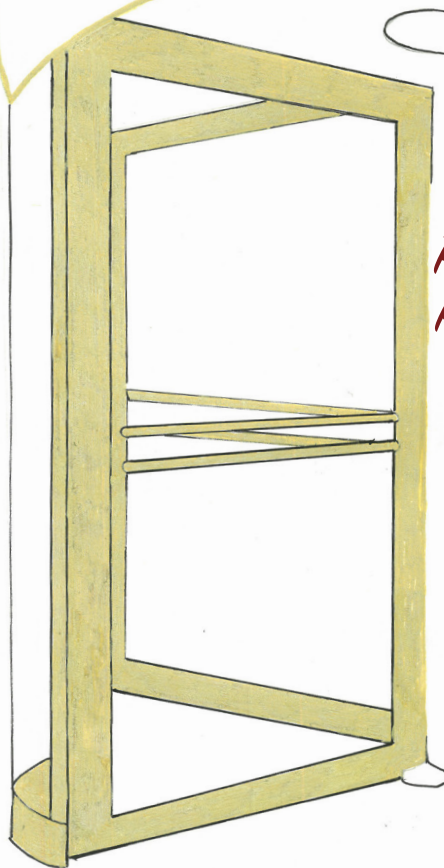




Career Incentives and Legislative Behavior



*Please Use the
Revolving Door*



How and Why
the Revolving
Door Shapes
Legislative
Behavior in the
US Congress

Benjamin Carl Krag Egerod

DEPARTMENT OF POLITICAL SCIENCE
FACULTY OF SOCIAL SCIENCES
UNIVERSITY OF COPENHAGEN · DENMARK
DOCTOR OF PHILOSOPHY 2019 · ISBN 978-87-7209-309-3

BENJAMIN CARL KRAG EGEROD

Career Incentives and Legislative Behavior

How and Why the Revolving Door Shapes Legislative Behavior in the US Congress

Career Incentives and Legislative Behavior

Doctor of Philosophy 2019 © Benjamin C.K. Egerod
ISBN 978-87-7209-309-3 (Printed book)
ISBN 978-87-7209-313-0 (E-book)
Printed by SL grafik, Frederiksberg, Denmark (slgrafik.dk)

Career Incentives and Legislative Behavior

*How and Why the Revolving Door Shapes Legislative
Behavior in the US Congress*

Benjamin C.K. Egerod

Department of Political Science
University of Copenhagen

This dissertation is presented for the degree of
Doctor of Philosophy

Preface & Acknowledgements

I have worked on this article-based dissertation throughout the past four years, where I have been enrolled in the political science PhD Program at the University of Copenhagen. It seeks to answer the following research question:

Does the prospect of a lucrative career in the private sector change the behavior of U.S. legislators?

It consists of a project frame and four research articles. Three of the articles are full length, the final one is a short article. The project frame sums up the evidence presented in the dissertation, draws some broader theoretical perspectives, and highlights potential implications for real-world policy.

While the four research articles speak to a common theoretical framework, they are self-contained, and can be read out without reading the project frame. Whereas the first two articles draw on data from the US Senate, the final two include data from the House of Representatives as well. The following four articles are located in chapters 6 through 9:

1. The Lure of the Private Sector: Private Sector Career Prospects Affect the Selection out of the Senate.
2. Voting for a Career: The Revolving Door Moderates the Senate.
3. The Revolving Door and Regulatory Enforcement: Firm-Level Evidence from Tax Rates and Tax Audits.
4. Do Political Connections Affect the Financial Performance of Firms? Firm-Level Evidence from the Congressional Revolving Door.

I have learned a lot during the process of writing this dissertations. I believe (and hope) that this has made me better academic. Perhaps more importantly, however, I believe that I have learned something about people – and how selfless and helpful they can be. I will limit the acknowledgements in this dissertation to the people who have commented on my research – I will thank all of the other amazing people, who should be thanked, in person.

I am extremely grateful for the discussions that I have had with my main advisor, Jacob Hariri. Jacob pursues *big* and important questions – he does so with extreme rigor and attention to detail. Throughout my time as a PhD candidate, he has pushed me to

do so as well. This has had a formative impact on my dissertation, made me a better academic, and a more reflective human being. Additionally, Jacob was the main catalyst for my interest in political economics – and research more broadly. As an undergraduate, who at times regretted not having pursued a degree in economics, I took Jacob’s course *Democracy and International Development*. This was the best and most inspiring course I have followed throughout my time as a student, and it sparked my initial interest in research. Importantly, I believe that I am the third PhD Candidate to mention Jacob and this particular course in the acknowledgements.

