Institutional Corruption? The revolving door in American and British politics

SMF-CAGE Global Perspectives Series: Paper 1

October 2014

Mirko Draca

ABOUT THE AUTHOR

Mirko Draca is an Assistant Professor in the Department of Economics at Warwick University. He is a research associate of Warwick's ESRC Centre on Competitive Advantage in the Global Economy (CAGE) and a Research Associate at the Centre for Economic Performance (CEP) at the London School of Economics. He obtained his PhD at University College London and worked at CEP prior to joining Warwick. Other affiliations have included the Edmond J Safra Center for Ethics at Harvard University, where he participated in the 'Institutional Corruption' research programme. Most recently, he has published on topics including the economics of crime, the minimum wage, and the 'revolving door' in journals including the American Economic Review and the American Economic Journal: Applied Economics.

ABOUT CAGE

Established in January 2010, CAGE is a research centre in the Department of Economics at the University of Warwick. Funded by the Economic and Social Research Council (ESRC), CAGE is carrying out a ten-year programme of innovative research. The Centre's research is focused on how countries succeed in achieving key economic objectives, such as improving living standards, raising productivity and maintaining international competitiveness, which are central to the economic well-being of their citizens. CAGE's research analyses the reasons for economic outcomes in both developed economies such as the UK and emerging economies such as China and India. The Centre aims to develop a better understanding of how to promote institutions and policies that are conducive to successful economic performance and seeks to draw lessons for policy-makers from economic history as well as the contemporary world.
www.warwick.ac.uk/cage

ABOUT THE SOCIAL MARKET FOUNDATION

The Social Market Foundation is a leading cross-party think tank, developing innovative ideas across a range of economic and social policy. The SMF's current research themes are: Productivity and Growth; Cost of Living; and, Public Service Reform. We champion policy ideas which marry markets with social justice and take a pro-market rather than free-market approach. Our work is characterised by the belief that governments have an important role to play in correcting market failures and that a sustainable market economy rests on social and political foundations that are widely regarded as fair.
www.smf.co.uk

SUMMARY

- This briefing puts forward the idea that political decision-making in the US and the UK is being affected by an increasing trend towards 'institutional corruption' driven by the personal incentives affecting our political elites.

- 'Institutional corruption' is not corruption in the technical sense of illegal activity. Instead, this term describes the process by which a bad set of incentives ('political money') collides with our institutions to produce outcomes that strongly favour special interests over public welfare. This paper provides evidence on the 'revolving door' between government and private sector employment in Washington, especially the lobbying industry.

- Our research shows that the 'revolving door' is a core feature of Washington political careers. Former political insiders account for around 60 per cent of lobbying firm revenues. Empirical modeling work indicates that there is a significant market for access in the lobbying industry. That is, we are able to show that connections explain a very large fraction of lobbying revenues.

- Finally, a comment on recent UK lobbying legislation. This legislation has put forward an inadequate lobbying register with minimal information. Specifically the UK legislation has major deficits relative to the US model with limited coverage of lobbying activity and no information on money spent, issues covered, or the people working on major lobbying contracts.

INTRODUCTION

Public confidence in political institutions in the US and the UK is currently at a striking low with a number of surveys showing falling levels of approval for key political institutions. A major current in public attitudes towards politics is a disapproval of the personal financial conduct of politicians. In the US, there has been frequent criticism of politicians for taking on lucrative careers representing special interests after leaving office.[i] This has also been a strand of public debate in the UK with regular scandals related to lobbying by both former and current holders of political office, along with their associates. UK public debate has also featured a special strand related to the major scandal over politicians' expenses that struck Westminster in 2009 and 2010 which, to say the least, severely damaged the public perception of Parliamentarians.[ii] Both of these issues – lobbying and expenses – relate to the career and personal incentives faced by politicians.

The main message of this briefing paper is that these events and trends are indicative of a process of 'institutional corruption'. This term is not meant to describe corruption in the sense of technically illegal activity. Instead, it describes the process by which a bad set of incentives (supported by increasing levels of 'political money') collides with our institutions to produce outcomes that strongly favour special interests over public welfare. Political money in this context will be defined to include spending by private (or non-profit) institutions that is intended to directly influence policy-makers. This political money can be classified into two main categories: lobbying expenditures and campaign contributions. The aim of this paper is to outline a systematic analysis of this interaction between incentives, political money and institutions.

Once we recognise institutional corruption and its drivers we can think of ways to combat it. In turn, this paper will suggest that the two tools that are needed to fight institutional corruption are monitoring (particularly through political transparency initiatives) and strong regulation. This regulation needs to be directed primarily at politicians' financial activities and career incentives. And it needs to be strong in order to resist powerful incentives for rent-seeking that are becoming more and more established with the US and UK political systems.

This argument will be developed as follows. Firstly, I will define institutional corruption and provide a background to the concept. Secondly, the paper will present evidence on the economics of the 'revolving door' in US politics. The 'revolving door' can be defined as the flow of personnel between jobs in key policy-making departments in government and specific sectors of the economy. In particular, it describes the flow of ex-government personnel into private and non-profit sector positions that are often highly paid and have the explicit remit to influence government policy. This raises the problem that people working in government may become influenced by 'career concerns' and resist making decisions that could affect their future non-government employment options. A further problem is that strategic information on government policy and access to politicians may be traded as part of the revolving door.

