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**Working Paper**

## Members of German Federal Parliament more risk-loving than general population

SOEPPapers on Multidisciplinary Panel Data Research, No. 546

**Provided in Cooperation with:**

German Institute for Economic Research (DIW Berlin)

*Suggested Citation:* Heß, Moritz; von Scheve, Christian; Schupp, Jürgen; Wagner, Gert G. (2013) : Members of German Federal Parliament more risk-loving than general population, SOEPPapers on Multidisciplinary Panel Data Research, No. 546, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin

This Version is available at:

<https://hdl.handle.net/10419/73674>

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546-2013

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ISSN: 1864-6689 (online)

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# Members of German Federal Parliament More Risk-Loving Than General Population

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Pre-print of a paper which is published in “DIW Economic Bulletin”. 2013, No. 4, pp. 20-24 ([http://www.diw.de/de/diw\\_01.c.375799.de/publikationen\\_veranstaltungen/publikationen/diw\\_economic\\_bulletin.html](http://www.diw.de/de/diw_01.c.375799.de/publikationen_veranstaltungen/publikationen/diw_economic_bulletin.html))

## Abstract

The article analyzes the question of whether career politicians differ systematically from the general population in terms of their attitudes toward risk. A written survey of members of the 17th German Bundestag in late 2011 identified their risk attitudes, and the survey data was set in relation to respondents to the German Socio-Economic Panel Study (SOEP) for the survey year 2009 (2002 through 2012). Compared with the population surveyed in the SOEP, members of the German parliament display a considerably higher general risk appetite, which is highly significant. For different areas of risk, last surveyed in the SOEP in 2009, the members of parliament had significantly stronger risk-loving attitudes across virtually all indicators and risk categories surveyed than the comparison groups of SOEP respondents.

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

Keywords: political decision-making, risk aversion, German parliament, SOEP

*Politics and business often involve making risky or dangerous decisions whose outcomes can be predicted only with difficulty, if at all. As attitudes toward risks and dangers vary between individuals, it is reasonable that people with different attitudes are active in areas requiring decisions with differing degrees of risk. For example, it has frequently been observed that entrepreneurs are more risk-loving than employees. In late 2011, we surveyed members of the German Bundestag (federal parliament) as to their attitude toward risk (and danger or uncertainty), revealing that they are far more risk-loving than average people; they are even significantly more risk-loving than the self-employed.<sup>1</sup> It is possible to take a critical view of the fact that politicians are prepared to assume higher risks than the general population normally would. In this respect, politicians do not represent the population. Yet, we interpret this finding in a positive manner, as a socially rational “division of labor” between citizens, voters, and politicians in the context of a representative democracy whose institutions limit risk-seeking and power.*

How people make decisions in risky or uncertain situations depends on their risk appetite, among other factors. Technically, risk describes a situation in which probabilities about the future are known, whereas “danger” refers to a risky situation without known probabilities (“uncertainty”). In the following, we only use the term “risk” as including danger and uncertainty (Knight, 1921).

It has long been assumed that the self-employed have a greater appetite for risk than employees, and empirical studies have confirmed this (Caliendo, Fossen & Kritikos, 2011). Fundamentally speaking, the strength of individuals’ risk appetites plays a role in their occupational choices (Bonin, Dohmen, Falk, Huffman & Sunde, 2007; Vieider, Chmura & Martinsson, 2012).<sup>2</sup> In light of such findings, the question arises whether and how politi-

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<sup>1</sup> See Hess, von Scheve, Schupp and Wagner (2013) for an overview of the literature and an extensive description of the survey and its analysis

<sup>2</sup> For a comprehensive overview see Vieider, Chmura and Martinsson (2012)

cians in democracies, as an occupational group, differ from the population they represent and the voters who elected them.

