

Blair disease?

Business careers of the former democratic heads of state and government

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Abstract

Examining the careers of democratic heads of state and government from 1960–2010, we find that one in every seven turns to the private sector after office. Distinguishing between the factors that attract leaders to business and those that render leaders attractive, we find that the global CEO compensation rates, cultural norms, having served in office in Anglo-Saxon countries as well as their personal background, matter. We also find that certain economic outcomes and policies in office such as economic growth and reduction in state spending are often associated with post-tenure business careers. We do not find evidence, however, that leaders are able to implement policies with future careers in mind, which would in turn raise concerns over accountability.

Key Words: Leadership, revolving door, career concerns, political economy

1 Introduction

Shortly after leaving the presidency, Nicolas Sarkozy of France (2007–2012), who was reportedly able to develop close links with the global financial sector while in office, embarked on a project to attract finance for his own private equity fund. Sarkozy’s example, however, represents a larger phenomenon, aptly dubbed by Simon Kuper of *Financial Times* as the “Blair Disease” — a propensity of former democratic politicians, e.g., Blair in the UK, Schröder in Germany or Clinton in the USA — to work for the private sector after leaving office.¹ Despite significant media attention to the links between private interests and politicians, their prior careers and careers after leaving office,² we know surprisingly little about the business careers of former heads of state and government and whether such careers should be a cause for concern over democratic accountability.

Scholarship exists about leaders’ policies in office and fate, particularly in non-democracies (e.g., Bueno de Mesquita et al 2003; Goemans 2008), but we lack systematic analyses of the fate and careers of former democratic leaders. Scholars have also long studied the financial returns of political office (e.g., Diermeier et al 2005; Eggers and Hainmueller 2009). Such returns often accrue to actors once they leave politics and seek private sector employment in retirement, typically described as the “revolving doors” phenomenon (e.g., Blanes i

¹See Simon Kuper, “Another Outbreak of Blair Disease,” *Financial Times Magazine*, 21 March 2014. On Sarkozy, see Anne-Sylvaine Chassany and Camilla Hall (2013) “Nicolas Sarkozy’s Road from the Elysee to Private Equity”, *Financial Times*, 28 March 2013.

²For example, Prime-Minister Mario Monti of Italy (2011–13), the author of ambitious austerity measures, was a former senior advisor to Goldman Sachs, similar to several European leaders and top civil servants. See Stephen Foley, “What Price the New Democracy? Goldman Sachs Conquers Europe”, *The Independent*, 18 November 2011.

Vidal et al 2012; Hillman 2005). There is considerable body of knowledge about business careers of former public officials from various branches and levels of government: former legislators (Bertrand et al 2014; Blanes i Vidal et al 2012; Diermeier et al 2005; Eggers and Hainmueller 2009), governmental staffers (Blanes i Vidal et al 2012), cabinet ministers (Etzion and Davis 2008), governmental regulators (Cohen 1986), and EU commissioners (Vaubel et al 2011). While qualitative studies exist about revolving door and careers of former national political leaders (e.g., Schweizer 2015), there is still a lack of systematic comparative analyses of “revolving door” at the highest level of political leadership: among the former heads of state and government. We find that in the period 1960–2010, 75 former democratic national political leaders, or one in every seven among those who departed from office and did not fully retire from public life, pursued private sector employment, such as business consulting, law practice, corporate employment and board membership. Given the high public profile of former national leaders and the likely reputational costs associated with their business activities, what individual or structural factors explain their post-tenure careers?

The aim of the paper is twofold. First, drawing on existing literature on “revolving doors”, career concerns, and political leadership, we systematically examine the determinants of private sector employment of former democratic heads of state and government in comparative perspective. We find that former politicians are more likely to turn to the private sector when they hail from Anglo-Saxon countries as well as when they have had prior business careers. Likewise, other factors, — i.e., when existing cultural norms are pro-business and when rulers previously served in the post of finance minister — also matter, however these results are sensitive to the choice of specification. We also find that leaders who serve in office at a time of economic growth are more likely to turn to private sector employment.

This may indicate that the business sector attracts more competent, or perceived as more competent, leaders.

