

MPs for Sale? Returns to Office in Postwar British Politics

ANDREW C. EGGERS *Harvard University*

JENS HAINMUELLER *Massachusetts Institute of Technology*

#18
Cox & Weger

Many recent studies show that firms profit from connections to influential politicians, but less is known about how much politicians financially benefit from wielding political influence. We estimate the returns to serving in Parliament, using original data on the estates of recently deceased British politicians. Applying both matching and a regression discontinuity design to compare Members of Parliament (MPs) with parliamentary candidates who narrowly lost, we find that serving in office almost doubled the wealth of Conservative MPs, but had no discernible financial benefits for Labour MPs. Conservative MPs profited from office largely through lucrative outside employment they acquired as a result of their political positions; we show that gaining a seat in Parliament more than tripled the probability that a Conservative politician would later serve as a director of a publicly traded firm—enough to account for a sizable portion of the wealth differential. We suggest that Labour MPs did not profit from office largely because trade unions collectively exerted sufficient control over the party and its MPs to prevent members from selling their services to other clients.

"We are not supposed to be an assembly of gentlemen who have no interests of any kind and no association of any kind. That is ridiculous. That may apply in Heaven, but not, happily, here."

—Winston Churchill, characterizing the House of Commons in 1947

In October 1989, Nigel Lawson resigned after six years as Chancellor of the Exchequer under Margaret Thatcher. Four months later, while still a Member of Parliament (MP), Lawson was named a nonexecutive director at Barclays Bank with a salary of 100,000 British pounds (GBP)—roughly four times his MP pay. The afternoon the appointment was announced, Barclays' market value rose by nearly 90 million pounds (Hollingsworth 1991, 150).

Such anecdotes suggest that political connections can be of great value to private firms. In a number of recent papers, scholars have begun to systematically

examine this value in a variety of settings. Firms with personal and/or financial connections to politicians have enjoyed higher stock valuations in Indonesia (Fisman 2001), the United States (Goldman, Rocholl, and So n.d.; Jayachandran 2006; Roberts 1990), Malaysia (Johnson and Mitton 2003), and Nazi Germany (Ferguson and Voth 2008). In the United States, politically connected firms are more likely to secure procurement contracts (Goldman, Rocholl, and So 2008), and in Pakistan, they are able to draw more favorable loans from government banks (Khwaja and Mian 2005). Faccio (2006) shows that the benefits of political connections are larger in countries with higher corruption scores.

In this article, we approach the market for political favors in the UK from the opposite perspective. Where others have focused on the benefits companies like Barclays obtain through connections to powerful politicians, we analyze the benefits politicians like Lawson obtain on the basis of their political power. If firms buy political favors, and if they do so in part by providing employment, gifts, or bribes to politicians, then politicians can be expected to benefit financially from office just as firms do from connections to officeholders. We attempt to measure this benefit by examining the effect of serving in Parliament on the estates of British politicians who entered the House of Commons between 1950 and 1970, and have since died.

Measuring the value of political power is difficult in part because detailed data on politicians' personal finances is generally not available. Even where it is, as in the U.S. Congress since the early 1990s, we generally do not have good data about income or wealth after the member leaves office, when much of the financial value of political power may be realized (Diermeier, Keane, and Merlo 2005). Even if we knew a given MP's income from all sources over the course of his or her life, it would still be difficult to determine what portion of those payments were a result of his or her political power. MPs are not randomly selected from the population (which is unfortunate for researchers, but arguably beneficial for citizens), so a comparison of MPs' income or wealth with that of a peer group

Andrew C. Eggers is a Ph.D. candidate, Department of Government, Harvard University, 1737 Cambridge Street, Cambridge, MA 02138 (aegg@fas.harvard.edu).

Jens Hainmueller, a Ph.D. candidate at Harvard University when this article was accepted, is now Assistant Professor, Department of Political Science, Massachusetts Institute of Technology, 77 Massachusetts Avenue, Cambridge, MA 02139 (jhainm@mit.edu).

Authors are listed in alphabetical order and contributed equally. Both gratefully recognize the support of Harvard's Institute for Quantitative Social Science.

This paper received the 2009 Robert H. Durr Award from the Midwest Political Science Association for "the best paper applying quantitative methods to a substantive problem." A previous version was circulated under the title "The Value of Political Power: Estimating the Returns to Office in Post-War British Politics." We thank Alberto Abadie, Jim Alt, Sebastian Bauhoff, Ryan Bub, Jeff Frieden, Adam Glynn, Justin Grimmer, Torben Iversen, Mike Kellermann, Gary King, Roderick MacFarquhar, Clayton Nall, Riccardo Puglisi, Kevin Quinn, Jim Robinson, Don Rubin, Ken Shepsle, Beth Simmons, Patrick Warren, three anonymous reviewers, the editors, and seminar participants at Harvard, MIT, the Penn State New Faces in Political Methodology Conference, and the NBER Political Economy Student Conference for helpful comments. For excellent research assistance, we thank Matthew Hinds, Nami Sung, and Diana Zhang. We would especially like to thank Jim Snyder, who directly inspired this project. The usual disclaimer applies.