The evidence presented here will focus on this point and demonstrate the enormous size and continuing growth of a 'market for access' in Washington that is widely perceived to be contributing to what this paper is denoting as institutional corruption. The key analytical point here is that the growing level of money in politics must inevitably affect the incentives for politicians *in some way* and this is unlikely to be welfare improving for society as a whole. Specifically, my evidence will show that 'money follows connections' in the US lobbying industry, a key formal requirement for proving the existence of a market for access.

Finally, I will comment on the situation in the UK, focusing on the case of recently passed legislation on the reporting of lobbying activity. The process behind the development and passage of this legislation provides an important example of how difficult it is to introduce reforms related to transparency and the regulation of financial incentives in politics. The UK currently has a massive deficit in political transparency and, realistically, only a concerted public campaign from outside the established political party system is likely to change the situation.

WHAT IS INSTITUTIONAL CORRUPTION?

The definition of institutional corruption put forward by this briefing is based on the analysis offered by Lawrence Lessig (2013):

> 'Institutional corruption: the consequence of an influence within an economy of influence that illegitimately weakens the effectiveness of an institution especially by weakening the public trust of the institution' (Lessig 2013:2).

In this paper I will provide an interpretation of Lessig's (2013) concept of institutional corruption that is based on political economy. Specifically, the approach taken by this current paper is to view institutional corruption as resulting from the interaction of rules and private incentives. In the first instance, our political institutions are systems of rules for governance. They describe the formal mechanisms that are used to govern public participation in political decision-making (for example, how people are elected into a legislature), as well as how the state forms and implements policy actions (either through a legislature or through a process mediated by an accountable bureaucracy).

At the same time, these rules for governance do not operate in a vacuum. Successful political institutions rely on the existence of a supportive political culture to enhance their operation. This political culture is comprised of many things: social norms about debate, patterns of public participation in politics, and both formal and informal sets of ethical codes amongst public officials. As well as political culture, our political institutions also depend on the set of incentives that surround them. The key set of incentives here are the direct incentives faced by members of the 'political class' – that is the politicians, key staff advisors and leading bureaucrats who have the greatest influence over decisions in our political system. These incentives shape both how the political class 'follows the rules' and what kind of political culture emerges to support law-making on an ongoing basis. If these incentives are not well-designed then they can undermine law-making. A key problem emerges when the incentives that are in place align the personal interests of the political class with special interests seeking to influence public policy. When this alignment of interests is recognised by the public, as per Lessig (2013) above, it weakens overall trust in our political institutions.

Academically, this perspective on incentives in politics has been explored in a growing theoretical and empirical literature on political selection.[iii] An important point here is that incentives are relatively more fluid than other parts of the political system, that is, they change in terms of level and incidence much faster than our political institutions. A key task of academic research is to quantify these incentives and report on their current levels and incidence.

The 'revolving door' between government and private sector employment in Washington is the subject of research by Blanes i Vidal, Draca and Fons-Rosen (2012). The revolving door, we argue, represents the most significant set of incentives affecting the behaviour and decisions of the US political class. I now consider the empirical evidence on the nature of these incentives and how they could be contributing to institutional corruption.

WHY IS AMERICA'S POLITICAL CLASS GETTING RICHER? THE CASE OF THE REVOLVING DOOR

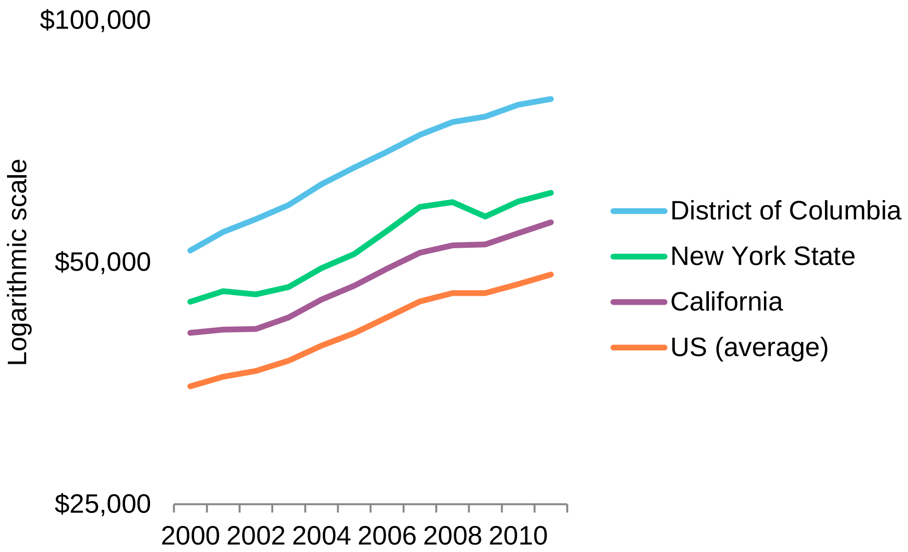
In the following discussion I will first highlight 'two surprising facts' about modern Washington DC that help to set the scene for the subsequent discussion of the revolving door. These facts relate to the scale of the economic boom that has benefited Washington in the last 10-15 years and the composition of political money at the federal level in US. Then I will present evidence on the extent of 'revolving door' movements from the Congress to lobbying in particular, based on my work with co-authors Jordi Blanes i Vidal and Christian Fons-Rosen (Blanes i Vidal, Draca and Fons-Rosen 2012), updated by work now in progress. In that light I will review our findings on the US federal market for political connections.