Sandy Gordon has been a great inspiration throughout my dissertation work. I first reached out to Sandy to arrange a research stay at NYU. Everyone who has ever visited another department as a graduate student will know that it is very difficult to become a part of the research environment. It can be particularly hard to get a chance to interact with senior faculty, who have a lot on their plate, and face far stronger incentives to work with their own PhD students than with visitors. Therefore, I was amazed by the time and energy Sandy devoted to reading and commenting on my work during my stay – and by the resources he has devoted to me after I left NYU. I think it is safe to say, that of all the people who have commented on the papers in my dissertation, Sandy has left the most visible mark. His consistently thorough reading and rigorous comments have improved the quality of my work immeasurably.

During my dissertation work, I have been fortunate enough to work with some generous and remarkable academics. My mornings always start out with a coffee with Anders Woller, who has been my academic brother-in-arms since we started our undergraduate studies together. Our early-morning discussions have sparked numerous (unfinished but amazing) research projects. During the most stressful periods, they have provided an indispensibly calm start of the day, and a valve through which to vent our frustrations with life in academia. I started PhD school with Wiebke Marie Junk. I greatly value the discussions we have had about interest groups and statistics – and am over-joyed that we have finally gotten to co-author a piece together. Her work ethic and consistent record of amazing research is something we should all strive for. I have had thought-provoking discussions on everything from research design over social constructivism and rationality to *The Gladiator* and *Dire Straits* with my office-mates Malte Dahl Jacobsen and Jonas Krog Lind.¹ They have made life as a PhD Candidate pretty amazing. I have also benefitted immensely from discussions with Jens van der Ploeg – had he remained at the department, he might as well have written my entire dissertation for me. Lasse Aaskoven and Martin Vinæs Larsen have been my friends since high school and my col-

¹Jones hates *Dire Straits* ... what’s up with that!?

leagues through most of my time as a PhD Candidate. As a teenager, Martin let me copy his physics assignments – today he is a co-author, has provided *the* crucial framing for two papers in the dissertation, and vital comments for the rest. The idea for an entire paper in the dissertation grew out of a discussion with Lasse, whose insightful comments have given me a way forward more times than I can count.

Many people are able to identify the weaknesses in a project – Bertel Teilfeldt Hansen, Frederik Hjorth, and Asmus Leth Olsen, however, all have the remarkable ability to identify workable ways to deal with these weaknesses and move a project forward. They have applied this skill numerous times to my work – some of the most central elements of my dissertation would not have been there without their insights. Needless to say, I am grateful to both of them. Peter Dinesen is a cornerstone of the academic environment at the department – as his DJ set is the foundation of the Christmas party. The way Anne Rasmussen consistently works at pushing the frontier of her research field has been a huge inspiration. David Dreyer Lassen has commented on all my research and advised me on all aspects of the academic community. The best way to describe David is to say that he is a renaissance man – the breadth of his knowledge and the thoughtfulness of his comments is astonishing. I sincerely do not think there is a topic David does not know about, and he has been extremely generous to me with his limited time.

I have had the pleasure of writing my dissertation under two PhD program chairs – Christian Rostbøll and Lene Holm Pedersen – and I owe them both a huge debt of gratitude. Christian consistently amazed me with the depth of his knowledge and the insightfulness of his comments. Lene has a breathtaking ability to energize any research environment.

Sandy Gordon is not the only academic at a different university who has gone to great lengths to offer insight and advise on my dissertation. Anne Binderkrantz, Jens Olav Dahlgaard, Alexander Fourniaies, David Szakonyi, Susan Yackee, and Hye Young You have all commented several times on papers in my dissertation, and have met with me to discuss my work in detail. Luigi Zingales has set aside hours and hours to brainstorm wild research ideas and to discuss the broader ramifications of the revolving door with me. The Stigler Center (which Luigi directs) has provided generous funding through the Stigler Dissertation Award, and two amazing fellowship opportunities at Chicago Booth. Closer to home, I owe a great deal to Mads Dagnis Jensen and Mogens Justesen at CBS. Since I visited CBS for a semester, Mogens has acted as a ‘shadow’ advisor on my dissertation. He has been an important catalyst for my own work, and through our co-authorship, I have learned indispensable lessons about academic work. Mads is a main reason why I decided to apply for a position in the PhD program. Without his early encouragement, I

probably would not have realized that pursuing an academic career was a possibility.

