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## **Moonlighting Politicians: A Survey and Research Agenda**

**Discussion Paper**

SP II 2011–101

April 2011

**Social Science Research Center Berlin (WZB)**

Research Area

**Markets and Politics**

Research Professorship & Project

**The Future of Fiscal Federalism**

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Abstract

## **Moonlighting Politicians: A Survey and Research Agenda**

Benny Geys and Karsten Mause\*

Elected representatives in many countries are legally allowed to carry out (un)paid jobs in addition to their political mandate, often referred to as 'moonlighting'. Despite the important selection and incentive effects such outside positions might engender, academic studies evaluating the prevalence, desirability and/or consequences of politicians' moonlighting have remained relatively scarce; often due to severe data restrictions. In recent years, however, more stringent disclosure rules have increased data availability, and large-sample analyses are becoming increasingly feasible. Besides surveying recent empirical contributions to this developing research field, this paper also outlines unresolved issues and thereby develops an agenda for future enquiry.

*Keywords: Moonlighting, outside interests, outside income, shirking, disclosure rules*

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\* The authors thank Andreas Etling, Zuzana Murdoch, Sarah Sinram and two anonymous referees for helpful comments and suggestions.

## Introduction

Members of the British House of Commons, the European Parliament, the German Bundestag as well as members of parliament (MPs) in many other countries around the world are legally permitted to carry out (un)paid sideline jobs in addition to their political mandate.<sup>1</sup> For example, according to the register of interests of the German Bundestag, some MPs have sideline jobs as lawyers or self-employed entrepreneurs, while others hold extra-parliamentary positions in private businesses (e.g., member of supervisory board or board of directors), employers' associations or trade unions. Still others report outside earnings deriving from, for instance, journalism, public lectures or television and radio appearances. Throughout this article, the term 'moonlighting' will be used as an umbrella term for any paid or honorary *outside* job executed by a politician in addition to his/her 'job' *inside* parliament and/or government.<sup>2</sup> Although this follows the existing literature, it will become clear that such general definition (e.g., it does not distinguish between the distinct types of outside activities described above) is not always ideal. We will return to this later in the article.

While legal, public debates about politicians' moonlighting and outside earnings often involve heated discussions on the ethical aspects of such behaviour (e.g., Noel-Baker 1961; Hollingsworth 1991; Stevenson 1994; Barnett 2002; Carlin 2007). Many observers are anxious about the level of outside income some politicians obtain and take this as an indication that 'the' *classe politique* is more interested in its private well-being than in the health and wealth of the nation. Others critically point out instances where moonlighting (is perceived to) engender(s) significant conflicts of interest and/or neglect of the politician's parliamentary duties; sometimes leading to proposals to prohibit moonlighting. In recent years, more stringent disclosure rules – often resulting from public displeasure over politicians' perceived or real misconduct<sup>3</sup> – have improved data availability about politicians' outside jobs and earnings. Social scientists took this opportunity to delve deeper into the issues addressed in the public debate based on larger samples of politicians.

Against this background, this paper's intention is twofold: a) provide a survey of the different strands of the social science literature concerned with moonlighting politicians *and* b) put the spotlight on issues that warrant more explicit scholarly attention. To set the stage, the next section gives an overview of the extent and determinants of politicians' moonlighting in a cross-country perspective. Subsequent sections review research into the aforementioned issues giving cause for public concern: namely, the financial gains from moonlighting, the conflict-of-interest problem, and the impact of moonlighting on politicians' 'in-house' effort. Finally, we reflect on potential positive effects of moonlighting (e.g., importing 'real-world'

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1. See van Aaken and Voigt (2009) and Djankov et al. (2010), for cross-country comparisons of relevant legislation.

2. This definition adapts the Encyclopaedia Britannica definition of "moonlighting" as "working at a second job". Merriam-Webster's Collegiate Dictionary (11<sup>th</sup> edition, p. 806) similarly defines "moonlighting" as "to hold a second job in addition to a regular one".

3. Interestingly, misconduct leading to tighter moonlighting regulations need not necessarily involve moonlighting activities as defined here. The current 'cash for influence' scandal hitting the European Parliament is a case in point. While the involved politicians accepted payments to provide a desired service (i.e. amendments to proposed regulations), none of them was actually employed by the firms seeking influence (or by a professional lobbying firm for that matter). Nonetheless, while this in essence thus constitutes a lobbying (or bribery) scandal, a "European Parliament panel is likely to consider drastic changes to rules of conduct for MEPs, *including a ban on MEPs taking supplementary employment*" (Brand 2011, italics added). A very similar situation occurred in the UK in 2010, where another 'cash for influence' scandal (i.e. British MPs agreeing to perform lobbying efforts in return for at times substantial fees *after* stepping down from office) instigated calls for a total ban on MPs' outside activities (Guardian 2010).

experience, attracting highly-qualified MPs), and discuss the selection and incentive effects involved in a possible prohibition/restriction of moonlighting.

In each section, an overview of existing empirical evidence is followed by a critical discussion of unresolved questions and interesting areas for further analysis. It should also be noted at the outset that while moonlighting raises obvious ethical questions and concerns (e.g., When does moonlighting become unethical conduct? Who has the right to define and enforce this borderline? What are the limits of ethical codes of conduct? Are paid outside interests legitimate? etc.), our analysis concentrates almost exclusively on ‘practical’ issues – such as the actual determinants and/or impact of moonlighting – and does not deal directly with such ethical aspects of the practice. These are the subject of a rapidly growing literature on legislative ethics, and we refer the interested reader to excellent treatments of this material by, for instance, Williams (1985), Rush (1997), Parker (2004), Rosenson (2005) and Allen (2008, 2011).