Overall, the message of this section is that money in US politics has been growing and this increase is heavily skewed towards the pockets of the political class, with delivery courtesy of the revolving door. As a result, political institutions in the US now face the challenge of operating in the midst of very strong incentives for the political class to serve special rather than public interests – the very definition of institutional corruption.

Two surprising facts about modern Washington DC

Fact #1: Washington DC is getting richer – much richer. Washington DC has long had higher levels of wages, income and GDP per capita compared to other US regions. What is notable is that the 2000s saw large increases in standards of living for Washington relative to the rest of the US. Figure 1 tracks average wages by selected region over the 2000s. It is clear that the District of Columbia (i.e. Washington) has higher average wages than even leading states such as New York and California. This gap increased sharply over the period. For example, the wage gap between Washington DC and the rest of the US stood at 38.9 per cent in 2000, growing to 50.3 per cent in 2011. In contrast, the gap between New York state and the rest of the US shrank from 24.2 per cent to 23.4 per cent over the same time period. It is also notable that Washington's wages were insulated from the recession compared to the rest of the US.

Figure 1: Trends in US wages, 2000-2011



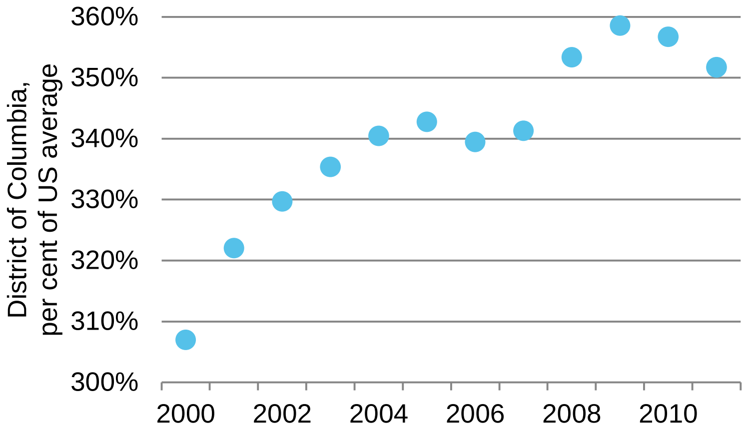
Source: US Bureau of Labor Statistics. The vertical scale of the figure is logarithmic, so that an upward movement of a given distance is always the same proportion, and the growth rate of a series is proportional to its slope. Here, the slope of the 'District of Columbia' line is steeper than that of the 'US (average)' line over the years shown. This means that its proportional growth rate is higher. All 'dollars' referred to are US dollars.

This gap is also reflected in GDP and GDP growth, as shown in Figure 2. At the turn of the millennium GDP per head of the District of Columbia was three times the US average, but this ratio increased to 3.5 times in the decade. Some media reports have noted Washington's benign economic climate, noting:

> 'The signs of wealth are displayed all over, from the string of luxury boutiques such as Gucci and Tory Burch opening at Tysons Galleria to the $15 cocktails served over artisanal ice at the W Hotel in the District to the ever larger houses rising off River Road in Potomac' (Gowen 2011).

This economic fortune will inevitably have a number of sources but a primary contributor is government services and the private contractor economy that exists alongside it. Part of this contractor economy is the market for political consulting services, that is, the policy-making business. The growth in this sub-sector is very strong and is dominated by trends in the level of political money.

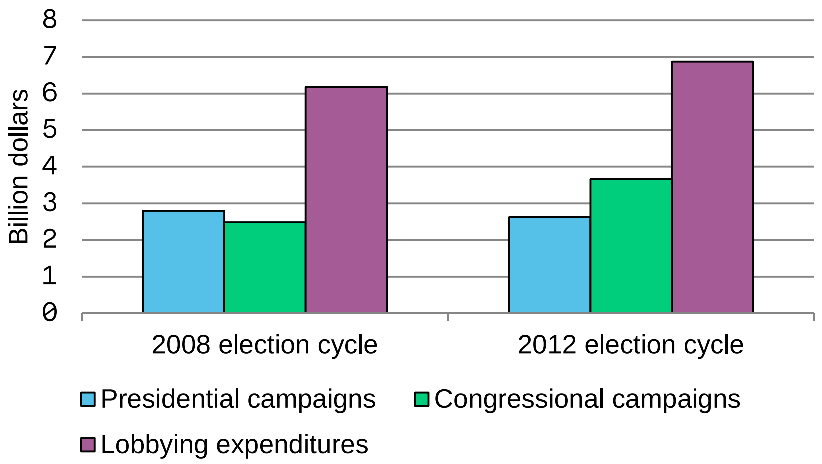
Figure 2: GDP per head in the District of Columbia relative to the US average, 2000-2011



Source: US Bureau of Economic Analysis. Over the period shown, GDP per head across the United States rose from $39.8 thousand to $42.1 thousand, while for the District of Columbia it rose from $122 thousand to $148 thousand.

