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## Election cycles in MPs' outside interests? The UK House of Commons, 2005-2010

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# WZB

Wissenschaftszentrum Berlin  
für Sozialforschung



Benny Geys

## **Election Cycles in MPs' Outside Interests? The UK House of Commons, 2005-2010**

**Discussion Paper**

SP II 2011-104

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**Markets and Politics**

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Abstract

## **Election Cycles in MPs' Outside Interests? The UK House of Commons, 2005–2010**

Benny Geys<sup>\*</sup>

Politicians often implement popular changes in public policies prior to elections, with the aim of improving their Election Day outcome. This research note evaluates whether such 'electioneering' carries over also into politicians' extra-parliamentary activities. Evidence from the UK House of Commons over the period 2005–2010 suggests adjustments do occur in MPs' outside activities over the election cycle. The safety of the politicians' seat and his/her decision to stand for re-election play an important mediating role.

*Keywords: Outside interests, election cycles, House of Commons*

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## 1. Introduction

Members of Parliament (MPs) can legally undertake extra-parliamentary activities in many countries, and these pursuits are welcomed in many traditions of representation. Yet, they are not always looked upon favourably by the mass media and the broader public. Indeed, often described as ‘moonlighting’ (Gaggiarducci *et al.*, 2010; Geys and Mause, 2011), they have been equated with personal greed, conflicts of interest, neglect of parliamentary duties and putting private well-being before the nation (e.g., Noel-Baker, 1961; Carlin, 2007). This negative view strengthened during the recent series of scandals on MPs’ expense claims (in 2009 in the UK and 2011 in the European Parliament) and acceptance of ‘cash for influence’ (in 2009 and 2010 in the UK, and 2011 in the European Parliament), ‘cash for questions’ (in 1994) or ‘cash for honours’ (in 2006-07) (see also Allen, 2008).

Given voters’ ethical concerns regarding politicians’ behaviour (Birch and Allen, 2010; Allen and Birch, 2011), this popular association between extra-parliamentary activities and the inappropriate use of office may lead such activities to negatively affect politicians’ public image. Building on an extensive literature on Political Budget Cycles (i.e., politicians introducing popular policy changes prior to elections; for a review, see Franzese 2002), this research note argues that such damaging aspect of outside interests makes holding them less attractive, certainly when elections are approaching.<sup>1</sup> We test the empirical implications of this argument using data from the UK House of Commons’ Register of Members’ Financial Interests over the period 2005-2010, thus covering one complete legislative term.

## 2. Theoretical framework and hypotheses

A classic argument in political science and economics holds that politicians favour implementing politically costly policies – such as tax increases (e.g., Geys and Vermeir, 2008a, b) – early in the legislative term. When elections are imminent, they rather introduce tax reductions (e.g., Mikesell, 1978; Ashworth *et al.*, 2006) or increases in public expenditures (e.g., Hicks and Swank, 1992; Sáez and Sinha, 2010). Such Political Budget Cycles (PBC) leave incumbents’ popular policy decisions fresh in voters’ minds on Election Day, while they have sufficient time to ‘forget’ unpopular measures (for a review, see Franzese, 2002).

From a theoretical perspective, such electoral cycles require an instrument, a motive and an opportunity (Tuftes, 1978; Geys, 2007). The instrument can, in principle, be any policy variable available to politicians (Franzese, 2002). The motive is re-election. This need not imply, however, that all incumbents will enact policy changes for electoral reasons; electoral uncertainty is likely to play an important intermediary role since the more uncertain re-election is, the stronger is the motive to manipulate public policies (e.g., Frey and Schneider, 1978; Schultz, 1995). Opportunity, finally, involves two elements: *a*) knowing when elections take place (such that policy changes can be adopted and implemented in time; (Shi and Svensson, 2006) and *b*) having decision-making authority over the ‘instruments’ (Alt and Lassen, 2006; Potrafke, 2011).

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<sup>1</sup> Politicians appear to worry about these potential repercussions of outside interests. For instance, David Cameron’s attempts to make senior Tory MPs renege on their directorships and outside jobs prior to the May 2010 election, was motivated by the political damage such interests may cause to the Conservative Party in the upcoming election (Watt, 2008).

We employ this theoretical framework to address the potential for electoral cycles in politicians' outside interests. As politicians are unlikely to become involved in, or continue with, extra-parliamentary activities without their approval, they have full authority over such activities (though sometimes allowance should be made for reasonable termination periods). Since adjustments of outside activities (i.e., the instrument) should thus be easy (i.e., perfect opportunity), the key factor lies in the strength of politicians' motives for election-driven adjustments. We focus on two elements that might affect this motive.