### **The Extent and Determinants of Moonlighting**

Before considering the possible consequences of politicians’ moonlighting, it is important to get an idea of its prevalence and determinants. Table 1 therefore presents an overview of the degree of moonlighting in the national parliaments of selected countries. Displayed is the share of MPs reporting at least one outside activity in the respective parliament’s official register of interests. When available, also the share of MPs with extra-parliamentary revenue streams in excess of the minimum requiring publication is reported. Clearly, this is not a random sample as selection into Table 1 was entirely driven by easy online access to the underlying data. Nonetheless, the data stress the obvious, though oft-overlooked, fact that not all politicians have outside jobs, nor earn outside income (see also Rush 1997). Moreover, many outside jobs do not generate income (or, at least, not enough to require publication). Though the presented data is cross-sectional, it must be taken into account that changes in the parliamentary rules can have a significant effect on the extent and nature of moonlighting. This was the case, for example, when paid advocacy was banned by the UK House of Commons in 1996.

Several of the legislatures in Table 1 are bicameral. In those cases, we tried – when available – to include data on both legislative chambers to evaluate potential differences between them. This shows that the proportion of members with extra-parliamentary activities in the upper house in Germany (i.e. Bundesrat) lies below that in the lower house (i.e. Bundestag). This can be explained by the fact that the upper house in Germany consists of representatives from the 16 state governments (e.g., prime minister, ministers), which are often subject to incompatibility rules. Interestingly, however, in all other cases in Table 1, the proportion of members with extra-parliamentary activities in the upper houses is higher than in lower houses (Austria, Ireland, Netherlands, Switzerland, and UK; note that the South-African data on both houses could not be separated). One explanation for this interesting pattern may be that members of the upper houses often do not regard their political position as a full-time job. One obvious example concerns UK peers in the House of Lords, many of which are unconcerned with the political role included in their peerage. In some countries, however, membership of the upper house is explicitly designed as less than a full-time job. This holds most obviously for the Netherlands, where positions in the Eerste Kamer are remunerated as a half-time position. Hence, in both cases, it is the political position that in some sense becomes the ancillary activity.

**Table 1: The Extent of Moonlighting in Selected Countries**

	Sample	% of MPs with extra-parliamentary activities	Data Source
Austria	183 MPs in Nationalrat (2011)	77% paid outside jobs	Austrian Nationalrat Register of Interests
	62 MPs in Bundesrat (2011)	95% paid outside jobs	Austrian Bundesrat Register of Interests
Denmark <sup>a)</sup>	179 MPs in Folketinget (2011)	65% paid outside jobs (incl. directorships) 26% opt out of registration	Danish Folketinget MPs' websites
Finland	200 MPs in Eduskunta (2011)	84% outside jobs (incl. directorships)	Finnish Eduskunta Register of Interests
Germany	613 MPs in Bundestag (2005-2007)	88% outside jobs (incl. directorships) 27% report outside income	Amtliches Handbuch des Deutschen Bundestages
	69 MPs in Bundesrat (2011)	55% outside positions	State governments' / parliaments' websites
Ireland	165 MPs in House of Representatives (2010)	29% directorships, 39% report outside income <sup>b)</sup>	Irish Oireachtas Register of Interests
	60 MPs in Senate (2010)	48% directorships 63% report outside income <sup>b)</sup>	Irish Oireachtas Register of Interests
Netherlands <sup>d)</sup>	150 MPs in House of Representatives/ Tweede Kamer (2010)	69% outside jobs (incl. directorships) 29% only unpaid employment	Dutch Parliament Register of Interests
	75 MPs in Senate/ Eerste Kamer (2011)	92% outside positions	Parliament's website
New Zealand	120 MPs in House of Representatives (2009)	49% directorships	New Zealand Parliament Register of Interests
Norway <sup>a)</sup>	187 MPs in Stortinget (2010)	48% paid employment 16% unpaid employment	Norwegian Stortinget Register of Interests
South Africa	490 MPs in National Assembly and National Council of Provinces (2010)	56% directorships <sup>c)</sup>	South African Parliament Register of Interests
Switzerland <sup>d)</sup>	200 MPs in Nationalrat (2011)	95% outside interests (incl. directorships)	Swiss Nationalrat Register der Interessenbindungen
	46 MPs in Ständerat (2011)	100% outside jobs	Swiss Ständerat Register der Interessenbindungen
United Kingdom	658 MPs in UK House of Commons (2005-2010)	19% directorships 49% paid employment	House of Commons - Register of Members' Financial Interests
	828 members in UK House of Lords (2011)	33% directorships 57% paid employment	House of Lords - Register of Lords' Interests

Notes: <sup>a)</sup> Entries into the register are voluntary. <sup>b)</sup> In roughly 25% of the reports of outside income, it exclusively concerns rental income from property. <sup>c)</sup> Many directorships involve 'dormant' corporations. <sup>d)</sup> Switzerland has no full-time parliament, while in the Netherlands the Eerste Kamer is organised as a 50% part-time position.

Hidden behind the general figures in Table 1 lies, however, extensive variation in the number of interests held as well as levels of extra-parliamentary income earned (see also Rush 1997). This raises a first important question: Why do some politicians engage in moonlighting, while

others do not? Large-sample analyses exploring the determinants of political moonlighting are, to the best of our knowledge, currently only available for the national parliaments of Germany, Italy and the UK. Nevertheless, this limited number of analyses already provides a number of interesting common trends as well as disagreements. Firstly, existing studies indicate clear partisan effects in Germany (Mause 2009; Niessen and Ruenzi 2010; Geys and Mause 2011) and the UK (Geys 2011), but not in Italy (Gagliarducci et al. 2010). In Germany and the UK, politicians associated with conservative and/or liberal (in the economic sense) parties are significantly more likely to have outside jobs than politicians from left-wing parties. This seems intuitively reasonable given the traditional constituencies of both types of parties (i.e. entrepreneurs and self-employed for right-wing parties and blue-collar workers for left-wing parties). Nonetheless, it is not immediately clear why similar effects appear to remain absent in Italy.