Would it be desirable that politicians are as similar as possible to their voters in terms of their risk appetites? After all, politicians in democracies are mandated to represent the interests of the people. Or should there be a kind of “division of labor” in the form of distinct differences when it comes to representing the people in parliaments and governments? One rationale for such a division of labor could be that indeterminate situations (uncertainty and danger) and conflicting goals (with no clear-cut solution) are regular features in the realm of politics, and that it is difficult to make decisions in the absence of an above-average appetite for risk (Steinkopf, 2013).<sup>3</sup>

### **Hypothesis**

Politicians’ above-average risk appetite has fueled speculation and anecdotes over the centuries. Yet, virtually no representative empirical studies on the topic are available anywhere in the world.<sup>4</sup> A current study for the US shows that people with risk-loving attitudes are more likely to participate in political meetings, distribute leaflets, and be active in campaigns (Kam, 2012). The author explains this with the pleasure derived from new experiences and the excitement to be found in political action, which risk-loving people tend to seek more than risk-averse ones (Wagner, 2012).<sup>5</sup>

Although the literature is sparse (Hess, von Scheve, Schupp & Wagner, 2013, p. 5), it can be assumed, on the basis of the theoretical deliberations, that career politicians display

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<sup>3</sup>Steinkopf argues that the word “Wagnis” (“gamble”) might be the best term for describing the decisions that good politicians have to make in difficult situations.

<sup>4</sup>A remarkable exception is an empirical study that Kepplinger conducted with members of the German Federal Parliament (Kepplinger, 2009).

<sup>5</sup>An evaluation of the German Socio-Economic Panel Study (SOEP) data collected by DIW Berlin and TNS Infratest Sozialforschung about persons who are merely *interested* in politics or who have a fixed political opinion shows that these “political persons,” who make up roughly one-quarter of the population in Germany, have a somewhat greater risk appetite overall than “apolitical persons” (Wagner, 2012, p. 79).

more risk-loving attitudes than the average population, simply because of their occupational choice, which is a choice to join a highly competitive professional field. Kepplinger (2009) argues that politicians often want to remedy problems or deficiencies (rather than to make an already good situation better). And in his interpretation of “prospect theory,” Kepplinger (2009) contends that in these situations, politicians are willing to take great risks in order to change a bad situation (Tversky & Kahneman, 1986). However, it is unclear whether politicians are also more risk-loving than the self-employed, who are also frequently faced with complex problems and decisions.

### **Empirical Analysis**

In the winter of 2011, we surveyed risk attitudes of members of the 17th German Bundestag. We conducted a mail survey, and of the 620 members of parliament who received the survey questionnaire, 175 responded. This amounts to a response rate of 28.2 percent. Compared to other mail surveys, this is a high response rate and the data permits conclusions about all members of parliament, as the socio-demographic composition of this sample corresponds by and large to that of the parliament overall (Hess, von Scheve, Schupp & Wagner, 2013, p. 12).<sup>6</sup>

Our questionnaire had two focal areas on social demographics as well as on risk attitudes. The first included questions on gender, age, highest educational achievement, and the occupation practiced prior to being elected to parliament. A question about where respondents attended school provided data about their socialization in East or West Germany.

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<sup>6</sup>Kepplinger (2009) reports an almost identical response rate (31%) in a survey of members of parliament that he conducted in spring 2008.

No data were collected about respondents' party membership or faction, the intent being to immediately dispel possible concerns on the part of members of parliament that their responses and the results of the study could potentially be used for partisan purposes.

The second focal area included questions about attitudes toward risk. These questions were designed in analogy to questions asked in the German Socio-Economic Panel Study (SOEP) in the interest of comparability with the general population, i.e., with the SOEP data (Wagner, Frick & Schupp, 2007; Siedler, Schupp, Spiess & Wagner, 2009). On a scale of 0 (fully risk-averse) to 10 (fully prepared to take risks), respondents indicated the degrees of their general risk appetite as well as their risk attitudes in the areas of driving, financial matters, leisure and sports, occupation and health. An additional question was asked about respondents' risk appetite concerning political decisions (Dohmen et al., 2011).<sup>7</sup>

As expected, the members of parliament proved to be more risk-loving than the citizens whom they represent in parliament (Kepplinger, 2009).<sup>8</sup> 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.