- First, as indicated above, the narrower the vote margin MPs hold over their rivals, the more intense the pressure to steer clear of electorally harmful activities. If outside interests have detrimental effects on MPs' public image (see above), electoral vulnerability will thus strengthen the incentive to readjust prior to Election Day. Such adjustments might, but need not necessarily, reflect the MPs' wishes. They may also derive from partisan pressure. For instance, local party activists influence the selection process of candidates (e.g., Gallagher and Marsh, 1988; Evans, 2011) and one possible manifestation of this influence may well lie in pressure on MPs to give up outside interests.
- Second, extensive evidence suggests that women are, on average, more risk-averse than men (Borghans *et al.*, 2008). This also holds among female politicians (e.g., Sjöberg and Drottz-Sjöberg, 2008). Translated to our setting, this may lead female MPs to perceive or evaluate the political risk (i.e., Election Day retribution) related to outside activities differently from male MPs. This, in turn, would imply a different motivation across both genders to readjust outside interests prior to Election Day.

This discussion leads to three hypotheses.

H1: Outside interests decrease prior to elections.

H2: This effect is stronger for politicians in a vulnerable electoral position.

H3: This effect is stronger for female politicians.

### **3. Institutional Background and Data**

The Code of Conduct for Members of the UK House of Commons states that MPs' are allowed to exercise extra-parliamentary activities when these are entered in the Register of Members' Financial Interests within four weeks of the start of the activity or within a month of a politician's election (House of Commons, 2009). Registration occurs in 12 categories ranging from directorships (Category 1) and remunerated employment (Category 2), over sponsorships (Category 4) and gifts (Category 5), to land and property (Category 8), shareholdings (Category 9) and employment of family members paid from the staffing allowance (Category 12).

Our analysis concentrates on Category 1 (i.e., remunerated executive and non-executive directorships in private as well as public companies) and Category 2 (i.e., any "employment, office, trade, profession or vocation (...) which is remunerated or in which the Member has any financial interest"; House of Commons, 2009, 15) since these most directly capture extra-parliamentary jobs. We extract all entries in these two categories from the Register for the period 2005-2010, thus covering one complete legislative term. For each Session within this period (a Session usually runs from November to November, unless there is a general election), we employ the latest available Register. This enables balancing a need for

completeness (by using the latest data available in each Session) *and* temporal variation (by having separate information on Sessions within the legislative period).

We should note here that the rules for registering interests incurred two substantive changes during the 2005-2010 period. First, registering employment of family members paid from the MP's staffing allowance (Category 12) is only required since April 2008. Although hiring family members could supplant income obtained from extra-parliamentary jobs (a sort of 'outsourcing'; Geys and Mause, 2011), it is unlikely that this new publication requirement significantly affected extra-parliamentary activities. It is indeed easier to stop paying family members from the staffing allowance, and hide their employment from public scrutiny, than to replace such income by additional extra-parliamentary activities. Second, in July 2009, the financial threshold for registering interests in Categories 1 and 2 was removed (before July 2009, positions generating income below 1% of the MPs' salary were exempt from registration)<sup>2</sup> and more detailed information became required regarding the "precise amount of each individual payment made, the nature of the work (...) [and] the number of hours worked" (House of Commons, 2009, 15). This additional information might attract public attention and thereby the incentive to have outside interests.<sup>3</sup> We therefore return to its potential influence on our findings below.

The data are presented in Figure 1, which portrays the share of MPs with at least one sideline activity for each of the five Sessions in the period 2005-2010. As Remunerated employments (Category 2) include continuous activities (such as retaining one's medical practice or writing weekly columns in a newspaper) as well as sporadic assignments (such as individual lectures or completing a survey), we present these separately. They are referred to as 'continuous' and 'one-off', respectively.<sup>4</sup> Figure 1 indicates that the share of MPs holding directorships increases until roughly the middle of the legislative term, and then declines. For the share of MPs holding Remunerated Employments, we find an *increasing* trend, which is driven by the increase in the number of MPs registering one-off assignments.