The department's PhD seminars have been one of my most valuable sources of input, and they would not happen without Lise Sonnichsen. More broadly, nothing would happen in the PhD program without Lise, and we all owe her a huge debt of gratitude. Henrik Harboe Wissum is probably the most patient person that I have met, and the hours he has spent helping me deal with RejsUd has saved me a lifetime. I would have lost several months of salary due to my faulty RejsUd reports without Henrik's help.

Finally, I want to thank my wife, Karen. I believe that a dissertation should be dedicated to the person who has done the most to make it possible – and so I have dedicated mine to her. Without her as my companion, I would probably have gone crazy along the way.

Contents

Summary	ix
1 Introduction	1
The Fear of a Favor Denied	2
What Fills the Final-Term Accountability Void?	3
Research Question	6
How the Dissertation is Organized	11
2 Towards A Theory of Labor Market Accountability	15
Accountability and Final-Term Problems	16
The Theory of Labor Market Accountability	22
Observable Implications of the Theory	27
Summing Up	32
3 Obstacles to Inference and Design-Based Solutions	33
Letting the Theory Meet Data	34
Causal Inference from Career Trajectories	34
Compiling Data	40
4 The Dissertation’s Key Findings	43
The Supply of Legislator Labor	44
The Demand for Legislator Labor	49
Where Supply and Demand Meet	53
5 Conclusion	57
Incentives or Corruption?	58
Selection, Legislative Behavior and Accountability	60
Extracting Rents Through the Revolving Door	61
Regulating the Revolving Door in a Second Best World	62

Research Articles:	64
6 The Lure of the Private Sector	65
Introduction	66
Information About Career Prospects	68
Empirical Strategy	71
Main Results	77
The Mechanism: Opportunity Costs to Holding Office	80
The Revolving Door and Legislator Types	83
Conclusion	86
7 Voting for a Career	89
Introduction	90
A Framework for Considering the Legislative Behavior of Revolvers	92
Empirical Strategy	93
The Revolving Door and Moderate Voting	95
Lucrativeness of Employment as an IV	99
Post-Elective Ambitions and The Labor Market	102
Revolvers Become High Effort and Pro-Business	108
Concluding Remarks	113
8 The Revolving Door and Regulatory Enforcement	115
Introduction	116
Using Political Connections to Lobby the Bureaucracy	118
Identification, Methods & Data	123
Baseline Results	129
The Mechanism: Political Connections and Regulatory Enforcement	132
Interpretation	140
Conclusion	143
9 Do Political Connections Affect the Financial Performance of Firms?	145
Introduction	146
Empirical Strategy	147
Results	148
Discussion	152
Appendices	167

Summary

The movement of public officials into the private sector is a pervasive feature of modern politics. This so-called revolving door between business and politics is a consistent cause for concern among academics and pundits alike. Many fear that the potential for lucrative post-elective employment can make legislators give rewards to their future employers. Alternatively, the companies that hire former legislators might be able to use their connections to sway public policy. Based on these fears, calls for tighter regulation of the careers of former public servants are renewed almost every time a high-profile policy-maker spins through the revolving door. However, there is little research on what employers gain from hiring former legislators, and whether lucrative career prospects affect the behavior of politicians while they are in office.

In this dissertation, I examine why legislators come to desire private sector employment, how this desire shapes their legislative behavior, and what employers gain from hiring them. In the dissertation's frame (chapters 1 through 5), I provide a theory of how the career incentives inherent in revolving door politics can shape legislative behavior. When legislators decide to leave office, they become unaccountable to voters. However, not all former legislators are in equally high demand on the post-elective labor market. Therefore, soon-to-be revolvers—free from re-election concerns—will tend to behave in a manner that increases their labor market value. Throughout four research articles, I test the central claims of this theory. While the first two papers rely on data from the US Senate, the final two also include data on post-elective career trajectories in the House of Representatives.

In Paper 1, *The Lure of the Private Sector*, I show that private sector career prospects, indeed, do induce legislators to leave office. I show that when former US senators—who now work as lobbyists—become more successful in their careers, currently serving senators with similar characteristics are more likely to leave office for private sector employment. Because the 'lure of the private sector' has the strongest effect on senators with the lowest legislative productivity, the revolving door can have important selection effects.

In Paper 2, *Voting for a Career*, I start by presenting a new stylized fact: US senators become vastly more moderate before they voluntarily leave office through the revolving door. I leverage some of the dissertation's central claims to make sense of this pattern. I show that before leaving office, revolvers exert more effort, vote in closer alignment with the preferences of special interest groups, and sponsor bills that would benefit their future employers were they to pass. This suggests that the career incentives induced by the revolving door has broad effects on legislative behavior.