In most risk categories, the averages of the 175 parliamentarians who gave valid responses were around or above 5, the middle of the scale. Risk attitudes in the areas of financial matters and driving are exceptions. Here, members of parliament tend to be rather risk-

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<sup>7</sup> The questions posed in the SOEP have been validated multiple times and replicated in other surveys around the world. On the development of the questions, their fundamental validation, and initial results: Dohmen et al. (2011).

<sup>8</sup> This result is in line with the conclusions of Kepplinger (2009). In his survey, 66% of the surveyed members of the German Federal Parliament agreed with the statement "Politicians who avoid the risk of making mistakes are not acting rationally", and only 15% agreed with the statement that in that same situation, the politicians are acting "irrationally." Concerning the level of risk-aversion in the general population in Germany and other Western societies, see Vieider, Chmura and Martinsson (2012).



averse. Their greatest appetite for risk was in the areas of professional career<sup>9</sup> and political decisions as well as in their general attitude toward risk. In other words, their great risk appetite in their work supports the hypothesis concerning occupational choice because the self-employed also display significantly higher risk appetites than the general population, on average. In light of these results, it is safe to assume that members of parliament have an appetite for risk that is far greater than average.

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<sup>9</sup> This finding does not contradict public opinion which assumes that politicians act in their own self-interest, thereby avoiding risks. For even if the public's stereotypes were correct, political careers are more risky and at times more dangerous than careers outside politics—despite all imaginable risk-avoidance strategies. The few political careers that span decades are not representative and distort public opinion.

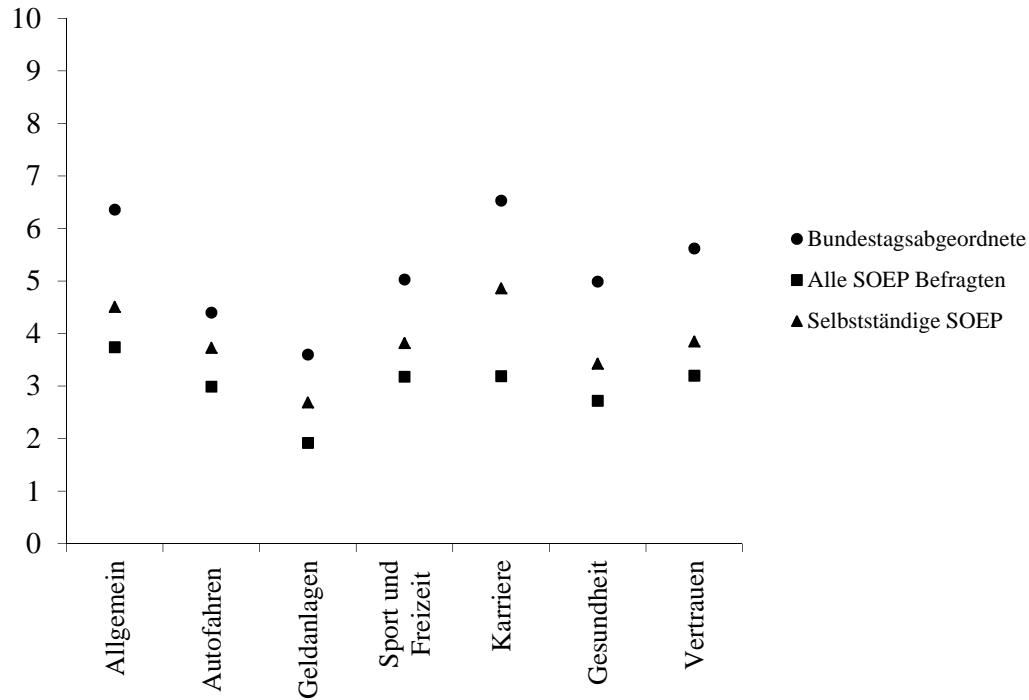
**Table 1: Risk Attitudes of Members of Parliament and the General Population in Germany (SOEP)**