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Figure 1 about here

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#### 4. Estimation model

To evaluate hypotheses H1-H3, we estimate a multiple regression model (with subscript *i* referring to MPs and *t* to time):

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- 2 The absence of a financial threshold benefits completeness of the Register. Even so, all interests may not be registered. Still, 'hiding' interests is probably easier for small assignments compared to directorships and other long-term interests, such that these data probably are most accurate. Note also that *if* the abandonment of the financial threshold in July 2009 led to the registration of more outside interests, this would stack the deck against our hypotheses (since H1 predicts a reduction in outside interests towards elections).
  - 3 The amount received may help distinguishing between trivial activities and those of potential importance to voters. However, this information is only available during the final year of our sample, and thus could not be incorporated here.
  - 4 This is admittedly a crude distinction, and does not account for activities' relevance to the constituency. Interpreted as constituency service, the latter could, however, be seen as part of MPs' parliamentary tasks, rather than outside interests. The Register unfortunately does not readily allow setting apart outside interests with constituency relevance, such that our data overestimate true outside interests. Still, assuming MPs are not *less* likely to engage in community service towards the end of the legislative period (which appears unlikely), this will bias our results against our central hypotheses.

$$Y_{i,t} = \alpha + \gamma X_{i,t} + \sum_{j=2}^5 \beta_j YEAR_t + \sum_{k=2}^5 \delta_k (YEAR_t * Z_{i,t}) + \varepsilon_{i,t} \quad (1)$$

We estimate equation (1) using four dependent variables ( $Y_{i,t}$ ): i.e., Directorships (Category 1 in the Registry), overall Remunerated employments (Category 2), ‘one-off’ jobs (short-term interests in Category 2) and ‘continuous’ jobs (long-term interests in Category 2). Each is a dichotomous variable with value 1 when the MP has at least one outside activity within the relevant category, and 0 otherwise. Using the actual number of interests in each category, however, leads to qualitatively similar findings (available upon request).

Our central explanatory variables – summarized in the vector  $YEAR_t$  – are a set of four year dummies equal to 1 in the Session 2006/07, 2007/08, 2008/09 and 2009/10, respectively, and 0 otherwise (Session 2005/06 acts as reference category).<sup>5</sup> Evidence in line with H1 requires significant negative coefficient estimates ( $\beta_j$ ) for years closer to the May 2010 elections. To evaluate whether, and how, vote margin and sex affect outside interests over the election cycle (H2 and H3), we introduce interaction terms between these year dummies and the MP’s vote margin (defined as the percentage difference between his/her vote share in the 2005 general elections and that of the closest runner-up), and sex (1 for male MPs, 0 for female ones). We expect a narrower vote margin and female gender to strengthen election-year effects.

$X_{i,t}$  is a set of control variables (with  $\gamma$  a vector of parameters to be estimated) accounting for the characteristics of MP’s political mandate (i.e., party affiliation, number of legislative periods attended, number of committee memberships), his/her socio-demographic characteristics (age, sex, marital status, educational background, occupational background) and characteristics of the 2005 election in the MP’s district (i.e., voter turnout, number of parties competing and the vote margin between the winner and the runner-up). Note that since  $Z_{i,t}$  is a subset of  $X_{i,t}$ , all constituent elements of the interaction terms are included in the analysis, which is important to obtain unbiased estimates (Brambor *et al.* 2006).

Finally, given that our dependent variables only take 1/0 values, we employ a logit model to estimate equation (1). We account for the non-independence of observations for the same politicians over time by using a random effects panel estimator.<sup>6</sup>

## 5. Findings

Our baseline results – which assess H1 – are provided in Table 1. A quick look at the control variables indicates that male MPs are significantly more likely to hold directorships and long-term remunerated employments than females MPs (supporting evidence from Germany and Italy; Becker *et al.*, 2009; Gagliarducci *et al.*, 2010), married MPs are less likely to have outside interests, and Conservative Party MPs are more likely to do so. Such partisan effect is also observed in Germany (Mause, 2009) and can be “expected on ideological grounds”

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5 Modelling the electoral cycle using a quadratic function leads to the same qualitative results. The same holds when introducing year dummies only for the last two years in the electoral cycle (details upon request).

6 As most control variables are constant over time, they would drop out in a fixed-effects estimator. Even so, using fixed, rather than random, effects leaves our results unaffected. Also, given the persistence of ancillary activities over time, we experimented with modelling the error term as an AR(1) process. This leaves our findings qualitatively unaffected (details upon request).



(Mancuso, 1995, 67). Finally, MPs with an economic background are more likely to hold directorships (corroborating evidence from Italian MPs; Gagliarducci *et al.*, 2010).

