related to the presence of lawyers in politics. As regards the consequences, Matter and Stutzer (2015)

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<sup>14</sup>The political scientists Best and Cotta (2000) address the long-term trends in the occupational composition of parliaments for 11 European countries. With regard to the presence of public servants, they argue that changes over time might be mainly induced by changing demands for political competence. In particular, they claim that public servants are specialists in redistributive politics.

<sup>15</sup>Focusing on the educational branch of the public service, Couch et al. (1992) find in an early contribution that in Alabama public funding per student at the junior and senior colleges that employ legislators as educators is significantly higher than that received by comparable institutions.

study lawyer-legislators' voting behavior to test their pursuit of personal business interest in tort law. They find that attorneys in the U.S. state legislatures and in the House of Representatives systematically favor an extended tort law.

In sum, incompatibility rules are primarily introduced to reduce conflicts of interest, but they also systematically affect political selection. At the constitutional stage, a trade-off emerges: strict incompatibility rules or even ineligibility rules may inhibit conflicts of interest and thus increase government efficiency. However, strict rules might also reduce government efficiency due to either the loss of public service expertise in legislating or negative effects on political competition as an overly strict rule might aggravate the shortage of candidates (see Miller, 2010, for anecdotal evidence for U.S. states).

## 5 Concluding remarks

In the political process, binding campaign promises are not possible, and citizens delegate decision power for unknown future circumstances. Thus political control is always limited. Accordingly, it is crucial to carefully select credible and competent candidates who will represent and implement a particular political position is crucial. The challenge for constitutional political economics is to understand how institutions affect the presence of “good” candidates, i.e., competent and honest citizens, in politics. Given this, we need to identify which institutions increase the probability that good candidates will be willing to offer their services, that they will then be nominated by parties and that they will finally be elected by citizens?

So far, we do not sufficiently understand the way in which many institutions affect political selection. This holds, for example, for militia systems in politics, for representative democracies which allow for citizens' direct democratic participation, or for specific rules such as immunity rules (see, e.g., Reddy et al. 2013). Regarding the desirable characteristics of politicians, empirical research so far concentrates on aspects related to competence. The study of selection and honesty is difficult, as politicians react to incentives, try to hide narrow selfish behavior, and rather attempt to mimic honest politicians. Another open question is whether selecting more competent politicians comes at the cost of decreasing social representativeness in the composition of elected political assemblies (see, e.g., a first study by Dal Bo et al. 2017).

The great challenge is to instill and maintain virtues in citizens and politicians. The economics of political selection should not take individuals' characteristics and motivational heterogeneity as given. Political agents learn skills and norms, are socialized by public rituals, and are exposed to incentives and opportunities that affect their qualities as political decisions-makers. Public service motivation may well be strengthened, but it may be also crowded out in the political process (see, e.g., Frey 1997). The idea that autonomy motivates and the dictum that power

corrupts highlights that the search for institutions that help to select and to hold suitable people accountable is here to stay for scholars of democracy.

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