	German parliament	SOEP, all respondents	SOEP, self-employed
	2011	2009	2009
<b>General risk</b>			
Average	6.4	3.7	4.5
Standard deviation	1.68	2.23	2.12
N	173	17522	1058
<b>Driving</b>			
Average	4.4	3.0	3.7
Standard deviation	2.29	2.59	2.57
N	174	16512	1050
<b>Financial matters</b>			
Average	3.6	1.9	2.7
Standard deviation	2.12	2.17	2.42
N	172	17394	1057
<b>Sports and leisure</b>			
Average	5.0	3.2	3.8
Standard deviation	2.15	2.63	2.62
N	175	17185	1052
<b>Occupation</b>			
Average	6.5	3.2	4.9
Standard deviation	1.83	2.7	2.75
N	175	15326	1043
<b>Health</b>			
Average	5.0	2.7	3.4
Standard deviation	2.3	2.46	2.55
N	172	17519	1056
<b>Political decision-making</b>			
Average	6.0		
Standard deviation	1.94		
N	172		

The table shows the averages and standard deviations for respondents' assessments of their own attitudes toward risk, including general risk as well as risks in the areas of driving, financial matters, leisure and sports, career, health, and political decisions. Values are reported for the members of parliament surveyed in 2011 as well as for all SOEP respondents and the subgroup of self-employed SOEP respondents in the survey year 2009.

Sources: Survey of members of the German parliament 2011, SOEP v27, calculations by DIW Berlin.

**Figure 1: Attitudes toward Risk of Members of the German Parliament (2011) and the German Population (2009)**



The figure shows the averages for respondents' assessments of their own attitudes toward risk, including general risks as well as risks in the areas of driving, financial matters, recreation and sports, career, health, and faith in other people for members of parliament, all SOEP respondents, and the subgroup of self-employed SOEP respondents.

Sources: Survey of members of the German parliament 2011, SOEP v27, calculations by DIW Berlin.

It should be noted that in the SOEP survey year 2009, which was selected because it was the last year in which questions were asked about attitudes toward risk in various areas of life, the general appetite for risk was unusually low (see Table 2). That year saw the high point of the financial crisis which made people risk-averse. But even in 2011, when the average for the general population was 4.5, the difference from the average for members of par-

liament—6.4—was exceptionally distinct and statistically highly significant (as was also the case in all other years).<sup>10</sup>

**Table 2: Average General Risk Appetite of All SOEP Respondents in the Years 2002 to 2012**

<b>2004</b>	<b>4,25</b>
2005	
2006	4,68
2007	
2008	4,40
2009	3,74
2010	4,23
2011	4,54
2012	4,76

Sources: SOEP v29, calculations by DIW Berlin.

In addition, the differences in the attitudes toward risk between all SOEP respondents and the self-employed are quite similar across all categories of risk. In contrast, the parliamentarians' attitudes toward risk display greater variation (see Figure 1).

The differences in the three groups' risk appetites are smallest when it comes to driving and greatest in the area of occupational choice. This is where we see the biggest difference between all SOEP respondents and the self-employed, which can be considered further evidence to support the hypothesis of deliberate occupational choice. In this area, both the