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Table 1 about here

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Turning to the vector of year effects, we find that, in line with H1, directorships and long-term remunerated employments are scaled back in the years prior to an election. For directorships, this occurs in years four and five of the legislative term (after reaching a peak in year 3). For long-term remunerated employments, it appears constrained to the 2008/09 Session. However, given the way we coded outside interests (i.e., using all information from each entire Session), this cannot be due to the change in regulations that came into effect on 1 July 2009 *unless* MPs expected this change at the start of this Session in November 2008 and immediately adjusted their behaviour accordingly. As these changes were agreed upon only on 30 April 2009, this appears unlikely.

Diametrically opposed to this, one-off employments rise sharply in the two years prior to the May 2010 election. This is no doubt driven in part by the legislative changes of 2009. Yet, it might also indicate that politicians exploit such short-term assignments to increase their public visibility ahead of, and during, the electoral race (either by actively seeking out such opportunities or by becoming more likely to accept offers provided by media and societal groups interested in the electoral race). Alternatively, it could reflect that such one-off jobs are used as an insurance policy, job-search activity (i.e., as self-advertising) or money-raising opportunity for MPs in fear of being ousted in the upcoming election.

Before going further into to these alternative explanations, let us first look at Figure 2. This figure reports results including interaction effects between the year variables and the safety of the politicians' seat (measured via the vote margin over the nearest competitor in the 2005 elections), which allows evaluating hypothesis H2. Specifically, we depict how the marginal effect of the election year dummy (i.e., "Year 5" in Table 1) on the probability of having outside interests (our dependent variable) changes over the observed range of MPs' vote margins.<sup>7</sup> The results indicate that MPs' electoral vulnerability plays an important role. On the one hand, MPs in very vulnerable seats (i.e., vote margin $\approx$ 0) have a significantly lower probability of holding directorships (Figure 2a) and continuous employments (Figure 2c) in the election year Session (compared to the first Session in the term). This effect weakens when the MPs' seat becomes safer (i.e., moving towards the right-hand side of both figures), and disappears when the MPs' seat is safe enough (it even reverses for continuous employments). Hence, only the electorally most vulnerable MPs reduce long-term outside interests prior to the election – in line with H2.

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Figure 2 about here

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On the other hand, a safer seat *decreases* the probability of exercising one-off employments in the election year, *ceteris paribus*. This sheds some light on the unexpected increase in one-off jobs closer to the May 2010 election observed above. Indeed, since the July 2009 legislative changes are unlikely to affect one-off jobs depending on MPs' vote margin, this *pattern*

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<sup>7</sup> Detailed results for all analyses depicted in Figures 2 through 4 are available upon request.

suggests that a reaction to the updated Code of Conduct is *not* the only effect occurring – and that MPs might be exploiting such short-term assignments for increased visibility, insurance and/or income (see above). In each case, MPs in marginal constituencies would indeed be more prone to exploit the possibilities offered by one-off assignments, generating the pattern observed in Figure 2b.

Without probing directly into the politicians’ motivations, it is unfortunately extremely difficult to test these various explanations. We can, however, take two tentative steps. First, if job-search or money-raising is relevant, this should reflect most strongly in the behaviour of MPs who are certain to leave Parliament. Hence, in Figure 3, we report separate results for MPs that stood for re-election in the May 2010 elections, and those that did not. We expect the latter to care more about job-search/money-raising, which should increase their likelihood of having one-off jobs relative to those standing for re-election. Figure 3 shows no significant difference between both types of MPs in terms of one-off jobs – suggesting that job-search and financial motivations so not appear to strongly steer one-off jobs prior to elections.<sup>8</sup> Second, one could argue that politicians’ re-election odds should improve when they use one-off jobs for electoral visibility. Analysing the probability of re-election as a function of having one-off jobs (not reported, details upon request), we indeed find a small, positive effect (significant at 10% level) for politicians whose vote margin is below 10%. Hence, one-off jobs pay off in terms of re-election probability for those politicians making most use of them prior to elections (i.e. those with very low vote margins; see Figure 2). Both results together provide some preliminary evidence in line with the idea that one-off jobs are used prior to elections to boost ones electoral prospects.

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Figure 3 about here

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Finally, Figure 4 summarizes results differentiating between male and female politicians, and evaluates hypotheses H3. The results indicate the absence of gender differences. None of the male-female differences depicted in Figure 4 approaches statistical significance at conventional levels. Hence, the alleged higher risk aversion of women does not appear to make them behave differently from male MPs when it concerns the management of outside activities over the legislative term (despite the substantial difference in the probability of exercising such activities at any point in time; see Table 1).