Secondly, gender plays an important role in all three countries. Women are not only significantly less likely to have many outside jobs (Mause 2009; Geys 2011) and/or high outside income (Becker et al. 2009; Gagliarducci et al. 2010), socio-demographic characteristics such as age, family status and parliamentary experience are much stronger determinants of moonlighting for women than men in Germany (Geys and Mause 2011). Still, although the latter findings are interesting in their own right, it remains unclear whether this is due to self-selection effects or potential discrimination (we return to this below).

Thirdly, politicians' professional background has an important effect. A background in law is associated with more extensive moonlighting and higher outside income in Germany and Italy (though not in the UK), while a teaching or blue-collar background reveals the opposite tendency. While MPs with an economic background are, somewhat surprisingly, not significantly heavier moonlighters in Germany, they are in the UK. Similarly, Italian entrepreneurs and managers are located towards the high end of the outside-income scale.

Finally, to the extent that MPs that are directly elected – rather than via a party list – bear more personal responsibility for their electoral fate, it could be hypothesised that significant differences occur in the moonlighting behaviour of both types of politicians. This, however, appears not to be the case – at least not in the German setting analysed in Mause (2009), Niessen and Ruenzi (2010) and Geys and Mause (2011).

### *Discussion and Open Issues*

Clearly, little is thus far known about the determinants of moonlighting behaviour, and even the few existing studies indicate surprising ambiguities – even though they are all concerned with developed democracies and national parliaments. While this suggests that the institutional environment is likely to play an important intervening role, the absence of comparative research in this field implies that we cannot even begin to understand the exact mechanisms at work. Such comparative analyses – also including developing countries or using regional and/or local governments – are undoubtedly an important avenue for future research.

Moreover, numerous questions remain unanswered. A first refers to the effect of gender. While an interesting observation, the real issue is what drives it: Do women have different preferences concerning outside jobs or are they discriminated against in the moonlighters' job market? As in the literature on glass ceiling effects and gender discrimination in general (for a recent review, see Jackson and O'Callaghan 2009), separating these two explanations is critical for public policy implications. To address this issue, it may be fruitful to complement

current analyses with more detailed study – for example, via (semi-)structured interviews – of participants at both sides of the moonlighting job market in terms of application behaviour, job offering, acceptance/rejection decisions, etc. No such study has currently been undertaken. Yet, it provides an important possibility to look more directly into the recruitment *process*.

A second question relates to the role of elections. A classic argument in the political economics literature holds that the desire to appear competent prior to elections leads politicians to make popular changes in policies prior to elections (for a review, see Franzese 2002). As a corollary, one can wonder whether moonlighting is reduced in election years because politicians want to signal that they are active, credible parliamentarians (and not, say, corruptible shirkers) prior to Election Day. Such cycles in moonlighting within the legislative term may also be related to possible cycles in the effort MPs devote to parliamentary activities (we return to the difficulties in measuring parliamentary performance below). Former UK Prime Minister Gordon Brown’s decision to introduce new legislation concerning MPs’ outside jobs a year before the 2010 UK general elections (e.g., Savage 2009; Settle 2009; Stratton 2009) and David Cameron’s ensuing announcement that his “Shadow Cabinet would give up all outside interests by the end of the year” (Elliott 2009) suggest that electoral concerns might affect politicians’ effort levels and moonlighting behaviour.

A closely related question about the role of the media hereby arises. Partisan media sources may well want to schedule the eruption – or resurfacing – of moonlighting scandals close to elections in order to derail the election probabilities of politicians from the opposing camp. Such strategy appears quite common for other forms of MP-misconduct. For example, the timing of Channel 4’s undercover ‘Dispatches’ documentary leading to a “Cash for Influence” scandal (BBC online 2010; Churcher 2010; Lefort 2010) – i.e. March 2010, less than two months before the May 2010 UK elections – seems less than accidental. Nonetheless, the extent to which the media really follow such strategies also with respect to MPs’ moonlighting remains unaddressed to date.

### **Moonlighting, Financial Self-Interest & the Returns from Political Office**

Following scandals with moonlighting politicians and politicians’ retirement/redundancy payments in Germany, an Infratest Poll in February 2005 indicated an all-time low share of citizens (i.e., 17%) trusting their MPs (Schröder 2005). A similar disenchantment was observed in a Spring 2009 Ipsos-MORI opinion poll in the UK. No less than 62% of respondents agreed that “MPs put their own interests first” (i.e. ahead of the “interests of their party, constituents and country”), 68% believed that most “MPs use their power for their own personal gain”, and 68% agreed that “most MPs make a lot of money by using public office improperly” (Ipsos MORI 2009). While popular beliefs need not be an accurate reflection of politicians’ behaviour, it does imply an important question: What are the financial returns from holding office, and is this what drives our politicians?

#### *Empirical Evidence*

Rosenson (2003, 2007) shows that politicians’ financial self-interest (measured via historical honoraria income) is an important constraining factor on their willingness to support laws initiated to limit elected representatives’ honoraria income from speechmaking, articles, or appearances. This holds both for US state legislators in the 1960s and 1970s (Rosenson 2003) and US senators in the 1980s (Rosenson 2007). However, valuing the option to earn outside income obviously need not reflect an excessive focus on financial self-interest. Several

alternative arguments can be made. One holds that outside income acts as a ‘survival insurance’ for MPs’ post-parliamentary life. The uncertainty of political life may indeed make it advisable to retain professional contacts outside parliament and/or set up a rainy-day fund (Norris 1996). It should be noted, however, that this argument is weakened by the often generous nature of MPs’ retirement packages.