Fact #2: Lobbying is where the dollars are, and those dollars are in Washington DC. Public discussion of money in politics is dominated by a focus on campaign contributions. This is understandable given the time spent by politicians in raising contributions. However, the numbers reveal a more complex story. Figure 3 shows the amount of money spent as part of the last two Congressional cycles that occurred at the same time as a Presidential election (2010-2012 and 2006-2008). This shows that the total amount of spent campaign funds was an average of $5.7 billion across the two cycles. In contrast, this figure also plots the amount of money spent on lobbying, as declared under the 1995 Lobbying Disclosure Act (LDA). This amounts to $6.5 billion averaged across the two cycles. While a large industry exists around electoral campaigns an even larger one is in place around lobbying activity.

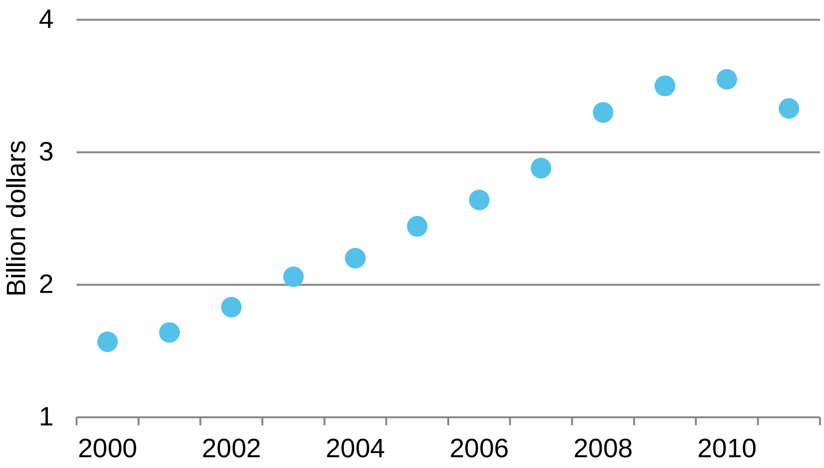
Figure 3: Political expenditures in the US, 2008 and 2012 electoral cycles



Source: Centre for Responsive Politics/Open Secrets. The 2008 electoral cycle covers the years 2006 to 2008, and the 2012 cycle covers 2010 to 2012. All 'dollars' referred to are US dollars.

Figure 4 shows the growth of lobbying spending since 2000. During the 2000s lobbying spending doubled in nominal terms from $1.6 billion in 2000 to $3.3 billion in 2010. After adjusting for inflation the increase still stands at 64 per cent; over the same period the real GDP of the United States increased by only 18 per cent. Since 2010, lobbying spending has fallen slightly. Possible explanations include the relative slowdown of the Obama administration's legislative agenda after 2010 and a growing, undeclared lobbying sector.[iv]

Figure 4: US federal lobbying expenditures, 2000-2011



Source: Centre for Responsive Politics/Open Secrets. All 'dollars' referred to are US dollars.

However, the most important feature of this lobbying expenditure is its composition. Expenditure declared under the LDA represents a specific type of spending, namely spending intended to support contacts made with the legislature and executive. Hence, money spent on publicity or grassroots campaigning is not included in these sums. Instead, these expenditures mainly represent the wages, salaries and other remuneration of paid, professional lobbyists who make contacts with members of the legislature and executive. This makes lobbying spending quite different to campaign contributions, which are directed much more towards on-the-ground campaigning. The question then is: where does this current $3 billion dollars in remuneration actually go? The revolving door provides a large part of the answer.

How wide is Washington's revolving door?

For our research on the US federal lobbying industry we compiled our data by matching information from LDA lobbying reports to databases of employment histories that cover Congressional and other government staffers. On this basis we are able to work out how many ex-government employees enter lobbying and approximately how much money flows towards them.

Table 1 shows the composition of the spending covered by LDA-declared reports over the 1998-2008 period. On the basis of simple headcounts, approximately 42 per cent of lobbyists have prior experience in government. Over half of this group of lobbyists are former Congressional staffers, with the remainder composed of ex-politicians and former government employees who worked in political offices, organisations and agencies outside the Congress. Panel B of this table then shows the share of lobbying expenditures by type of lobbyist. This indicates that contracts featuring 'revolving door' lobbyists account for approximately 56 per cent of total LDA-reported revenues. Notably, the share for ex-Congressional staffers is 34.3 per cent, which is a massive 12 per cent higher than their share of industry headcount (22.6% in Panel A).

The final segment of Table 1 (Panel C) confirms that these shares translate into very different levels of revenue per lobbyist, with approximately $350,000 per year for ex-Congressional staffer lobbyists versus a baseline of $170,000 per year for lobbyists without prior government experience. These revenue figures represent the best proxy available for actual lobbyist salaries.