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Figure 4 about here

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## 6. Conclusion

With public perception linking MPs’ outside interests to greed, shirking and conflicts of interest, such ancillary activities may become hazardous assets on Election Day. This article argued that this may well induce MPs – especially those standing for re-election in marginal districts – to re-adjust their outside interests prior to elections. Our analysis, using data from

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<sup>8</sup> Interestingly, MPs standing for re-election reduce directorships and continuous remunerated employments prior to the election, while those not standing for re-election actually increase them. The difference between both subsets of politicians is statistically significant at conventional levels especially in years 4 and 5 of the legislative term (as indicated by the plus-sign and asterisks in Figure 3). This pattern provides further evidence in line with hypothesis H2.

the UK House of Commons' Register of Members' Financial Interests over the period 2005-2010, is supportive of such predictions.

Yet, our analysis only scratches the surface of this important topic and further corroboration is clearly needed. Indeed, our analysis covers only one electoral term, and an eventful one at that. It witnessed several scandals related to MPs' expenses and outside interests, a leadership change in the three main parties, and David Cameron's public avowal that leading Tories would abandon their outside interests. Each may have profoundly affected MPs' behaviour towards outside interests. The pre-electoral adjustments observed in our data could thus have been induced by the higher sensitivity of voters and politicians to outside interests in this tumultuous legislative period, rather than constitute a general effect. Collecting all required data is a painstaking enterprise, but future work should investigate whether our findings hold up over a longer time span and different institutional contexts. In our view, the fact that variation over the election cycle in MPs' probability of having outside interests is found to depend on the marginality of their seat and whether or not they stand for re-election strongly suggests that election effects may well matter also beyond the 2005-2010 period.

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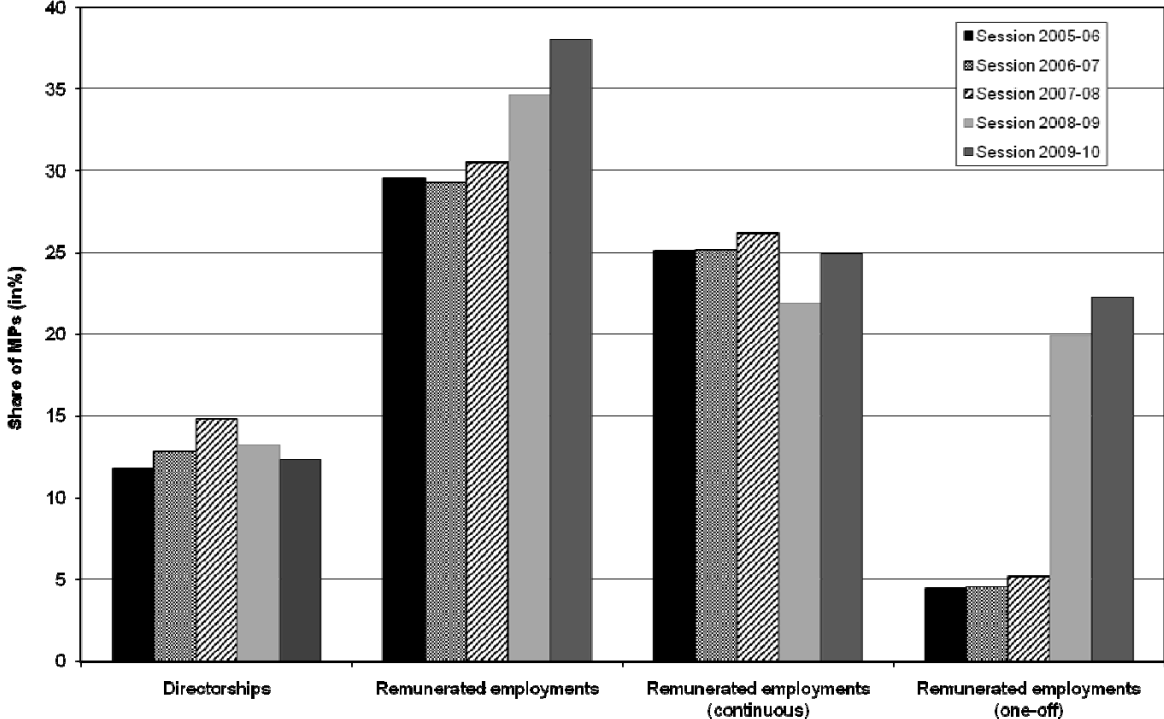
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**Table 1: Baseline results: Election Cycle in MPs' Outside Interests**

