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The Revolving Door

Evidence from the United Kingdom, Germany,
France, Spain, Belgium, Greece and Brazil

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Abstract

The following study analyses the academic background and careers of 175 members of Governments and Central Banks of seven countries (Belgium, Brazil, France, Germany, Greece, Spain and United Kingdom) for the years 1975 and 2015, in order to verify whether the “Revolving Door Theory” can be applied to these cases.

After some research on the curricula vitae of the members of Governments and Central Banks, we found that, for instance, that more Government and Central Bank members studied abroad for the case of the UK and US than for the other countries. We also found that it is more common for Central Bank executive members to obtain PhDs than it is the case for Government members. Moreover, external promotions in the Central Banks in 1975 were quite relevant but no cases were registered for 2015; for Governments, the trend was the exact opposite, no external promotions in 1975 but many cases in 2015.

While it is not possible to find irrefutable evidence to sustain the Revolving Door hypothesis, it is still possible to find recurrent patterns in different countries that may be explained by that theory. More expanded databases and a larger selection of countries is required for that analysis.

Keywords: Revolving Door, Political Connections, Governments, Central Banks

¹ This working paper is the result of an investigation developed in the framework of the discipline of *Cycles and Economic Crises*, 3rd year of graduation, under the supervision of Professor Francisco Louçã.

1. Introduction

The relationship between Politics and Business has become an interesting research topic for Political Science and Economics, and more recently, for Management. This interest and the studies that followed gave rise to a new concept in the literature, yet to be more rigorously defined: political connectedness. So, political connections, *lato sensu*, regard the relationship between political power (in the form of its representatives) and industry (once again in the form of its decision makers); the idea is that the agents that act on the behalf of one and another may be one and the same – perhaps just interchanging positions.

This is a relevant matter since the public interest is at stake; having the same people controlling both the political and the industrial spheres may generate some conflicts of interests that compromise their commitment either to one or the other.

Our study gathers information about the academic record and professional career, before and after the respective mandates, of members of governments and/or governing bodies of central banks of Brazil, France, Spain, Belgium, Germany, Greece and United Kingdom in the years 1975 and 2015.

Our aim is to find some patterns, for instance, if there is some predominance when it comes to education, type of degree, country elected to study abroad (if that is case). Our questions also regard the jobs performed by the politicians and Central Bank directors before and after their mandates and if that had any impact on their professional careers or if it is possible to find a pattern when comparing their academic and/or professional background.

Hence, to the present analysis, we will try to identify some relevant patterns in the public x private through the analysis of:

1. Education: Level of education (PhD or not), degree of internationalization (Abroad or not) and degree of homogeneity (preponderance of any country/school in terms of the distribution of PhDs)
2. Career: previous/after career, identifying from where public servers (both from governments and Central Banks) have come (private/public sectors, international institutions, academic universe) and to where they went after their services.

3. Promotions: the presence of internal promotions (members of governing bodies of Central Banks who came from the CB itself, number of those remaining at the Central Bank after a governing role, number of members of governments who came from public institutions, number of those members of government coming from the public sector and being transferred to private administrations of firms, namely financial) and the presence of external promotions (number of those being transferred to private sector namely financial firms after a role at the Central Bank or government).

Although some comparisons and patterns are established, we consider the different stages of development of the countries. The degree of development of the countries differs according not only to time but also historical, geographical – and geopolitical – situations.

Data for 2015 was much easier to find than for 1975. Limited time and resources prevented a more thorough research, although all efforts were done in order to gather as much information as possible. The result was a database from which we were able to draw some interesting connections. Still, as in any other academic research, questions keep coming at a higher speed than answers; in our understanding, there is a lot of research yet to be done.

2. Survey

In this section some of the literature that relates to our present analysis is presented. Despite the fact that there is a wide variety of investigation on the topic, *politically connected firms and the relationship between public power and market engagement*, we will present here the main aspects of eight publications that are related to the pith of our work and that in a certain way will guide our exercise.