Why Did the Benefits of Office Differ by Party?

The question remains why Labour MPs did not appear to derive as large a financial benefit from office as did their Conservative counterparts. We consider three explanations.

One explanation to consider is that differences in the ideology of the parties explain the greater propensity of Conservative MPs to take on lucrative outside work while in Parliament and to thereby profit from office. The Labour Party of the period we examine remained closely tied to the socialist principles on which the party was founded, and many members had arrived at their seats in Parliament after careers in the trades unions, a culture in which serving on a corporate board would likely be seen as betrayal. Mancuso (1995) interviewed MPs in the mid-1980s about their attitudes toward legislative ethics; she found that Labour MPs made up a disproportionate share of the group she termed "Puritans"—MPs who had the most stringent attitudes about conflicts of interest and performing favors for constituents. She suggests that Puritan attitudes can be seen as "an extension of Labour's preference for economic and social interventionism and egalitarianism," whereas Conservative MPs' relatively lax ethical stance was consonant with the Thatcher government's embrace of "the entrepreneurial values of self-interest and initiative" (63). As Mancuso (1995) recognizes, the causal relationship between MPs' reported ethical stances and their behavior is complicated: those MPs who held outside positions in her study reported far more permissive attitudes toward potential conflict of interest, but it could have been the difference in offers of lucrative employment that shaped their views, rather than their views that shaped their employment profile. Still, it seems reasonable that part of the difference between Labour and Conservative MPs' financial gains could relate to ideological differences between the parties.

A second explanation is that the constituents of the Labour and Conservative parties wanted different kinds of political goods and that influence peddling was a more productive strategy in the market for goods desired by Conservative constituents.³⁵ The clients of the Conservatives were business firms seeking highly targetable goods, such as sector-specific or even firm-specific tax loopholes and regulatory breaks. Some of these goods could presumably be acquired by hiring an MP who could lobby the front bench to alter legislation and regulation accordingly. The Labour Party's clients were mainly labor unions, which sought more broad-based, programmatic policies (e.g., public ownership of industries, support for the public pension and health systems, education reform) that yielded few targeted benefits to specific unions. If we assume that Conservative MPs had more power over targetable benefits than did Labour MPs (e.g., if Conservative cabinets were more likely to award targeted benefits and Con-

servative MPs had more clout with Conservative cabinets), then this distinction may explain part of the difference in patterns of outside employment and wealth gain between the two parties' MPs. Then again, business interests could in theory extract targeted benefits from cabinets of either party; indeed, business PACs in the U.S. have been seen to adjust their PAC contributions to respond to a change in control in the U.S. Congress more than labor PACs, suggesting that business interests in that setting extract their targeted benefits from whoever is in power (Cox and Magar 1999; Rudolph 1999). The difference in the nature of political goods sought by the two parties may therefore provide some explanatory power, but does not seem to be enough to explain why Conservative MPs profited more.

We emphasize instead the difference in the way the market for MPs' services was organized between the two parties, which in turn resulted from a difference in the organization of the two parties. The Labour and Conservative parties in the period we examine were organized and financed quite differently from each other, in ways that ultimately affected how MPs for each party related to outside interests. In the Labour Party, a small number of very large unions provided the bulk of the financing and exercised a corresponding amount of direct influence over policy and political representation. Between 1945 and the 1990s, unions consistently provided 80% to 90% of the funding of the Labour Party central office and around two thirds of the party's funding overall (including local organizations) (Harrison 1960; Pinto-Duschinsky 1981; 1990). Trade unions also directly provided a plurality of delegates to national party conferences as well as to local constituency councils responsible for selecting parliamentary candidates. In contrast, the Conservative Party drew its funding from a larger number of smaller players, and political influence was correspondingly diffuse. Company contributions provided only 30% of the party's income overall, and those contributions came from several hundred different companies with fairly weak coordination among themselves.³⁶ The bulk of Conservative Party finance came from individual contributions, whether through party fundraisers held by local constituency organizations (which alone brought in more money than did corporate contributions) or large and undisclosed individual contributions and bequests (Fisher 1994; Pinto-Duschinsky 1981; 1990).