Another alternative explanation is that moonlighting, by reducing MPs’ dependence on re-election to preserve their income, allows them to take an independent stance, even if this implies voting against their party’s and/or their constituents’ interests (Norris 1996; von Arnim 2006). Yet, from their citizen-principals’ perspective, it is not clear whether such independence should really be applauded. A third alternative interpretation states that, under a setting where MPs’ parliamentary compensation package is limited to avoid overburdening the state budget, outside opportunities may be important to convince high-ability citizens to nonetheless run for election (Gagliarducci et al. 2010). From this perspective, moonlighting could be interpreted as a reaction to (perceived) underpay and/or a compensation for foregone earnings (Maddox 2004). We will return to such potential selection effects below.

Still, whatever politicians’ true motivation for moonlighting, they often secure large financial benefits from holding – or having held – office. Quite innovative in this respect is the approach taken by Eggers and Hainmueller (2009a). They use data on the estates of 427 politicians who stood in elections for the British House of Commons between 1950 and 1970 (but who have passed away in the meantime) to evaluate the financial wealth of successful versus unsuccessful candidates. The identifying assumption is that close elections make for near-random assignment of political office due to the random component in elections (Lee 2008; see also Querubin and Snyder 2009), such that wealth differences of near-winners and near-losers most likely derive from obtaining political office. The results – based on matching and regression discontinuity designs – show that, controlling for numerous background characteristics, becoming an elected representative on average almost doubled the wealth-at-death of Conservative MPs, while it had no effect on Labour MPs.<sup>4</sup> Interestingly, most of this additional wealth derives from lucrative outside employment acquired *after* MPs’ political career; mirroring Diermeier et al.’s (2005) and Parker and Parker’s (2009) findings that congressional experience significantly increases US politicians’ post-congressional wages.

In similar spirit to Eggers and Hainmueller (2009a), Querubin and Snyder (2009) analyse US census data (1850, 1860 and 1870) on the wealth of 1,431 members of the US House of Representatives who served during the period 1845-1875. They find evidence of significant monetary returns to a congressional seat only for the early 1860s – when public spending increased rapidly, and transparency and oversight plummeted, due to the Civil War. Lenz and Lim (2009), comparing wealth accumulation of 201 members of the US House of Representatives with that of a matched sample of non-representatives during the period 1995-2005, find little evidence for suspiciously faster wealth accumulation by representatives. This same finding does not appear to hold, however, in Germany. Peichl et al. (2011) indeed show that German politicians benefit from a significant wage gap compared to a matched sample of non-politicians – with a significant part of this wage premium being driven by outside earnings. Finally, in the thus far only study of a non-Western setting, Bhavnani (2009) compares the family finances of a sample of winners and losers in India’s 2003/04 state elections. Although, compared to losing politicians, winners consistently exhibit higher wealth increases over the 4-5 years after election, these effects are statistically insignificant.

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4. While not addressed directly by Eggers and Hainmueller (2009a), this Conservative-Labour difference might derive at least in part from the fact that the Conservative Party was in power throughout most of their sample period, 1951-1964.

## *Discussion and Open Issues*

Existing studies estimating the gain from being a politician often only look at the wealth (at death) of politicians compared to that of losing candidates (e.g., Eggers and Hainmueller 2009a; Querubin and Snyder 2009). This, however, implicitly assumes that all benefits of being a politician (e.g., standing in society) at some point will be translated into financial means. While economists would view this as a reasonable first-hand approximation, this, of course, need not necessarily be true (one can easily imagine various non-pecuniary benefits) – in which case such approaches will offer a biased estimate of the *total* gain to being a politician. Moreover, studies comparing the income of elected politicians to a matched sample of non-representatives (e.g., Lenz and Lim 2009; Peichl et al. 2011) may not be employing the most appropriate comparison group. Many of the non-representatives analysed may have had no political aspirations to begin with, which makes them differ from elected politicians in important – but possibly unobserved – ways. This undermines the validity of the results from the matching procedure.

Further, as indicated above, many motivations have been brought forward to rationalise moonlighting behaviour. In the end, however, it remains unclear which of these best describes real-world behaviour – and under which circumstances their importance kicks in. Three potential avenues for future research might further help clarify this. First, one could further probe politicians' motivations through (semi-)structured interviews, though researchers should thereby account for potentially serious self-reporting biases. Second, one could relate moonlighting behaviour to politicians' financial situation in cross-sectional analyses. One important explanatory factor – in line with Maddox (2004) – might be politicians' pre-MP earnings or the value of their outside option; whereby Mincer-type income equations may be usefully employed to provide estimates of the latter (Mincer 1958, 1974).<sup>5</sup> Another explanatory factor might be MPs' financial requirements and/or constraints (e.g., MPs with, say, large families).<sup>6</sup> Third, future work should explore whether the fraction of MPs with outside earnings and/or the fraction of outside-to-inside earnings changed over time – and what factors explain such changes: e.g., politicians' remuneration packages relative to private-sector payment schemes, competitiveness of elections, size of the public sector, budgetary transparency, and so on. While such longitudinal research designs have not been extensively employed, the study by Querubin and Snyder (2009) mentioned above clearly illustrates their potential.

Finally, although all previous studies analyse MPs' wealth and/or income, one oft-travelled alternative route to increase overall household income concerns the employment of direct relatives (e.g., spouse and/or children) as secretaries, drivers, campaign aides and the like. While this clearly cannot be considered as moonlighting by politicians, public availability of this information (as is compulsory in, for example, the United Kingdom since April 2008) allows addressing what drives politicians to earn outside income themselves rather than 'outsource' this by hiring family members.

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5. Although Maddox (2004) shows that individual characteristics predicting labour market value (such as age, education, race and sex) as well as legislative salary predict politicians' outside careers, he does not estimate the value of politicians' outside option as such.