Second, while our main focus is on the factors behind post-tenure business careers, we additionally investigate whether leaders with business careers after office presided over different economic policies or outcomes in office. While studies exist in support of leaders' causal effects on economic outcomes (e.g., Besley and Reynal-Querol 2011a; Jones and Olken 2005), they typically apply to non-democratic regimes where leaders have more policy discretion. We are skeptical that leaders' effects on economic outcomes can be identified in democracies, however. Still, we examine several economic policies and outcomes in office, and study whether there is any evidence that such policies can be attributed to leaders. If politicians who anticipate business jobs in retirement are less concerned with electoral accountability compared to those who continue their career in politics, they may be more inclined to pursue different economic policies.³ Indeed, Besley and Case (1995) and Johnson and Crain (2004) find that the economic policies of "lame-duck" politicians are often different from those who can be re-elected.

We find that even though ex-leaders who seek private employment are indeed associated with specific economic outcomes or policies beyond economic growth — in particular, we examine reduction in state spending but in supplementary materials we turn to several policies that may be perceived as "pro-business" — we do not find evidence, however, to raise concerns over accountability. We find only weak support for the effects of leaders, i.e.,

³First, anticipated career concerns in the business industry may affect behavior while in office (Leaver 2009). Second, concerns over significantly higher salaries in post-public service roles may influence the type of people seeking public employment in the first place (Caselli and Morelli 2004; Keane and Merlo 2010).

that leaders who have more policy discretion and who preside over reductions in spending while in office have a higher probability of future private careers. We interpret this finding to support the demand-side explanation of their business careers, i.e., that leaders do not implement policies with future careers in mind; instead it is more likely that the private sector employs former leaders who are perceived to be competent.

Below we discuss factors that make business careers attractive for former leaders, as well as those that can make leaders themselves attractive for firms. Next, building on the original data on leaders' careers, we turn to statistical analyses on the determinants of post-office careers. In the subsequent section, we investigate whether policies in office have any sway over future business careers.

2 What brings former leaders to the private sector?

First we discuss the reasons why former political leaders may wish to work for the private sector. Second, we turn to the reasons why private firms may be interested in hiring former leaders.

2.1 The attraction of the business sector to former leaders

The job of head of state or government is arguably the most coveted occupation in any country, representing the pinnacle of a political career. It is unlikely that the majority of former political leaders, given the chance, would not attempt to return to their old office. For example, earlier we referred to the business ventures of the former French leader, Nicolas Sarkozy. Subsequently, his projects were put on hold partly due to the increased difficulties of his successor in office which raised the possibility for Sarkozy to return to politics. It is therefore conceivable that ex-leaders who can still return to high office in the future may

remain in politics in another capacity, as leaders of parliamentary parties or governors. In contrast, leaders who are prevented from doing so will be more likely to turn to other careers instead. Furthermore, many cannot run due to various idiosyncratic reasons, e.g., age or health, their own unpopularity or the vagaries of political life.

Even though we cannot systematically account for various political contingencies that make future returns to politics difficult, we can account for institutions, however. Many leaders in parliamentary regimes often serve repeated stints as prime minister and then head parliamentary parties in opposition. In contrast, leaders who are prevented from running for office again, such as presidents due to binding term limits, will be more likely to pursue other careers, be that in the non-profit or for-profit sectors, if they choose not to retire. In general, leaders in parliamentary regimes also have more political experience than presidents (Samuels and Shugart 2010); therefore the former who invested more in their professional careers as politicians will be less likely to switch to business careers even after losing their premierships.

What are the factors that may attract former leaders to the private sector in retirement from politics? We can draw from the extensive literature on political careers and rewards from political office (e.g., Diermeier et al 2005; Eggers and Hainmueller 2009; Parker 2008). We know that many democratic politicians postpone their personal wealth acquisition until after leaving political office (e.g., Diermeier et al 2005; Eggers and Hainmueller 2009). This happens because democratic leaders cannot become as wealthy while in office through rent-seeking as their non-democratic peers who have fewer constraints (Baturu 2014; Bueno de Mesquita et al 2003). Democratic politicians may also be more public-spirited because of the democratic selection mechanism (Besley and Reynal-Querol 2011b). It is certainly plausible that the rewards of political office are non-monetary and that leaders

seek office for intrinsic reasons or policy. However, it is equally plausible that once politicians, whether public-spirited or not, are out of office, they may be attracted to occupations with higher monetary rewards, especially if they cannot obtain them in the public sector. To account for the attractiveness of the private sector therefore, we can use financial depth, i.e., financial resources provided to the private sector by banks as a share of GDP. The logic is that the relative size of financial institutions in the economy may proxy for the availability of high-status private sector jobs in consulting and the financial industry.