Because unions were intimately involved in the selection of Labour candidates and, in many cases, financed their election to Parliament, Labour MPs tended to enter office with well-defined obligations to specific unions. The means by which unions ensured the loyalty of MPs was clearest in the case of direct sponsorships, an arrangement that was formalized in the party's 1933 "Hastings agreement." Between 1945

³⁵ We thank Gary Cox for bringing this point to our attention.

³⁶ As a comparison of the distribution of union and corporate donations, in 1987 the political expenditures of the largest union (Transport and General Workers) to the Labour Party exceeded the combined political donations of 1,300 of Britain's largest companies to the Conservative Party (Pinto-Duschinsky 1989, 208).

REFERENCES

- Abadie, A., and G. Imbens. 2006. "Large Sample Properties of Matching Estimators for Average Treatment Effects." *Econometrica* 74 (1): 235–67.
- Angrist, J. G., Imbens, and D. Rubin. 1996. "Identification of Causal Effects Using Instrumental Variables." *Journal of the American Statistical Association* 91 (434): 444–55.
- Aydelotte, W. 1967. "The Country Gentlemen and the Repeal of the Corn Laws." *English Historical Review* 47–60.
- Baimbridge, M., and D. Darcy. 1999. "MPs' Pay 1911–1996: Myths and Realities." *Politics* 19 (2): 71–80.
- Barro, R. 1973. "The Control of Politicians: An Economic Model." *Public Choice* 14 (1): 19–42.
- Beer, S. 1956. "Pressure Groups and Parties in Britain." *American Political Science Review* 50 (1): 1–23.
- Beer, S. 1965. *Modern British Politics*. London: Faber and Faber.
- Besley, T. 2005. "Political Selection." *Journal of Economic Perspectives* 19 (3): 43–60.
- Besley, T. 2006. *Principled Agents?: The Political Economy of Good Government*. New York: Oxford University Press.
- Besley, T., and R. Burgess. 2002. "The Political Economy of Government Responsiveness: Theory and Evidence from India*." *Quarterly Journal of Economics* 117 (4): 1415–51.
- Besley, T., and A. Case. 1995. "Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits." *The Quarterly Journal of Economics* 110 (3): 769–98.
- Besley, T., and S. Coate. 1997. "An Economic Model of Representative Democracy." *Quarterly Journal of Economics* 112 (1).
- Breiman, L. 2001. "Random Forests." *Machine Learning* 45 (1): 5–32.
- Caselli, F., and M. Morelli. 2004. "Bad Politicians." *Journal of Public Economics* 88 (3–4): 759–82.
- Courtney, A. 1968. *Sailor in a Russian Frame*. London: Johnson.
- Cox, G., and E. Magar. 1999. "How Much is Majority Status in the US Congress Worth?" *American Political Science Review* 93 (2): 299–310.
- Dal Bó, E., P. Dal Bó, and R. Di Tella. 2008. "Plata o Plomo?: Bribe and Punishment in a Theory of Political Influence." *American Political Science Review* 100 (01): 41–53.
- Diamond, A., and J. Sekhon. 2008. "Genetic Matching for Estimating Causal Effects: A General Multivariate Matching Method for Achieving Balance in Observational Studies." June 12. <http://sekhon.berkeley.edu/papers/GenMatch.pdf> (September 20, 2009).
- Diermeier, D., M., Keane, and A. Merlo. 2005. "A Political Economy Model of Congressional Careers." *American Economic Review* 95 (1): 347–73.
- Doig, A. 1984. *Corruption and Misconduct in Contemporary British Politics*. Penguin Books. Harmondsworth Middlesex, London.
- Faccio, M. 2006. "Politically Connected Firms." *American Economic Review* 96 (1): 369–86.
- Ferguson, T., and H. Voth. 2008. "Betting on Hitler—The Value of Political Connections in Nazi Germany." *Quarterly Journal of Economics* 123 (1): 101–37.
- Ferraz, C., and F. Finan. 2008. "Motivating Politicians: The Impacts of Monetary Incentives on Quality and Performance." *Mimeo*. 2009 NBER Working paper w14906.
- Finer, S. 1962. *Anonymous Empire: A Study of the Lobby in Great Britain*. Pall Mall Press.
- Fiorina, M. 1994. "Divided Government in the American States: A Byproduct of Legislative Professionalism?" *American Political Science Review* 88 (2): 304–16.
- Fisher, J. 1994. "Political Donations to the Conservative Party." *Parliamentary Affairs* 47 (1): 61–72.
- Fisman, R. 2001. "Estimating the Value of Political Connections." *American Economic Review* 91 (4): 1095–102.