6. In line with this proposition, Geys and Mause (2011) show that German politicians with more children tend to amass a higher number of outside jobs.

## Moonlighting and Conflicts of Interest

While MPs generally argue that, once in parliament, they always act as elected representatives and only pursue the public interest, one obvious potential problem related to moonlighting is *conflicts of interest* (e.g., Stigler 1967; Chappell 1981; Norton 2005; von Arnim 2006; Young 2006). Note that moonlighting in this context is often understood to not only cover politicians hired by a firm, but also politicians' partial or complete ownership of a firm (Faccio 2006; Bunkanwanicha and Wiwattanakantang 2009).

### *Public versus Private Interests: Empirical Evidence*

From the perspective of public-choice theory, it seems natural that seeking political influence only occurs in sectors where 'politics matters', and should focus on hiring the services of influential, powerful politicians. In support of the former argument, Agrawal and Knoeber (2001) show for a large sample of US firms that board members with political and legal backgrounds are significantly more prevalent in sectors with larger sales to government, higher exports (i.e. dependence on trade policy) and larger environmental impacts (i.e. subject to pollution abatement regulations). Parker (1992) is one of the first studies to address the latter argument when studying the distribution of honoraria income among members of US Congress (409 representatives and 93 senators) in 1989. He finds that high seniority (i.e. long track record), membership on the influential taxation committee and having a "position of influence" (measured via (sub)committee or party leadership) have a significant positive effect on the amount of legislators' honoraria. Similar findings arise for Germany in Becker et al. (2009) and Geys and Mause (2011). Norris (1996) and Becker et al. (2009) furthermore show that MPs facing a low degree of electoral competition have significantly more outside positions and higher outside earnings, respectively. One possible interpretation – following Snyder's (1992) finding that long-term considerations play an important role for non-ideological campaign contributors (i.e. companies, trade associations and cooperatives) – is that these politicians are a safe choice for interest groups desiring a long-term relation with their politician.

Although firms thus clearly prefer to engage influential politicians with (the potential for) lengthy political careers, this does not necessarily imply that they benefit from these connections. There is, however, strong evidence across many countries that firms' political connections *are* associated with improved operational (e.g., returns on equity and investment) and stock market performance (for overviews, see Faccio 2006, 2010; Goldman et al. 2009a; Niessen and Ruenzi 2010).<sup>7</sup> Positive effects on firm performance have also been demonstrated when business owners themselves come to hold political office (e.g., Faccio 2006; Bunkanwanicha and Wiwattanakantang 2009).

One interesting approach to establish such effects was pioneered by Roberts (1990). He exploited the unexpected death of US Senator Henry Jackson as the basis of an event study evaluating how it affected stock prices of his 'constituent interests'. The idea is that an asset's abnormal return within the event window (i.e. its performance compared to the market in the time period under study) indicates the impact of the event on the value of the asset. More recently, Fisman (2001) uses a similar approach to evaluate how rumours about former Indonesian president Suharto's failing health affected stock market performance of businesses

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7. Political connections obviously do not suffice to outperform the competition. Placing former politicians or high-ranking bureaucrats – rather than external managers – at the head of newly privatized firms has been shown to lead to significantly *poorer* sales and earnings growth, as well as stock market performance, of these firms (e.g., Fan et al. 2007; Boubakri et al. 2008).

related to his family and closest allies, while Ferguson and Voth (2008) apply it to Hitler's rise to power in Germany and Faccio and Parsley (2009) investigate an international sample of politicians' sudden deaths. Monroe (2010), finally, employs it to evaluate how sudden shifts between divided and unified government affect stock prices of Republican and Democrat "constituent firms" in the US. All these studies find significant abnormal returns for connected firms when news about their political patron hits the market.

Still, while highlighting the apparent value of political connections for firms (or, at least, the market's belief in such value), the aforementioned results do not *directly* prove that these firms obtain favours from politicians, or that politicians sway political decisions in 'their' firms' desired direction. It might simply be that firms benefit from moonlighting politicians via the introduction of important additional human and social capital (e.g., Lester et al. 2008) or, from a reverse-causality perspective, that politicians prefer to work for well-established and high-performing companies for reputational reasons. Recent work has started to address this issue.

Khwaja and Mian (2005), for example, use loan-level data in Pakistan between 1996 and 2002 to show that politically connected firms borrow 45% more in this severely credit-constrained environment and have 50% higher defaults rates – effects that strengthen when the involved politicians become more powerful (e.g., by winning an election). Crucially, this preferential treatment is constrained to government banks, where "the organisational design (...) enables politicians to threaten bank officers with transfers or removals, or reward them with appointments and promotions" (Khwaja and Mian 2005: 1373). Faccio et al. (2006) show that, compared to similar non-connected companies, connected firms are more likely to be bailed out by the government, which suggests (ab)use of political influence. Francis et al. (2009: 696) illustrate that in the Chinese IPO market, which is strictly regulated by the government in terms of price- and quantity-fixing, politically connected firms obtain a "relatively higher offering price, lower underpricing and lower fixed costs during the going-public process". Finally, Bunkanwanicha and Wiwattanakantang (2009) find that business tycoons holding top political offices in Thailand use their political power to implement/modify regulations and public policies in ways favourable to their firms.