The private sector will also be more generally attractive when there is a high salary differential between public and private sectors. In the United States, among the top 350 firms the ratio of the CEO compensation to an average worker increased from 20 to one in 1965 to 350 to one in 2012, from USD 0.8 million to 12.3 million in estimated earnings.⁴ CEO pay in other democracies is equally high and dwarfs compensation of not only the average worker but also that of the top public servants, including heads of government or cabinet ministers. In a comprehensive survey of CEO pay, the *average* total compensation for U.S. CEOs was USD 2.5 million and for non-U.S. CEOs USD 1.2 million (Burns et al 2013, p. 11). With the possible exception of Singapore, no political leader is a match to the CEO of a typical corporation in terms of compensation.

While it is difficult to estimate governmental salaries, including those of the heads of state (e.g., Hood et al 2003), we know that in developed democracies top private sector executives make much more than public executives such as national political leaders, in the

⁴See <http://www.epi.org/publication/ceo-pay-2012-extraordinarily-high/>, accessed 7 July 2015. We additionally estimate that the total CEO compensation of the Top 100 firms increased from 3.5 to 14.1 million from 1992–2014 (authors' estimates from the S&P *ExecuComp* database that is the executive compensation industry standard source).

order of magnitude of ten, if not higher (Baturio 2014, pp. 106–8). Using the S&P *ExecuComp* data, we estimate that in 2014 the average pay for the CEO of companies with addresses in Canada, the Netherlands, and Switzerland was USD 5.7, 10.1, and 12.4 million respectively. Certainly, while former politicians do not always become CEOs of major companies, they may join company boards instead. Even though financial compensation for board membership does not match that of the CEO, it has also grown over time; politicians may also join multiple boards.⁵ Unfortunately, cross-national data on CEO or board compensation is only available for a handful of countries contemporaneously; there are also methodological difficulties in estimating total compensation across nations. Therefore, to account for the possible attraction of the business sector to former leaders, we rely on U.S. historical data on CEO compensation. While using CEO national pay in the United States to infer business sector attractiveness globally is far from ideal, the market for CEO and board membership talent is global. Indeed, international companies are likely to attract former officials from different countries, not only the US.⁶ Second, CEO compensation in the leading capitalist country is likely to serve as the benchmark for firms across the world concerned with competition for global managerial talent (Fernandes et al 2012, p. 348). In fact, non-U.S. companies exposed to international markets have similar CEO compensation as U.S. companies (ibid., 325).

Another factor that may affect whether ex-leaders turn to business in political afterlife is

⁵On average, in 2005 directors made USD 97,000 while in 2014 the figure is 215,000 (authors' estimates from the S&P *ExecuComp* data).

⁶Ernesto Zedillo (1994–2000) of Mexico joined the boards of Alcoa Inc., Procter & Gamble, Union-Pacific, and Citigroup. See <http://www.bloomberg.com/research/stocks/people/person.asp?personId=1148781&ticker=PG>, accessed 15 June 2015.

whether such practice is in tune with the norms of behavior accepted in a given society. The business ventures of Sarkozy of France after 2012 may have attracted attention precisely because they did not resonate with the public view on the proper role of former leaders, e.g., different from that of Giscard d'Estaing (1974–81) who remained in party politics after the presidency and then pursued various roles as statesman, such as the President of the Convention on the Future of Europe. One of Sarkozy's supporters had to explain the former president's business interests arguing that "the fact that he is a former president doesn't mean he should become a Trappist monk."⁷ In contrast, in other societies, such as the United States, the "revolving door" between public office and business may be an established, if not widely accepted, norm. Our expectation therefore is that former politicians in Anglo-Saxon countries — i.e., United States, United Kingdom, Canada, Australia and New Zealand — will be more likely to turn to private employment after politics.