Table 1: Revolving door lobbyists, 1998-2008

Panel A. Lobbyists by type (per cent)	
Revolving door lobbyist	**41.6**
Ex-Congressman	2.9
Ex-staffer:	22.6
• Of politician serving pre-1998	6.4
• Of politician serving post-1998	13.4
• Of a congressional committee	2.7
Outside Congress	16.2
Non-revolving door lobbyists	**58.4**
Panel B. Share of total industry revenue, by type of lobbyist (per cent)	
Revolving door lobbyist	**55.9**
• Ex-Congressmen	4.3
• Ex-staffers:	34.3
• Outside Congress	18.2
Non-revolving door lobbyists	**44.1**
Panel C. Estimated mean revenue per lobbyist by type (thousand dollars)	
Revolving Door Lobbyists	**309.9**
• Ex-Congressmen	339.6
• Ex-staffers:	349.7
• Outside Congress	253.6
Non-revolving door lobbyists	**170.0**
Number of lobbyists (total)	15,315
Number of lobbyist-period observations	98,705

Note: This table is drawn from Blanes i Vidal et al (2012). Based on 1998-2008 lobbyist-level panel constructed for lobbying firms. Data on lobbying reports obtained from Senate Office of Public Records (SOPR) releases as processed by the Centre for Responsive Politics (CRP), also known as Open Secrets.[v]

Table 2 then shows how the revolving door pervades Congressional staff. This table uses data from a complete, payroll-based sample of Congressional personal staff from 2001-2011. By matching to LDA records we are able to calculate how common it is for different types of Congressional staff to enter lobbying at some point in their careers. For example, column (2) shows that, out of the 2,170 individuals who serve as a Chief of Staff (the most senior position within the office of each House Representative or Senator) during the 2001-2011 period, 30 per cent also have a record as a registered lobbyist. This is even higher for Legislative Directors (36.6 per cent), who are the staffers responsible for drafting and advising on legislation within the office of each House Representative or Senator. Practically, it should be noted that this figure is a lower bound for the number of staffers who move into the corporate sector since it does not count those former staffers who take up positions in 'government relations' roles that fall under the thresholds for reporting as a registered lobbyist. The main message of column (2) is therefore that the revolving door experience is not a fringe part of the careers of Congressional staff, rather it lies at the core.

The remaining columns of Table 2 then show the estimated differential between Congressional staff salaries and lobbyist revenues (our proxy for lobbyist remuneration). This indicates that the revenue/salary ratio for the key positions of Chief of Staff and Legislative Director are in the 3-4 range, and are even higher (5-7 range) among the lower ranks of Congressional staff. This establishes that the incentives for staffers to translate their government experience into well-paid positions in lobbying are very strong.

Table 2: Congressional staffers and the revolving door, 2001-2011

	(1) Total staffers	(2) Revolving door lobbyists, per cent	(3) Congressional salary, thousand dollars	(4) Average lobbying revenue, thousand dollars	(5) Revenue -to- salary ratio	(6) Congressional tenure, months
Chief of staff	2,170	30.0	137.0	426.8	3.12	93.8
Legislative director	1,949	36.6	88.7	372.3	4.20	89.0
Legislative assistant	7,231	23.4	55.6	300.9	5.41	68.6
Legislative correspondent	5,501	11.5	36.7	282.8	7.71	47.6
Legislative counsel	1,421	31.2	72.1	337.8	4.69	62.7
Media	2,871	8.0	58.1	305.2	5.25	64.7
Professional staff	1,267	24.6	58.8	327.3	5.57	73.8
Staff assistants	14,291	6.2	35.0	264.8	7.57	57.8

Notes: This table is based on the population of all Congressional staffers from 2001-2011, as reported in the LegiStorm Congressional Staffer Salaries database. Column (1) reports the total number of unique staffers who have worked in the named job title during this period.[vi]

As discussed, it is plausible that such incentives will affect how the formal political institutions of the Congress work. Linking these incentives directly to the institutional corruption hypothesis is difficult because the social norms, political culture, and codes of ethics central to the hypothesis are hard to measure. We can however look at how the market for lobbying works and study the sources of the revenue premium for ex-Congressional staffers that is apparent in these tables.

Is there a market for access? Expertise versus connections

The central concern raised by the revolving door is that ex-government employees are being paid for their connections and capacity to gain privileged access to lawmakers rather than their policy expertise. This is difficult to evaluate since groups such as ex-Congressional staffers are to a large extent selected on their ability and talent. In turn, this creates a correlation between general ability and personal connections that is hard to disentangle. Because of this, it is possible to maintain that the revolving door is essentially benign: the high remuneration received by lobbyists is due to ability and these individuals would be well-paid no matter which industry they worked in.[vii]

Our research deals with this problem by studying what happens to the revenues of staffers-turned-lobbyists when the Senator or Representative they previously worked for exits the Congress due to retirement, defeat in elections or other reasons. When a Senator or Representative leaves, the affiliated staffer-turned-lobbyist has lost a connection to active legislative power. In turn, the market can respond – clients can shift their business elsewhere thereby revealing the value of the political connection. If this pattern is significant within the general sample of lobbyists then it would provide evidence that there is a market for access in Washington.

Our findings are summarised in Table 3. Columns 1 and 2 indicate that the loss of a connection to a Senator leads to a 23 per cent fall in revenues and a loss related to a Representative is associated with a 9-10 per cent fall (although this is on the margins of statistical significance). Columns 3 and 4 break the effect up according to the status of affiliated Congressman. This shows that connections with the Senate Finance and Appropriations committees have a 35-45 per cent effect while a connection to the powerful House Ways and Means committee is associated with a 35 per cent effect.