One could argue that these studies analyse settings with weak systems of checks & balances; Faccio (2006) and Faccio and Parsley (2009) indeed show that firm values are more responsive to political connections in corrupt countries. Yet, two studies illustrate the more general nature of the aforementioned findings. First, Couch et al. (1992) show that Alabama legislators' outside earnings from that state's public colleges and universities have a statistically significant positive effect on state funding per student in these public institutions of higher education (in the period 1987-88). Hence, "allowing legislators to be employed directly by a pressure group (...) has predictable consequences for public education funding" (Couch et al. 1992: 139). Second, Goldman et al. (2009b) employ an event study approach to analyse the distribution of US government procurement contracts around elections where power changed from one party to another (i.e. 1994 US midterm and 2000 US presidential elections). They show that companies "connected to the winning (losing) party are significantly more likely to experience an increase (decrease) in procurement contracts" (Goldman et al. 2009b: 1).<sup>8</sup>

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8. In an early contribution, Muller (1977) shows that the degree of legislative participation (measured via question time and activity in standing committees and debates) in the period 1874-1975 of British Labour MPs sponsored by trade unions is higher than that of non-sponsored ones *on issues close to the interests of their sponsors*. Obviously, however, higher activity does not necessarily equal political favouritism. Note also that such sponsoring (which usually took the form of support for financing elections expenses rather

## *Discussion and Open Issues*

While the relationship between moonlighting politicians and their employers has attracted some scholarly attention, various questions remain. First, are politicians with the greatest influence on public policy-making more likely to be on the payroll of outside employers than, for example, backbenchers? This could be expected as politicians in important political positions are more interesting to outside employers (see Parker 1992; Becker et al. 2009), but they might also be more reluctant to seek out and/or accept outside jobs due to real or perceived conflicts of interest (Geys and Mause 2011) or because of the heavy workload of a leadership position within parliament (Maddox 2004). Separation of such supply- and demand-side factors is an important task for future work.

Second, does the role or function politicians hold within a company (e.g., owner, board-member, or a representative function) matter for the performance of that company? As the overlap in the interests of the politician and the company in these various cases differs significantly, this might become reflected in the company's overall performance. Such differences might also hold information about the causal mechanisms at work; that is, whether the benefit of politicians lies in, for example, the introduction of human capital (likely to be important for director positions) or social capital (central to representative functions).

Third, while current studies often indicate the importance of political connections, they employ widely diverging definitions thereof (concentrating on, e.g., ministers, committee members, MPs). This raises the question to what extent this definition and the resulting coding of the central explanatory variable matter. Or, put differently: which political functionaries are valuable, and does this depend on the institutional, socio-economic or industrial context?

Fourth, albeit closely related to the last point, political connections need not solely derive from employing politicians. Politicians can – and at times do – also employ family-members of company owners as research assistant, consultant, campaign aide and the like. Although this does not directly fall under politicians' moonlighting and is probably easier to hide from public scrutiny, one obvious question is whether such connections bear fruit as well. Moreover, analyses regarding the effect of more 'traditional' political connections (i.e. politicians employed by outside interests) might generate biased inferences when they ignore the existence – and potential effects – of such alternative connections.

Fifth, most studies providing more direct evidence of (ab)use of political influence derive from countries with low checks & balances. Yet, in low-corruption countries the contracting-out of public services, which has become very prevalent since the New Public Management reforms in the 1980s, may provide an opportunity to evaluate whether the decision to outsource a given service rather than keep provision 'in-house' (as well as who gets the service when outsourced) is affected by the political connections of the politicians making such decisions. One pioneering study in this respect is Goldman et al. (2009b). Still, this paper looks exclusively at the national level using US data, while many such decisions are made at the local or regional government level. While some studies have recently started looking into local government procurement decisions (e.g., Hyytinen et al. 2009; Coviello and Gagliarducci 2010), none of these takes explicit account of the role played by political connections through moonlighting politicians.

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than personal payments) did not involve extra-parliamentary activity and thus does not directly constitute 'moonlighting' as defined in the introduction.

Finally, it remains extremely difficult to ‘prove’ whether any observed effects are truly *caused* by activities of moonlighting MPs. One promising research strategy here might be to carefully analyse independent secondary sources like, e.g., media reports (see Bunkanwanicha and Wiwattanakantang 2009). Alternatively, content analysis may allow verifying whether interest-group positions/statements find their way into ‘their’ politicians’ speeches, enquiries, bills, or policy initiatives. Such content-analytical approaches recently have been fruitfully applied to measure interest-group influence on European Union policy-making (e.g., Klüver 2009). An alternative empirical strategy is to examine the behaviour of moonlighting politicians using roll-call votes or minutes of committee meetings which affect the organisations linked to these politicians. This is a standard approach to evaluate the effect of campaign contributions on politicians’ parliamentary behaviour (e.g., Snyder 1992), but remains absent in studies evaluating the impact of politicians’ outside jobs. Clearly, this requires appropriate data on roll-call voting or committee meeting minutes, which constitutes a significant bottleneck in many political systems.

### **Moonlighting and Parliamentary Effort**

Given that politicians’ time and energy devoted to outside employment is no longer available for their MP job, moonlighting might generate an *opportunity-cost problem* (e.g., Norris 1996; Maddox 2004; von Arnim 2006; Becker et al. 2009; Gagliarducci et al. 2010). Still, whether or not this truly becomes a problem in terms of neglect of parliamentary duties (the issue of “working or shirking”; Besley and Larcinese 2011) depends, to some extent, on individual MPs’ multitasking ability. While some MPs may perceive their parliamentary position as a full-time job, others may have sufficient time, ability and energy to exert outside jobs without overburdening themselves.

#### *Working or Shirking? Empirical Evidence*

Analysing the determinants of stress in British MPs, Weinberg et al. (1999) find that MPs’ extra work roles outside of parliamentary life have a significant *negative* effect on their stress levels (measured via MPs’ perceptions of physical symptoms of stress, such as lack of sleep, exhaustion or decreased interest in sex) and a significant *positive* effect on their self-perceived home-work balance. These counter-intuitive results “may be explained in terms of the greater capacity of some individuals to cope with increased workload” (Weinberg et al. 1999: 85). This interpretation is supported by the fact that moonlighting MPs exhibit significantly higher levels of so-called Type A behaviour (i.e. impatience, time-consciousness, insecurity about status, competitiveness, aggressiveness) that is often associated with workaholics (Friedman 1996). Hence, moonlighting MPs may simply be highly competitive workaholics capable of dealing with such increased workload.