Louçã, Lopes and Costa (2014) investigate, in their chapter 6, “To the infinity and beyond: Politics in the path of business,” the complicity between politics and business in Portugal through a large population of members of Governments. The authors investigated every member of the nineteenth constitutional government until the year 2013, using public information. They searched for several kinds of information including: education and academic profile, where they started their professional career (private companies, public offices, political career), links to major law firms, all was analyzed and studied in detail, in order to understand the Portuguese society as well as the way governments are formed in Portugal and the necessary influences to climb the career ladder. They found, as a result, that 776 members of government have occupied 1281 official positions and that 415 other

members, about 60%, had served as well as managers or directors, or another leading capacity, in private companies, namely of the main economic groups. The authors, with this investigation, clearly identified two social processes. The first was that recruitment of ministers and secretaries of state is done regularly in major companies and economic groups of the country, where top managers are selected to join the government. The second was that the having an official position in government favors a future promotion, namely in large companies and economic groups, and in many cases, it leads to the conclusion that stakeholders are frequently connected and present in the main mechanisms of power. A passage in the government is seen only as a launching pad for social and economic power: there are more members of government moving to the business world than otherwise. The authors also highlighted the link between the administration of Portuguese companies and national policy, including the three major parties (PS, PSD, CDS) proving that it is a route to success, to the rise of the career and to the power of the rulers. This seems to be a clearly evident routine, proved by several examples. This connection not only brings personal benefits, but also protects the company and its market power over the political contingencies. So the cases of the rulers who occupy more positions and for longer in the government are studied in much detail. They concluded that the relationship between governments, political parties and the large economic groups must be seen as a unit which concentrates all kinds of power and that all these connections can be compared to a ball of yarn that does not fall apart, in other words, being a Minister and a Secretary of State makes the difference.

Some of these results are summarized in Table 1.

Table 1: Type of connections of government members

Firms/Members of govt.	Number of cabinet members (%)	Posts they occupied (%)
In large economic groups	170 (22,9%)	311 (24,3%)
In the financial sector	230 (29,6%)	382 (29,8%)
In industry	193 (24,9%)	187 (14,6%)
In real estate and building firms	94 (12,1%)	173 (13,5%)
In communications firms	95 (12,2%)	159 (12,4%)
Promotion (were not and became connected)	187 (24,1%)	337 (26,3%)
Veterans (were connected and returned to business after gov.)	143 (18,4%)	354 (27,6%)

Source: Louçã et al. (2014)

For the case of Portugal, a high level of connections was found: approximately one in three members of government either came or went to the administration of a financial firm, one in five did so to the largest stock market firms and one in four in the larger economic groups.

Niessen and Ruenzi (2009) aimed to investigate the politically connected companies in Germany between 2006 and 2007. In addition to the characteristics of institutions politically connected, the authors also investigated, for the first time, the characteristics of Bundestag members engaged in non-parliamentary activities, compared with the members of parliament (MP) with no such involvement. The authors collected data from non-parliamentary job activities of 611 members of the Bundestag, based on the information available at the Bundestag's website. From a sample containing 605 companies, they found that 28 (4,6%) were politically connected through the employment of a MP. Even though there were several MPs associated to small firms, the research only included publicly traded companies – the ones whose financial market data was accessible. Most of the politically connected firms were well-established and well-known not only in German but worldwide; for instance, the firms with a higher number of delegates, four and three, were Allianz AG and Deutsche Bank AG, respectively. Political links were more evident among the following industries: financial institutions, insurance, stock exchange, energy and automobile. Some of the MPs had connections with firms whose activity is related to their official roles; for instance, some MPs who are members of the Bundestag's Finance Committee work for companies like Allianz, Deutsche Bank, Deutsche Börse, and Commerzbank. On the other hand, MPs who were members of the Committee on Educational, Research, and Technology Assessment worked for firms within the Energy or the Pharmaceutical Industry. There is a possibility that some of these cases represented conflicts of interests; or it may simply disclose the MPs' expertise. According to the data, the right wing of the Parliament (the Conservative party, CDU/CSU, and the Liberal party, FDP) were more likely to be connected to firms than the left wing. Overall, 76% of all connected MPs were members of one of the parties of the Government. Another finding of this research was that politically connected firms had higher market capitalization, higher sales and higher total assets than the ones with no connections. The standard deviations for stock market return were quite different for politically connected firms and politically unconnected firms; the first (23%) is almost half the value of the second ones (48%). From this information, we can understand that politicians worked mainly for large, well established and low risk companies, eventually for reputational reasons. These assumptions were supported by the low average of Tobin's Q of connected firms – which means that there were very few growth opportunities for these firms – and by the lower price-earnings ratios of politically