Table 3: The value of political connections: revolving door lobbyists, 1998-2008

Dependent variable: Lobbyist revenue (in logs)	**(1) Baseline**	**(2) Plus all controls**	**(3) Baseline**	**(4) Plus party controls**
Number of Senators	0.23*** (0.07)	0.24*** (0.07)		
In Finance Committee			0.36*** (0.09)	0.36*** (0.09)
In Appropriations			0.40** (0.16)	0.45** (0.15)
Number of Representatives	0.09* (0.05)	0.10* (0.05)		
In Appropriations			0.37*** (0.10)	0.35*** (0.10)
In neither			0.07 (0.11)	0.07 (0.11)
Individuals	1,113	1,113	1,113	1,113
Observations	10,418	10,418	10,418	10,418

Notes: Standard errors clustered by lobbyist in parentheses. *** denotes significance at 1% level, ** is 5% significance, and * is 10% significance. The dependent variable is the log of lobbyists' revenues per period. All columns include controls for time effects. Columns (2) and (4) include control for party-chamber time effects and lobbyist experience effects.

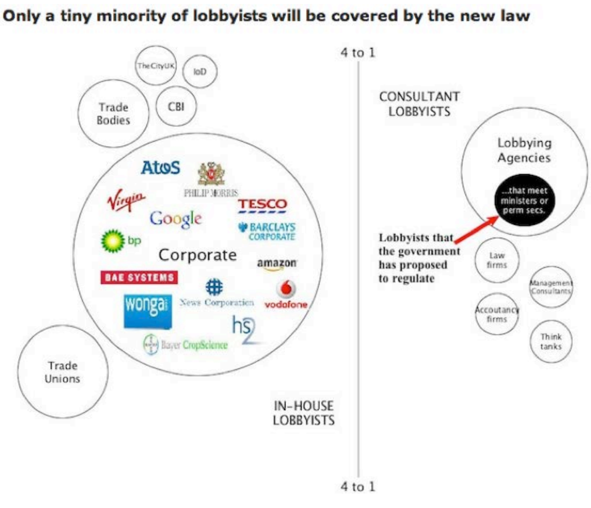
Taken on their own these results provide strong evidence that a market for access exists. It is hard to reconcile a large fraction of revenues disappearing with connections as a result of some correlated, ability-based explanation. Furthermore, it should be noted that these results take into account only a single type of connection, namely a link to a member of Congress through a previous direct employment relationship. These figures do not count the potential return to other types of connections, for example, personal links with senior Congressional staffers or serving members who did not directly employ the ex-staffer but are still well-known to them. Hence, the estimates in Table 3 provide a *lower bound* for the importance of connections in the US federal lobbying industry.

POLICY IMPLICATIONS: WHAT IS THE STATE OF PLAY IN THE UK?

This briefing paper has focused on lobbying because, as an industry, it is a vehicle for the strongest set of personal financial incentives that impact upon the behaviour of the political class. The US example provides valuable proof of this. However, lobbying is a legitimate part of the democratic process – banning or greatly proscribing it would create other problems. The challenge for policy is to redesign the incentives around lobbying so as to avoid feeding a process of institutional corruption.

The two main tools for resetting these incentives around lobbying are transparency and regulation. A comprehensive reporting framework for lobbying activity is a necessary condition for accountability. Transparency is appealing because it is a simple initiative (the provision of some information) that can influence behaviour and change incentives in the right framework. Specifically, transparency can raise the costs of moral hazard among policy-makers – their actions are more visible and this lowers the return to following private incentives. This works well for the incentives of politicians and advisors while they are in office but regulation is needed to deal with post-office issues such as the revolving door.

Figure 5: The value of political connections: revolving door lobbyists, 1998-2008

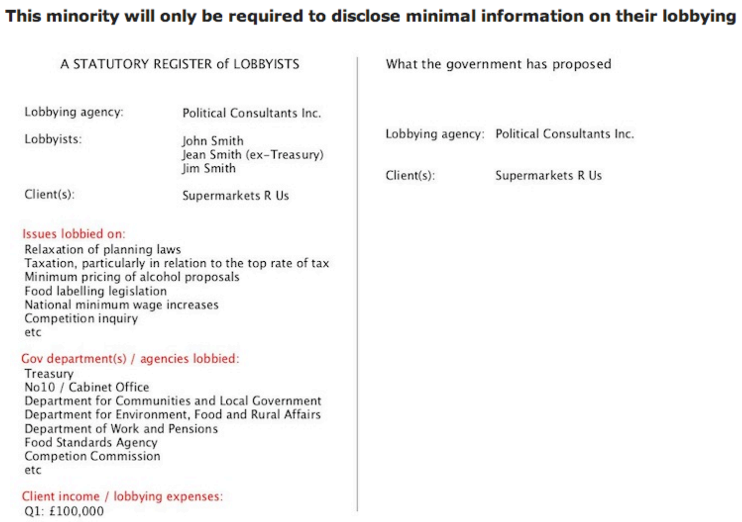


Source: Alliance for Lobbying Transparency, 'Lobbying: it will come back to bite them', http://www.lobbyingtransparency.org/7-news/112-lobbying-it-will-come-back-to-bite-them (29 January 2014). According to the Alliance the UK register 'covers barely any lobbyists, requiring only those working as lobbyists-for-hire who meet ministers (or permanent secretaries) to register. All in-house lobbyists working inside banks, energy firms, payday loan lenders, alcohol and tobacco companies etc are exempt, as are corporate lobbyists in business lobby groups like the CBI, as is anyone who doesn't lobby a minister directly, which is the majority'.