Yet, available large-sample empirical evidence indicates that parliamentary effort *does* reduce with extra-parliamentary activities and/or income. Gagliarducci et al. (2010), for example, analyse 1,763 members of the Italian Parliament in the period 1996-2006 and find that politicians with higher outside income show significantly less parliamentary activity in terms of voting attendance and number of bills proposed as main sponsor. A closely related result is presented in Eggers and Hainmueller (2009b) using data on 518 British MPs in the 2005-2007 period. They show that outside employment (directorships, consultancies, and work in journalism) had a statistically significant negative effect on attendance rates (measured via the percent of eligible votes personally attended or told).

More indirect evidence is provided by Norris (1996) and Becker et al. (2009). Using samples of British and German MPs respectively, they show that MPs facing a low degree of electoral competition have substantially higher outside earnings. The reason – as argued by Norris (1996) and Becker et al. (2009) – lies in the trade-off between ‘inside’ and ‘outside’ effort. MPs certain of re-election are less constrained by the need to show political initiative in the form of parliamentary and/or constituency work, and thus have more time to allocate to activities generating outside earnings. However, recent theoretical work by Galasso and Nannicini (2011) suggests that these results may also derive from a selection effect. Party competition may lead parties to allocate high-quality candidates – who make fewer absences in parliament – to highly-contested districts. Using Italian data, they show that this selection effect dominates the re-election incentive.

### *Discussion and Open Issues*

Overall, available evidence suggests that politicians’ moonlighting negatively affects parliamentary effort. Nonetheless, an important caveat relates to the use of attendance rates, question time, committee memberships or the number of petitions or bills proposed as proxies for parliamentary performance. This ignores the possibility that politicians use their time and effort in other ways beneficial to their citizen-principals. Depending on the institutional framework, they could also be delegating more of their parliamentary work to their staff members (Maddox 2004). In other words, it is not clear that high (low) attendance and question time imply that an MP does a ‘good’ (‘bad’) job. Such *quantitative* performance indicators do not indicate whether the *quality* of representatives’ exercise of office suffers from moonlighting.

Another important measurement issue concerns the true workload of politicians. All available studies rely on the *quantity* of outside activities or income, and do not include information about the extent of time and energy MPs invest therein (see also Norris 1996: 442-443). Yet, clearly, the marginal effect of an additional extra-parliamentary activity may depend on its labour-intensity (or time-consuming nature). To tackle this issue, it may be beneficial to access politicians’ *perceptions* about moonlighting and their estimates of the time this takes up (Best and Jahr 2006). The new UK regulations – in force since 1 July 2009 – requiring more detailed declarations of the time spent on (and money earned via) extra-parliamentary activities directly addresses this measurement problem.

Also, while Gagliarducci et al. (2010: 695, FN 27) briefly note the possibility that “politicians with higher ability may find a way to perform the same amount of private activities without interfering with public office”, it would be worthwhile to explore potential differences in productivity and multitasking abilities among MPs in more detail. Surveys building on a self-evaluation of health status (physical and psychological) (e.g., Weinberg et al. 1999) reflect MPs’ *subjective* evaluation of their ability to deal with time pressure and stress, but outside observers (e.g., colleagues, family members, friends, physicians) may be better able to *objectively* diagnose symptoms of stress and strain. Thus, importing concepts (e.g., over-estimation, procrastination, stress) and methods from psychology and medical science may help to deeper explore the effects of moonlighting on MPs’ performance.

Finally, all empirical studies thus far look at MPs’ outside jobs as having a *homogenous* effect on parliamentary effort, which is also reflected in the use of ‘moonlighting’ as an umbrella term covering *any* outside job (see the introduction). It is conceivable, however, that any effect of outside employment on parliamentary effort holds more strongly for certain outside activities than others (e.g., paid vs. unpaid jobs; jobs for private business enterprises vs. jobs

for public companies or charitable organisations). Some occupational activities (e.g., lawyer or self-employed consultant) might simply be easier to reconcile with a parliamentary job than others. To the best of our knowledge, no empirical study has addressed this.

### **The Regulation of Moonlighting: The Ideal Parliament?**

A permanent feature in public and scholarly discussions on politicians' moonlighting concerns the ways in which one might deal with the potential dangers of such activities (i.e. monetary 'temptations', conflicts of interest, shirking). One extreme view holds that MPs' worries about their "reputational capital" (Parker 2004, 2005) and the potential for sanctioning by voters, journalists and other watchdogs provide sufficient mechanisms to mitigate misconduct (see Rosenson 2005, for an overview of this literature). Oliver (1997: 539) provides an excellent discussion on the "limits and advantages of [such] political self-regulation". At the other extreme, an apparently simple solution is to implement legislation which declares certain – or all – sideline jobs as incompatible with the political mandate (an option recently discussed in the UK and the European Parliament; e.g., Porter 2009; Guardian 2010; Brand 2011). Similarly, legislation might be implemented which limits (1) the time allowed for moonlighting activities and/or (2) the outside income received from such activities (e.g., Rosenson 2007; van Aaken and Voigt 2009; Gagliarducci et al. 2010).