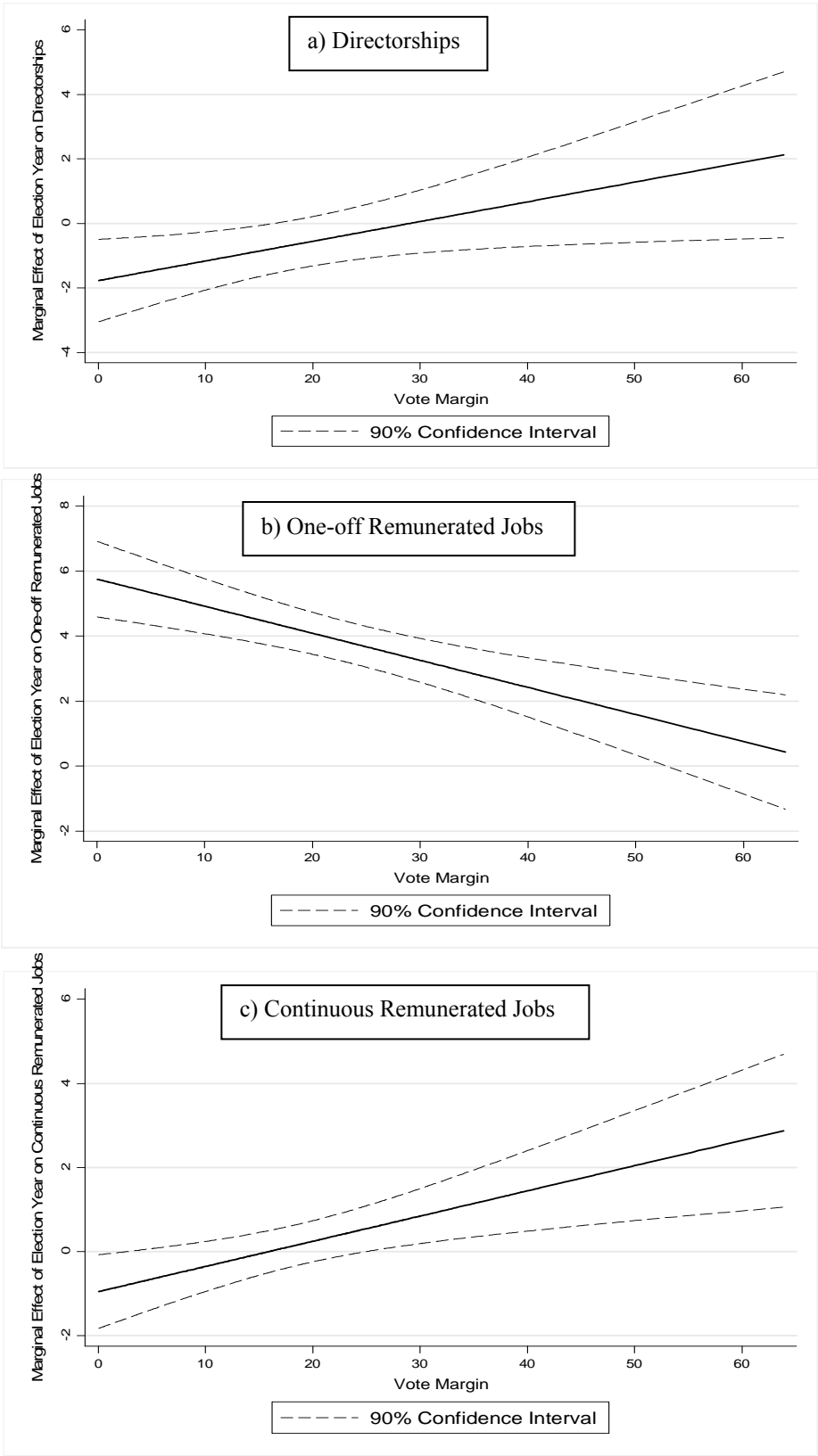
	<i>Directorships</i> (1)	<i>Remunerated jobs</i> (2)	<i>Remunerated jobs (one-off)</i> (3)	<i>Remunerated jobs (continuous)</i> (4)
AGE (in years)	0.705 ** (2.38)	-0.069 (-0.44)	0.084 (0.50)	0.282 (1.55)
AGE (squared)	-0.005 ** (-1.96)	0.0002 (0.20)	-0.002 (-0.97)	-0.003 * (-1.74)
SEX (1 = male)	4.303 ** (2.25)	1.517 *** (2.90)	-0.323 (-0.66)	2.068 *** (3.35)
TERMS (terms in parliament)	-0.106 (-0.43)	0.530 *** (3.28)	0.437 *** (2.97)	0.800 *** (4.19)
MARRIED (1 = yes)	-1.150 (-1.54)	-0.839 * (-1.75)	-0.181 (-0.41)	-1.312 ** (-2.36)
ECONOMIST (1 = yes)	3.676 *** (4.65)	-1.216 ** (-2.31)	-0.285 (-0.63)	-1.578 ** (-2.14)
TORY (1 = Conservative Party)	3.924 *** (4.91)	2.913 *** (5.32)	0.875 * (1.90)	3.766 *** (5.82)
COMMITTEE (Number of memberships)	0.144 (0.82)	0.004 (0.03)	0.088 (0.72)	0.166 (1.29)
PHD (1 = holds doctoral degree)	-2.420 (-1.45)	-0.237 (-0.25)	1.199 (1.39)	0.260 (0.23)
UNIVERSITY (1 = holds university degree)	-0.276 (-0.35)	0.335 (0.64)	0.246 (0.51)	1.438 ** (2.34)
DIRECTORSHIPS (1 = yes)	-	2.034 *** (5.12)	2.058 ** (4.76)	2.535 *** (5.43)
REMUNERATED JOBS (1 = yes)	1.899 *** (4.83)	-	-	-
TURNOUT (in %)	0.115 * (1.78)	0.102 ** (2.46)	0.056 (1.50)	0.039 (0.81)
NUMBER OF PARTIES	0.689 *** (2.66)	0.080 (0.53)	-0.147 (-1.04)	0.198 (1.13)
ELECTION MARGIN (in %)	0.037 (1.30)	0.019 (0.94)	0.040 ** (2.26)	-0.001 (-0.03)
YEAR 2	0.282 (0.73)	0.058 (0.25)	-0.093 (-0.25)	0.144 (0.56)
YEAR 3	0.731 * (1.83)	0.264 (1.13)	0.351 (0.96)	0.304 (1.14)
YEAR 4	-0.119 (-0.28)	0.914 *** (3.74)	3.542 *** (9.83)	-0.546 * (-1.90)
YEAR 5	-0.576 (-1.28)	1.429 *** (5.54)	3.949 *** (10.51)	0.174 (1.59)
Intercept	-47.607 *** (-4.36)	-10.637 ** (-2.06)	-12.049 ** (-2.28)	-19.940 *** (-3.32)
Loglikelihood Wald Chi <sup>2</sup> (18)	-472.354 80.44 ***	-1128.138 160.77 ***	-726.957 209.10 ***	-894.176 139.46 ***