connected firms when compared to politically unconnected firms. In terms of performance, both ROE and ROI showed higher results for politically connected firms. Overall, German firms with political connections delivered a better performance, had better accounting indicators of performance (ROE and ROI) and also earned positive abnormal returns. By comparing 2006 results (no political connections publicly available) to 2007 results (after the enactment of the Law of Transparency), the authors noticed that performance differences decreased and became almost non-significant. The authors also conclude that despite the fact that it is not possible to establish a causality relationship between political connections and firm performance there are positive correlations between the two. So, either MPs help firms having better performances or MPs are able to select those firms as employers perform well.

Bertrand, Kramarz and Schoar (2004) analyzed the networks between political leaders and CEOs of some public-traded companies in France, between 1989 and 2002. While previous researches focused on the advantages firms can get from having connections to politicians, this paper focused on the other way around. It is investigated whether CEOs of publicly-traded companies that have, through their educational and professional background, relations to the political elite are willing to provide “economic favors” on politicians to help them to get re-elected. Between the conclusions mentioned in this work we can highlight three: i) lower rates of return by the companies managed by connected-CEOs, ii) connected CEOs create more jobs in election years (and around election years) than the others, the opposite happens with plant closures or layoffs, iii) there is limited evidence for the importance of the connections of CEOs and politicians based on the political and educational backgrounds.

Faccio (2006), for a sample of 42 countries, examined firms whose controlling shareholders and top managers are member of national parliaments or governments. The author defines a company as politically connected if (at least) one of the company’s large shareholders (anybody directly or indirectly controlling at least 10% of votes) or top directors (the CEO, president, vice-president or secretary) is a member of the parliament, a minister (including the Prime Minister), or the Chief of the State (dictator, president, King or Queen), or is “closely-related” to a top politician. The data sources allowed to identify 17,033 politicians for 42 countries, this data refers to politicians in office during the first half of 2001. The author identified a number of variables that were possibly associated with connections and used two variables to measure the diffusion of political connections at the country level. The first, “% of politically connected listed firms”, was the ratio of connected firms over the total number of firms listed in a particular country. The second

measure, “connected firms as % of market capitalization”, was the ratio of the market capitalization of connected firms over the overall capitalization of each country. Among the variables that were probably associated with connections we can highlight: corruption, quality of the legal environment, economic development, bureaucracy, culture (or religion, Protestants as fraction of total population), government structure and government intervention in the economy. In the paper were also highlighted three types of benefits that connected firms enjoy: easy access to debt financing, tax benefits and market power. As the main conclusions Faccio presented that: i) Connections are relatively widespread, out of a sample of 42 countries, 532 firms have top directors or large shareholders who sit on the national parliament or government. These firms represent 2.68% of listed corporations, and 7.76% of the world’s market capitalization; ii) Connections are particularly widespread in countries with a high level of corruption, one notable exception to that being the UK; iii) Connections provide significant benefits to firms in terms of easier access to debt financing, lower income taxation, and stronger market power; iv) These benefits are generally larger in countries where connections are relatively more widespread, especially countries with high corruption, low protection of property rights, a highly interventionist government, or a non-democratic government; v) Although connections provide benefits to corporations, connected firms exhibit significantly lower performance than their non-connected counterparts. Rent-seeking by politicians appointed as directors alone cannot explain the poorer returns by connected firms. Connected firms, rather, are troubled or simply badly managed firms. The underperformance of connected firms also raises macro-level concerns as to distortions that connections introduce in the allocation of capital, investment decisions, and therefore the long-term growth of these economies.

Other cases were identified in the literature. Fisman (2001) discussed evidence from Indonesia, proving that firms connected to president Suharto suffered a larger impact when rumors of his illness were spread mid 1990s (the difference being 23% as compared to the stock market). The same evidence is apparent in Malaysia in the 1990s, considering firms connected to the circles around prime-minister Mahathir, which fell 20% more than the stock market when he left power, according to Johnson and Mitton (2003). Khwaja and Mian (2005) found a similar case for Pakistan.