Yet, the implementation of incompatibility rules may have important side-effects. First, defenders of MPs' moonlighting often argue that it brings non-political experience and qualifications into parliament, which improves the democratic decision-making process. Incompatibility rules may restrict, or prevent, such experience to find its way into parliament (Rush 1997; von Arnim 2006). Second, incompatibility rules and outside-income limits may have important repercussions in terms of individuals' (self-)selection into politics. This relates to a growing literature on the self-selection of politicians (for a review, see Besley 2005). By assuming that the private and public sector are mutually exclusive, most papers in this tradition predict adverse selection effects due to higher opportunity costs, or lower attractiveness of political office, for high-quality individuals (e.g., Besley 2004; Caselli and Morelli 2004; Messner and Polborn 2004; Poutvaara and Takalo 2007). In such framework, higher parliamentary pay raises the average quality of self-selected politicians. Still, this does not straightforwardly extend to outside income. Indeed, lifting the private-public incompatibility-assumption by allowing for MPs' outside income generation or private-sector capitalization of political experience may lead to equilibria with positive sorting where a wage increase reduces average politician quality. The reason is that a pay-increase in such setting makes public office relatively more interesting to low-skilled citizens (e.g., Diermeier et al. 2005; Mattozzi and Merlo 2008; Gagliarducci et al. 2010; Keane and Merlo 2010).

Neither of these hypothesised effects – i.e. incompatibility rules preventing relevant experience and/or high-quality individuals from entering parliament – has, to the best of our knowledge, been addressed in empirical work. One approach to do so is analysing parliaments' composition before and after the implementation of incompatibility rules or outside income limits. Such before/after comparisons have been implemented with respect to *disclosure* rules. Rosenson (2006) examined the impact of ethics laws and disclosure rules on US state legislators' recruitment in the 1990s, and the occupational composition of US state legislatures between 1976 and 1995. Her results indicate that financial disclosure laws "contributed to fewer candidates running in state legislative primaries" (Rosenson 2006: 625). Moreover, "financial disclosure laws were also associated with a decline in the proportion of business owners serving" (Rosenson 2006: 625), while representation-limits for lawyer-

legislators were accompanied by a decline in the proportion of attorneys serving. Hence, these laws not only have a clear negative influence on the decision to pursue a political career, they also limit the entry into politics of certain occupational groups (depending on the nature of the regulations). Interestingly, however, a more recent study on the effects of disclosure rules in 10 OECD countries by van Aaken and Voigt (2009) fails to substantiate these results. Another approach to investigate the incentive effects of rules prohibiting/restricting moonlighting is to evaluate whether MPs actually lay down their pre-MP job(s) to meet incompatibility rules or outside income limits. In this case, the before/after research design concerns individual politicians' activities, rather than the overall composition of parliament.

Finally, related empirical evidence addressing the effect of parliamentary pay on candidate selection is inconclusive. Some studies illustrate that higher remuneration attracts better-educated and higher-skilled individuals to politics in Italian and Brazilian *local* governments (e.g., Gagliarducci and Nannicini 2008; Ferraz and Finan 2009). While Keane and Merlo (2010) similarly find that lower parliamentary wage leads to a disproportional exit of high-skilled politicians from the US Congress, they point out that this is not true for those who care about legislative accomplishments. As the latter type are arguable 'better' politicians, the quality of parliament would *not* reduce (increase) following a decrease (increase) in parliamentary pay. In addition, evidence based on data from Italian *national* MPs suggests that parliamentary salary is negatively associated with politicians' quality (proxied via their education level; Merlo et al. 2009). Further analyses clearly need to resolve this ambiguity, and evaluate whether such findings likewise hold for outside- rather inside-income.

## Conclusion

Popular discussions on the phenomenon of moonlighting politicians often concentrate on individual cases where MPs' outside activities led to considerable outside income, serious conflicts of interest, or a reduction of parliamentary effort. Though fulfilling an important "policing" function in the political sphere (Parker 2004; Rosenson 2005), the main drawback of this case-by-case approach is that it remains unclear whether instances of misconduct are merely individual outliers, or the tip of a greater iceberg. To uncover general tendencies, one requires analyses of larger samples of politicians. Based on the increased public availability of registers of members' interests, this has now also become a feasible research strategy. Nevertheless, one of the central observations of this review is that the scientific literature on politicians' moonlighting is, at present, at best piecemeal. On the one hand, such studies exist only about the parliaments in very few (and mainly developed) countries. While this can be linked to the time-consuming nature of gathering and preparing the necessary individual-level datasets for a large number of MPs, it induces severe constraints on the general nature of the findings discussed throughout this article. On the other hand, existing studies on both the potential problems of moonlighting (e.g., shirking, conflicts of interest) and its expected benefits (e.g., complementarities with political activity, political selection) usually focus on one particular, narrowly-defined research question, and thereby leave many issues unresolved.

Several of these open questions have been discussed in the research agenda parts of this article (along with suggestions on how to approach them from an empirical point of view), and we will not repeat them here. Even so, one more element should be stressed. Moving beyond the single-issue studies currently prevalent in the literature will require the development of an overarching theoretical as well as empirical framework within which such further explorations can be conducted. The first step in any such endeavour would require developing a consistent typology of moonlighting activities. Currently, as mentioned in the

introduction, the term ‘moonlighting’ is employed as an umbrella term for a wide range of extra-parliamentary activities, which can differ in terms of remuneration, contractual nature of the agreement, regularity of the activity, and so on. As a result, an unpaid weekly column in a local newspaper is often treated at the same level as maintaining one’s doctor’s practice or having a paid advisory function at a multinational firm. While this may be appropriate when dealing with the opportunity cost of moonlighting on politicians’ in-house effort (as it is arguably irrelevant whether an hour is spent on writing a column or in one’s law firm), it is more problematic when considering the potential policy influence of moonlighting activities.

Similarly, it is often implicitly suggested in empirical work that moonlighting ministers are ‘different’ in some sense from moonlighting backbenchers. While one could provide intuitive arguments in favour as well as against such proposition, an overarching theoretical framework should spell out in more detail why, and in which ways, such differences might be relevant. When such conceptual and methodological ambiguities are addressed, we hope our review – and suggestions – will stimulate further research into this important phenomenon.

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