Notes: N=3034; z-values between brackets: \*\*\* significant at 1%, \*\* at 5%, \* at 10%. Wald-test indicates joint significance of all regressors (with R the number of regressors minus one). The dependent variable is an indicator variable for the presence of at least one ancillary position.

**Figure 1: Share of members of Parliament with Sideline Activities (N=637-644)**



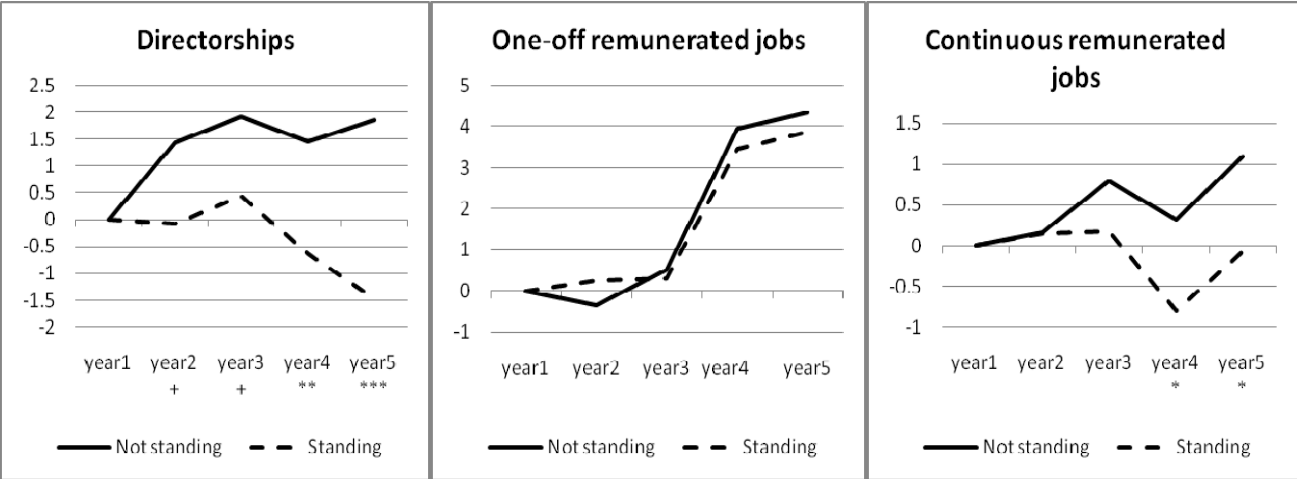
**Figure 2: Election Cycle as a Function of MPs' Electoral Margin**