Finally, a detailed research on the nomination of Timothy Geithner as Secretary of Treasury under the Obama administration proved that the firms known to have connections with the banker benefitted from that decision and from a significant rise in the stock market. The authors compare that process to previous

nominations and argue that this event is quite exceptional in the USA and it is due to the uncertainty provoked by the financial crisis (Acemoglu et al., 2014).

3. Data Description

In our study we build a data set about the academic record and professional career, before and after the respective terms of office, of the members of governments and/or the governing bodies of central banks of 7 countries. We have a panel of 175 people: 80 members of the governing bodies of central banks and 95 members of governments. For each country we have analyzed different numbers of members:

Countries / Institutions	Central Bank (1975)	Central Bank (2015)	Government (1975)	Government (2015)	TOTAL
Belgium	3	6	-	-	9
Brazil	6	7	11	15	39
France	3	3	16	18	40
Germany	6	6	-	-	12
Greece	3	9	-	-	12
Spain	1	10	21	14	46
United Kingdom	11	6	-	-	17
TOTAL	33	47	48	47	175

For this work we used publicly available information, mainly the *curriculum vitae* published in the official websites of the governments and central banks. As some information was not provided by the institutions in their websites, we also used other sources with information about the career of the analyzed members. There is eventually other relevant information we could not notice and include in this paper.

4. Results

4.1. Data from individuals with administrative functions in Central Banks (1975, 2015)

In this work we analyzed 33 persons in 1975 and 47 persons in 2015 from Central Banks of France, Spain, Greece, Belgium, United Kingdom, Brazil and Germany.

Obs1: For some persons in the sample, there is not enough information about their career /education and therefore we cannot account all of their aspects according to our methodology.

Obs2: Due to difficult access to information on Spain in 1975, the year in consideration is instead 1976.

EDUCATION

We only found 5 people with education abroad in 1975 while in 2015 we found 15 persons. In 1975 there are 13 persons with PhD and in 2015 we observe 15 persons with PhD.

CARREER

In 1975, there are 5 persons (from UK and Brazil, only) with both career before and career after their function in Central Banks in firms.

In 1975 we observe 14 persons against 19 in 2015 that made career only in Government, Central Bank or other public institutions.

In 1975 we see only 3 persons (from UK) that made career only in firms before and after having functions in Central Bank. In 2015 we see 5 persons (from Spain, Greece, Belgium and Germany) that had previous career in firms.

Those who had a mixed career (in public and private sectors, before OR after their function in central banks) in 1975 came from UK and Brazil and we count 11 persons. In 2015 we see 8 persons with those characteristics but with a more diverse origin (from all countries except UK and Germany)

Those who have been in a financial firm administration, before or after their position in Central Bank in 1975, they came from UK and Brazil mainly, but also from France and Germany and we count 10 persons in this category. In 2015 we count only 2 persons, from Greece and Belgium.

We counted 4 persons in 1975 (France, Greece, Brazil, Germany) that were part of International Institutions (before OR after having functions at Central Bank) against 10 persons in 2015 (from all countries except Germany)

PROMOTION

In 1975 we observe 25 persons who were internally promoted (i.e, that came from government or inside Central Bank to their position in that year) against 18 persons in 2015 (manly from Spain and Brazil) with similar characteristics.

1975 we also observe that are 11 persons (from UK, Brazil, Germany and France) that were externally promoted (i.e., that went to a firm's administration after their position at Central Bank)

4.2. Data from the ministers in post in the Governments (1975, 2015)

For this section, we analyzed 27 ministers in 1975 and 47 persons in 2015 from Brazil, France and Spain.

Obs1: For some persons in the sample, there is not enough information about their career /education and therefore we cannot account all of their aspects according to our methodology.

EDUCATION

We did not find people with education abroad in 1975 and only 3 in 2015, all from Brazil (PhDs, 2 in the United States, at Chicago and New York, and 1 in France).

CAREER

In 1975, 8 were college professors and 9 had a law degree or were connected to a law office before having functions in respective governments. In 2015, the numbers to consider are, respectively, 18 and 18.

In 1975, all French individuals made career in public office before taking their positions as ministers (16). In Spain, only one didn't made career in the public sector (19) while in Brazil were only two (9). Only 1 person (France) made career in the private sector before being minister and 2 made it both in Spain and Brazil. In 2015, everyone made career in public office before taking their positions as ministers: 18 persons in France, 14 in Spain and 15 in Brazil. In France, only 1 person made career in the private sector before being minister, while 5 persons did it in Spain and 8 in Brazil.