In the US, regulation has taken the form of 'cooling off' periods for revolving door-style employment after leaving office. This was a feature of the Honest Leadership and Open Government Act (HLOGA) passed by the US Congress in 2007. While it is widely argued that HLOGA does not go far enough and has been undermined by evasion, it at least provides some first steps towards regulation.[viii]

The situation in the UK is worse by comparison. The UK has no lobbying register that could be considered as equivalent to the LDA. In 2010 at a TED conference, David Cameron expressed support for political transparency and invoked the slogan 'sunlight is the best disinfectant'. This was eventually followed up in the 'Transparency of Lobbying and Non-Party Political Campaigning Bill' debated in 2012 and finally passed in early 2013.

Figure 6: The value of political connections: revolving door lobbyists, 1998-2008



Source: Alliance for Lobbying Transparency (as Figure 5). According to the Alliance the UK register 'will reveal nothing of what or whom [lobbyists] are seeking to influence. Lobbyists in those agencies that have direct contact with ministers will be required to list merely their clients. There will be no record of dealings with special advisers, civil servants or regulators; no information on what they are seeking to influence or what deals are being done; nor how much money is being spent to sway government'.

Figures 5 and 6 from the UK Alliance for Lobbying Transparency summarise the problems with the legislation. The UK register omits a substantial segment of the lobbying industry, namely in-house corporate lobbyists. The register focuses on consultant lobbyists and restricts this definition to dedicated lobbying firms, leaving the status of lobbying sub-practices within larger professional services firms unclear.

And as Figure 6 shows the reporting requirements contain little meaningful detail. While the model for reporting presented here is based on the format of the US lobbying disclosure forms there are some substantial omissions when we compare it to the still very basic US reporting model. These include the following:

- There is no reporting of financial information on the value of contracts with lobbying political consultants. As a result, the size of this segment of the lobbying industry cannot be measured or tracked.

- The individual lobbyists working on the lobbying contracts are not named. The naming of lobbyists is a standard feature of the US framework. Without it, analysis and monitoring of 'revolving door'-style movements between government posts and lobbying are hindered.
- The issues being lobbied on and the agencies or offices being approached are not detailed. In the US register there is a detailed coding system for the issues being covered and some basic information on the specific government offices to be lobbied.

The formulation and passing of the 'Transparency of Lobbying and Non-Party Political Campaigning Bill' proved controversial.[ix] In particular, as the bill went through successive versions, the main focus was on measures that limited the activities of trade unions and charities while the reporting framework itself was neglected. The worrying implication of the bill's final form is that despite all-party rhetoric in support of transparency, there was no resolve to set up a meaningful lobbying register. In particular, as more money flows into lobbying the political system faces a 'career concerns' problem. That is, politicians are less likely to reform the system and introduce regulation if they envisage their own post-political careers as depending increasingly on the lobbying industry.

In conclusion, I will offer a prediction. Institutional corruption is a massive 'sleeper' issue for the public, that is, there is awareness and concern over matters such as the lobbying bill that is not reflected in formal discussion. If reform will not come from within our political institutions the most likely scenario is one of further lobbying scandals that will trigger public demands for change similar to the crisis that changed the personal expenses system in Westminster in 2010.

CONCLUSION

This paper has put forward the idea of 'institutional corruption' to describe the set of forces that have led to falling confidence in US and UK political institutions. The practical message is that the incentives surrounding our formal political institutions need to be monitored and reformed. In effect, the design of our institutions has not kept up with the rise of a large, special interest economy that has immersed the political class. The best evidence that we have on this special interest economy comes from the US revolving door; the data from there indicate that a massive 'lobbying industrial complex' has gripped policy-making in Washington.

Combatting institutional corruption is a matter of resetting these incentives. The two main tools for doing this are better transparency and employment regulation, that is, the strengthening of 'cooling off' provisions and restrictions on employment after leaving politics for key government personnel.[x] In the UK, recent legislation aimed at introducing transparency for lobbying activity has put in place an ineffective lobbying register. This register is not likely to change the incentives faced by politician, their key advisors, and leading bureaucrats. Changing and strengthening this register should therefore be a key element in future reforms of the UK's political system.

ENDNOTES

[i] Gallup poll results (Mendes and Wilke 2013) indicate that the US Congress has the lowest level of public confidence amongst 16 societal institutions, with only 10% of respondents citing 'a great deal/ quite a lot' of confidence' in Congress compared to around 30% for public schools or the criminal justice system and 44% for organized religion. See also Jones (2012) who reports further Gallup poll results that indicate that 45% of US voters view 'reducing corruption in federal government' as a priority issue for the incoming President. This compares to 45% for 'creating good jobs' and 44% for 'reducing the federal deficit'.