- Gagliarducci, S., T. Nannicini, and P. Naticchioni. 2008. "Outside Income and Moral Hazard: The Elusive Quest for Good Politicians." 12A Working paper No 3295, Jan 2008.
- Goldman, E., J., Rocholl, and J. So. n.d. "Does Political Connectedness Affect Firm Value?" *Review of Financial Studies* Forthcoming 22 (June 2009), 2331–60.
- Goldman, E., J., Rocholl, and J. So. 2008. "Political Connections and the Allocation of Procurement Contracts." Working paper. University of Indiana.
- Groseclose, T., and K. Krehbiel. 1994. "Golden Parachutes, Rubber Checks, and Strategic Retirements from the 102d House." *American Journal of Political Science* 38 (1): 75–99.
- Hall, R., and R. van Houweling. 1995. "Avarice and Ambition in Congress: Representatives' Decisions to Run or Retire from the US House." *American Political Science Review* 89 (1): 121–36.
- Harrison, M. 1960. *Trade Unions and the Labour Party Since 1945*. London: Allen & Unwin.
- HM Revenue and Customs (HMRC). 2007. "Quality Review of Personal Wealth National Statistics." Technical report. HMRC. <http://www.hmrc.gov.uk/stats/personal-wealth/qual-personal-wealth.pdf> (September, 2009).
- Hollingsworth, M. 1991. *MPs for Hire: The Secret World of Political Lobbying*. London: Bloomsbury.
- Imbens, G. 2004. "Nonparametric Estimation of Average Treatment Effects under Exogeneity: A Review." *Review of Economics and Statistics* 86 (1): 4–29.
- Imbens, G., and T. Lemieux. 2007. "Regression Discontinuity Designs: A Guide to Practice." NBER Working Paper 13039.
- Jayachandran, S. 2006. "The Jeffords Effect." *Journal of Law and Economics* 49 (2): 397–425.
- Johnson, S., and T. Mitton. 2003. "Cronyism and Capital Controls: Evidence from Malaysia." *Journal of Financial Economics* 67 (2): 351–82.
- Judge, D. 1984. "The Politics of MPs' Pay." *Parliamentary Affairs* 37 (1): 59–75.
- Keane, M., and A. Merlo. 2007. "Money, Political Ambition, and the Career Decisions of Politicians." *University of Pennsylvania*. Mimeo.
- Khwaja, A., and A. Mian. 2005. "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market." *Quarterly Journal of Economics* 120 (4): 1371–1411.
- Lee, D., E., Moretti, and M. Butler. 2004. "Do Voters Affect or Elect Policies? Evidence from the US House." *Quarterly Journal of Economics* 119 (3): 807–60.
- Lee, D. S. 2008. "Randomized Experiments from Non-Random Selection in U.S. House Elections." *Journal of Econometrics* 142 (2): 675–97.
- Mancuso, M. 1995. *The Ethical World of British MPs*. Montreal: McGill Queens University Press.
- Mattozzi, A., and A. Merlo. 2007. *Political Careers Or Career Politicians?* National Bureau of Economic Research Cambridge, Mass., USA.
- Menchik, P., and M. David. 1983. "Income Distribution, Lifetime Savings, and Bequests." *American Economic Review* 73 (4): 672–90.
- Merlo, A. 2006. "Whither Political Economy? Theories, Facts and Issues." In *Advances in Economics and Econometrics, Theory and Applications: Ninth World Congress of the Econometric Society*. R-Blundell, W. Newey and T. Persson (eds), Cambridge: Cambridge University Press.
- Messner, M., and M. Polborn. 2004. "Paying Politicians." *Journal of Public Economics* 88 (12): 2423–45.
- Muller, W. 1977. *The Kept Men?: The First Century of Trade Union Representation in the British House of Commons, 1874–1975*, Hassocks: Harvester Press.
- Noel-Baker, P. 1961. "The Grey Zone: The Problems of Business Affiliations of Members of Parliament." *Parliamentary Affairs* 15: 87–93.
- Norton, P. 2003. "The United Kingdom: Restoring Confidence?" *Parliamentary Affairs* 50 (3): 357–72.
- Osborne, M., and A. Slivinski. 1996. "A Model of Political Competition with Citizen-Candidates." *Quarterly Journal of Economics* 111 (1): 65–96.
- Owens, A., D., Green, C., Bailey, and A. Kay. 2006. "A Measure of Worth: Probate Valuations, Personal Wealth and Indebtedness in England, 1810–40." *Historical Research* 79 (205): 382–403.
- Pinto-Duschinsky, M. 1981. *British Political Finance, 1830–1980*. American Enterprise Institute for Public Policy Research.
- Pinto-Duschinsky, M. 1989. "Trends in British Party Funding 1983–1987." *Parliamentary Affairs* 42 (2): 197–212.
- Pinto-Duschinsky, M. 1990. "The Funding of Political Parties since 1945." *UK Political Parties Since 1945*, ed. Anthony Seldon. New York: Philip Allan, London, 95–109.