Regarding the career after the government, 2 persons in Spain and Brazil were college professors but none had the same position in France. Three persons were connected to law (members of the Constitutional Council, lawyers, notary) in France and Spain whereas none in Brazil. Only one had no public office in France after being minister (15) while in Spain and Brazil we counted 10 and 7, respectively. Note that in France and Brazil no one moves to the private sector while in Spain we count 5 people doing so.

PROMOTION

In 1975, we observe 42 persons who were internally promoted (i.e. that came from government to their position in that year) against 47 persons in 2015 (manly from France) with similar characteristics. We also observe that is only 1 person (from Spain) that was externally promoted (i.e., that went to a firm's administration after their position at Government).

5. Conclusions

In the present work what we tried to test for the “Revolving Door Theory”, analyzing data of seven countries - Belgium, Brazil, France, Germany, Greece, Spain and United Kingdom - from the years 1975 and 2015. It is worth saying that, according to our approach, we did not mean to establish a causal relationship, but we have just tried to identify any possible trends in the relationship between government servers and private firms.

At first sight, we can highlight that the sample is quite diverse: including European and non-European countries, as well as developed and emerging countries, all of them with different mind-settings and different institutional frameworks, along with different socio-cultural frameworks.

Due to some level of lack of information, we were not able to make much precise statements on the revolving door hypothesis, but we were able to observe a general outline in the relationship between the government members and the private environment. In the following lines, we will first present some patterns that could be observed in the data for Central Banks and Governments and then we will relate both with the assumptions of the revolving door.

5.1. Evidence from the Central Bank members:

- 1) Considerable level of heterogeneity in the academic trajectory in 1975; central banks' boards were formed mainly by professionals educated inside their own countries signing little internationalization of their academic trajectories. For those who studied abroad, we were not able to observe any kind of tendency of country/school of destiny.
- 2) Considerable tendency for internationalization in terms of education in the year of 2015, with the US and the UK as the biggest host countries in 2015.

- 3) For both years, 2015 and 1975, the members of the Central Banks came mainly from public institutions or the Central Bank, indicating a certain kind of technocracy inside the former institution.
- 4) Increasing number of ex-members of international institutions in the Central Banks' boards.
- 5) The pattern of promotion related to positions in the Central Bank's boards is mainly internal in both years, being external promotions observed only in 1975.

5.2. Evidence from Government members:

- 1) A few members of the 1975's governments had PhDs and all of those were taken inside the respective countries; for 2015, despite the fact that some members of the Brazilian government had PhDs abroad (mainly US and Europe), the pattern is similar to the year of 1975. Hence, we could observe that PhDs was a rare attribute for governments' boards.
- 2) For both years, and following the pattern present in central bank's board, members of the government came mainly from the public function.
- 3) In 2015, however, it was possible to observe a certain tendency for members of the Brazilian government to be engaged in the administration of private firms before their mandates; as the only emerging country in the sample, this could reflect some degree of institutional fragility. Also, for Spain, one fact that called our attention was that many members of the Government were connected to Law Office or had Law degrees in both years, being the board of the government constituted mainly by professionals of the Law area.
- 4) In terms of promotions, internal promotions were a fact for all the governments analyzed in both years. External promotions are relevant just for the year of 2015, being Brazil the country that presented the highest value.

Given the patterns above it is difficult to relate the conclusions we reached to the revolving door theory. The reduced database and our limitation to just two years (1975, 2015) limits our conclusions. However, we can establish some relationships that are relevant for this discussion. For instance, the fact that the promotions are mainly done internally indicates that the movement from public to private sector is much more intense and recurrent than the other way around. Furthermore, Brazil is the only relevant case of movements from private to public institutions, and that

could indicate a probable relationship between economic development and institutional fragility.

Finally, we should highlight that, from the evidences that we have, it is only possible to observe isolated cases of connections between public power and the markets – as the high correlation between the presence in law offices and public positions in Spain – but not to detect a general and consistent pattern of relation between the respective spheres of powers, as found in the literature we surveyed. However, and as we previously observed, the lack of data may have played an important role limiting our analysis, pointing to the fact that future similar exercises must be based on wider and as specific as possible databases.

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