[ii] A survey by the Committee on Standards in Public Life (a quasi-government body) found that public confidence in Members of Parliament (MPs) dropped from 46% to 26% between 2008 and 2010 (BBC News 2011).

[iii] The clearest statement of the political selection literature can be found in Besley (2005). The recent book by Acemoglu and Robinson (2012) deals with economic development in general but also with themes related to political selection and rent-seeking by elites.

[iv] See LaPira and Thomas (2013) for estimates of the potential size of the non-registered or 'shadow' lobbying sector.

[v] Information on lobbyist employment histories is taken from the Columbia Books lobbyists.info directory and the LegiStorm Congressional Staffer Salaries database. Length of each time period is 6 months. Panel (B) presents annualised measures of revenue or expenditure per lobbyist. Revenue per lobbyist is calculated by giving lobbyists an equal share of every multi-lobbyist contract that they are associated with. Panel (C) aggregates the weighted revenues of lobbyists in order to calculate revenue shares by type. 'Ex-Congressman' denotes former members of the House or Senate who are lobbyists. 'Ex-staffer' represents lobbyists who have employment experience as Congressional staffers. Congressional committee ex-staffers were employed in committee offices but not as personal staff to politicians. 'Outside Congress' lobbyists represents lobbyists who have experience as government employees in workplaces outside of the Congress.

[vi] Column (2) reports the proportion of these staffers who have a record as a registered lobbyist either before or after their employment in the Congress. Column (3) is the estimated average salary per job title calculated from average recorded payments (which may include additional payments relative to official salary spine figures). Column (4) reports the average level of per lobbyist revenues for the subset of lobbyists with the named job titles that are contained in an updated 1998-2011 SOPR-Open Secret panel dataset (as described in Table 1). Column (5) presents ratios of the column (4) and (3) figures. Column (6) reports the average length of tenure as a Congressional staffer in months for the pool of staffers in this table row. Note that tenure is measured as total time in the Congress and will include the time spent working in other job titles or positions.

[vii] While he is not (currently) a lobbyist the noted current Chicago Mayor (and former Obama Chief of Staff) Rahm Emanuel provides a good example of this type of ability-bias problem. His two brothers are also highly successful in their fields, with one brother (Ari) prominent as a powerful Hollywood agent and the eldest (Ezekiel) famous as an academic bioethicist. To the extent that the family link indicates shared ability this shows how talent can translate itself across fields and occupations.

[viii] See Cain and Drutman (2014) for an analysis of HLOGA's impact among Congressional staffers. The reports by the Centre for Responsive Politics (2010) and Auble (2012) discuss evidence on the extent of unregistered lobbying in Washington.

[ix] See, for example, Cusick (2013) and Kial (2014) for coverage of debate about the bill.

[x] The 2007 Honest Leadership and Open Government (HLOGA) Act passed by the US Congress is an example of employment regulations that relate to the revolving door. HLOGA extended the coverage and duration of 'cooling off' periods whereby Congressman and key staffers are prohibited from lobbying the Congress for up to two years after leaving their government positions.

REFERENCES

Acemoglu, D and Robinson, J. (2012), Why Nations Fail: The Origins of Power, Prosperity and Poverty (London: Profile Books).

Auble, D (2012) 'Out of the Game or Under the Radar'. Report by the Centre for Responsive Politics.

BBC News (2011), 'Steep Drop in Public Confidence in MPs, Says Watchdog". www.bbc.co.uk

Besley, T. (2005), 'Political Selection', Journal of Economic Perspectives, 19(3):43-60.

Blanes i Vidal, J; Draca, M; and Fons-Rosen, C. (2012), 'Revolving Door Lobbyists'. American Economic Review, 102(7): 3731-3748.

Cain, B.E and Drutman, L (2014) 'Congressional Staff and the Revolving Door'. Election Law Journal: Rules, Politics and Policy, 13(1): 27-44.

Centre for Responsive Politics (2010) 'The De-registration Dilemma'. Report by the Centre for Responsive Politics.

Cusick, J (2013) 'Beware Consequences of Rushed Lobbying Legislation, MPs Warned". The Independent, August 29.

Gowen A (2011), 'Government Dollars Fuel Wealth: DC Enclaves Reap Rewards of Contracting Boom'. The Washington Post, August 16.

Helm, T (2014) 'Lobbying Bill Will Tarnish Britain'. The Guardian, January 12.

Jones, J (2012), 'Americans Want Next President to Prioritize Jobs, Corruption'. Gallup Poll Reports. www.gallup.com.

Kial, M (2014) 'Coalition's Lobbying Bill Threatens to Leave a Stain on British Democracy'. The Guardian, January 12.

La Pira, T and Herschel, T (2013), 'Just How Many Newt Gingrich's Are There on K Street? Estimating the True Size and Shape of Washington's Revolving Door'. SSRN Working Paper, April.

Lessig, L. (2013), 'Institutional Corruptions', Edmond J. Safra Research Lab Working Papers, No 1. Harvard University.

Mendes, E and Wilke, J (2013), 'Americans' Confidence in Congress Falls to Lowest on Record'. Gallup Poll Reports. www.gallup.com.