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<sup>10</sup> In light of these results, it is safe to assume that members of the German parliament have a risk appetite that is far greater than average. Assuming, for example, that parliamentarians overall were as risk-loving as the average of the adult population in 2012 and that only those with an above-average risk appetite responded to the survey, then the 445 parliamentarians who did not respond would have to be extremely risk-averse, with an average of 4.13 on an 11-point scale, which is significantly lower than the average of the general population. This would be an entirely implausible result. Instead, the assumption (supported by the distributions of the demographic indicators) that the survey of the members of parliament is not distorted is clearly more plausible. This is based on the following simple model calculation: if all parliamentarians were as risk-loving on average as the adult population overall (=4.76), the sum of all parliamentarians' risk appetites would be  $620 \times 4.76 = 2,951.2$ . As the weighted risk for 175 parliamentarians is 1113 ( $175 \times 6.36$ ), according to the survey, a weight of 1838.24 remains to be distributed among the 445 parliamentarians who did not respond to the survey, amounting to an average risk appetite of 4.13 ( $1838.24 / 445$ ).

self-employed and politicians are more risk-seeking (or risk-tolerant) than the rest of the population, and this applies to politicians to an even greater extent than to the self-employed.<sup>11</sup>

A series of regression analyses shows that this above-average appetite for risk cannot be explained by differences in gender, age, education, and trust in other people (Hess, von Scheve, Schupp & Wagner, 2013, p. 18).<sup>12</sup> Attitudes toward risk in general and related to one's professional career displayed particularly strong effects. Overall, the descriptive analyses were confirmed by the regression analyses, and consequently they will not be presented in detail here.

The results paint a very clear picture: the survey of members of the German parliament conducted in the winter of 2011 revealed that members of parliament showed significantly stronger risk-loving attitudes across virtually all the indicators and risk categories surveyed than the general population and the self-employed, whose attitudes were measured in the German Socio-Economic Panel Study (SOEP) conducted by DIW Berlin. The finding holds in particular for general attitudes toward risk and attitudes in the area of occupational choice. Thus, it may be assumed that because of their occupational choices, career politicians tend to be individuals who at least do not shy away from risky decisions.

### **Evaluation of Findings**

What does politicians' greater appetite for risk mean for the political system and for society in general? Taking a pessimistic perspective, one might lament that politicians with above-average appetites for risk will agree to unnecessary risks when taking important societal decisions with potentially negative effects that must then be borne by society as a whole.

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<sup>11</sup> More in-depth analysis is required to ascertain whether the self-employed in particularly risky fields of business have appetites for risk similar to those of members of parliament. It might also be of interest to examine whether managers employed in top positions also have above-average appetites for risk.

<sup>12</sup>The control variables also display the expected correlations. Older persons and women are significantly more risk-averse than younger persons and men. A high level of education display positive correlations with risk appetite.

In this vein, it is possible to argue that the vast majority of the population would have come to a different (i.e., more risk-averse) decision in such risky situations and that, consequently, elected politicians do not represent the will of the population in general.

We take a positive perspective, arguing that practicing the profession of politician properly unquestionably requires a high appetite for risk. Otherwise, important societal decisions would not be made at all in light of ever-present and barely comprehensible risks and occasional dangers, which would result in stagnation and societal standstill (Kepplinger, 2009).

This perspective could also be supported with arguments derived from the theory of biological and societal co-evolution, according to which political elites' appetites for risk can promote the common good if the societal conditions are such that risk-loving behavior cannot degenerate into irresponsible decisions (McDermott, Fowler & Sminov, 2008). Hence, it is important to ensure that the individual interests and preferences of (career) politicians are just one aspect determining the complex process of political decision-making. The structural features of democratic political systems and the fact that in democracies, as a rule, important political decisions are made collectively and are preceded by extensive discussions in public and in committees, limit the influence of individual appetite for risk and of potentially risky and dangerous decision-making situations in the plenary of parliaments as well as in governments.

In this respect, the combination of a political system focusing on discussion and consensus with the risk-loving attitudes of individual political actors seems ideal for society. In conclusion, one can argue from a political-economy perspective that the differing appetites for risk on the part of politicians, voters, and citizens are evidence of a successful division of labor provided that democracy and the constitution function effectively to limit power and politicians' above-average appetite for risk.

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