Notes: N=3034; Figure depicts the marginal effect of the election year dummy (i.e. “Year 5”) over the range of MPs’ vote margin. The dependent variable is an indicator variable for the presence of at least one ancillary position. All controls included as in Table 1.

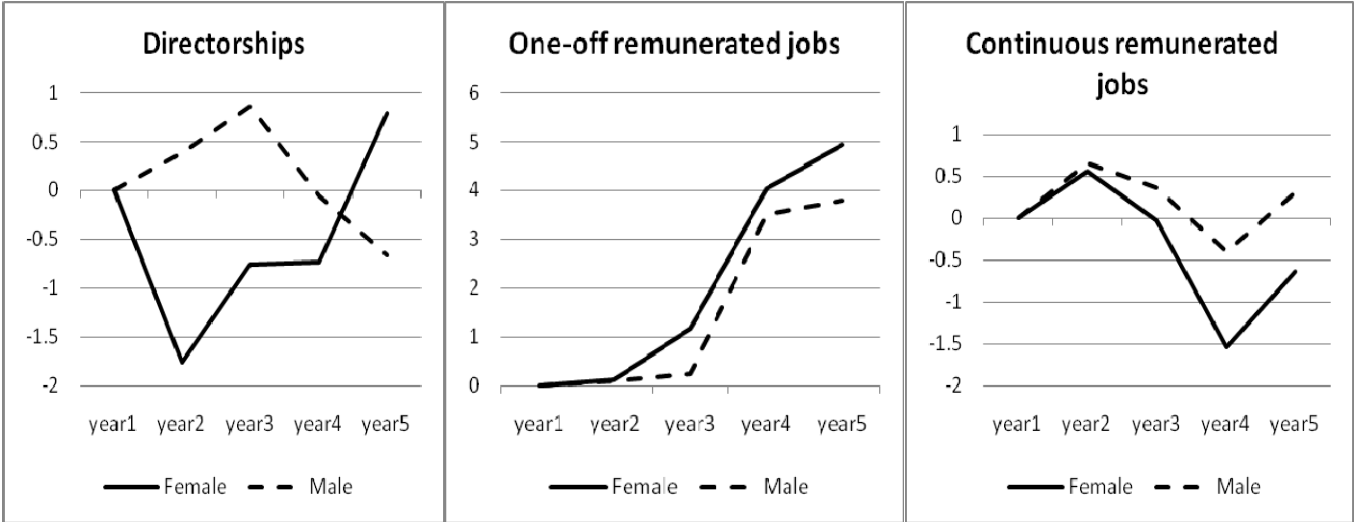


**Figure 3: Election Cycle as a Function of MPs' Standing for Re-election**



Notes: N=3034; Figure depicts coefficient estimates of a logistic panel regression model with as dependent variable an indicator variable for the presence of at least one ancillary position. +, \*, \*\*, \*\*\* denote that coefficient estimates for MPs standing for re-election and MPs *not* standing for re-election are significantly different at 15%, 10%, 5% and 1% level (two-tailed). All controls included as in Table 1.

**Figure 4: Election Cycles as a Function of MPs' Gender**



Notes: N=3034; Figure depicts coefficient estimates of a logistic panel regression model with as dependent variable an indicator variable for the presence of at least one ancillary position. +, \*, \*\*, \*\*\* denote that coefficient estimates for male and female MPs are significantly different at 15%, 10%, 5% and 1% level (two-tailed). All controls included as in Table 1.