Furthermore, Burns et al (2013, p. 20) find that cross-national differences in CEO pay can also be explained by cultural norms, such as the perceived desirability of inequality and competition. Negative societal views on the desirability of wealth and private ownership of business may increase reputational costs for former leaders who may contemplate business careers. We therefore additionally investigate whether societies that tolerate inequality, or value wealth acquisition and private business are more likely to have ex-leaders pursuing business careers. Because the data on societal norms are limited, we only employ it in one specification. Instead, we account for economic inequality measured as a Gini coefficient that has more observations. The direction of effects of the Gini coefficient is not entirely clear, however. While economic inequality may account for possible social blowback from

⁷Anne-Sylvaine Chassany and Camilla Hall (2013) "Nicolas Sarkozy's Road from the Elysee to Private Equity", *Financial Times*, 28 March 2013.

taking a high paying private sector job,⁸ at the same time higher inequality may also reflect on the relative attractiveness of lucrative high-paying jobs in society as the income inequality may also be partly explained by increases in the annual compensation of corporate managers (Piketty 2014, p. 332). Therefore, while we expect pro-business views and societal tolerance of inequality to increase the likelihood of the business careers of former leaders, we are agnostic regarding the direction of effects of the Gini coefficient however.

2.2 The attraction of former leaders to business

While the factors discussed above can make the business sector more attractive to former leaders, we should also consider the demand side — why the private sector may want to hire politicians (Acemoglu et al 2013). In general, private firms can attract former political leaders because of their superior ability as exemplified by their time in office as heads of state and government that highlights their distinct leadership potential. Such ability can be manifested in the simple fact of their serving in office, or in their background traits — e.g., education — or such ability can be unobservable. There is a growing body of literature that shows political connections, including having former politicians as board members, to be valuable for company value (Faccio 2006; Fisman 2001; Hillman 2005). Therefore, companies may seek former leaders simply because of the prestige of having former heads of states and governments among their corporate board members. In order not to make the argument circular so that all former leaders are attractive to business regardless, we stipulate that leaders who preside over economic growth will be perceived as being more competent and therefore more attractive to the private sector.

As discussed in the introduction, we are not concerned with the identification of leaders'

⁸We are grateful to an anonymous reviewer for pointing it out.

effects on economic outcomes, but rather with those of economic variables on the career trajectories of leaders. Furthermore, while studies exist that identify leaders' effects on the economy in dictatorships (e.g., Besley and Reynal-Querol 2011a; Jones and Olken 2005), or that separate the effects of leaders from the offices they occupy (Baturu and Elkink 2014), it is not obvious how to identify leaders' *personal* effects in democracies with many veto players, especially in open economies (Blodel 1987, pp. 28–30). Therefore, by including growth as an indicator of competence, we only test for whether market participants *perceive* that leaders are responsible, not whether they are actually responsible in a causal sense. Because leaders are high-salience individuals, they can be erroneously rewarded or blamed for economic outcomes.⁹

At the same time such leaders, while perceived as competent, may also be more popular. Indeed, while we lack valid cross-national indicators for governmental popularity, economic growth partly correlates with the popular support for leaders (Bueno de Mesquita et al 2003, 302–9). In turn, popular leaders may continue in politics as opposed to seeking business employment. In contrast, unpopular leaders may not only be less attractive to high-profile jobs in private sector, they may also be more concerned for their legacy and therefore turn to charitable or non-profit activities to revive their image.¹⁰

⁹Individuals are prone to exaggerate the effects of personal factors and underestimate the role of context. This bias, i.e., the fundamental attribution error, is largely driven by errors in perception so that more salient personal factors are more “visible” while context is easier to relegate (Taylor and Fiske 1975). As a result, competence or lack thereof can be erroneously attributed to leaders under whose watch the economy has improved, whether or not such leaders had any sway over these changes (e.g., Patty and Weber 2007).

¹⁰Such as President Carter (1977–81) of the USA who opened the Carter Center instead of seeking private sector employment (Brinkley 1996). We are grateful for the anonymous

Leaders' own specific traits and experience may also be relevant for what they do after office. The link between leaders' traits of personal background and their political behavior has been shown in the literature (Baturu 2014; Dreher et al 2009). It is therefore conceivable that leaders with prior business sector experience will find it easier to return to the private sector after leaving office, similarly to those with economics and business degrees. It is also possible that right-of-center leaders will be more likely to pursue business careers because of their ideological convictions, while left-leaning rulers will be more committed to public service instead. Eggers and Hainmueller (2009, p. 514) who compare the post-office wealth of winning and losing candidates for the UK Parliament, find that holding a seat significantly increases the total personal wealth when former Conservative politicians — but not Labour — are recruited by the private sector. In the US, however, Etzion and Davis (2008, pp. 158–9) find that while the Republican administration attracted more corporate directors than the Democratic, former officials of both parties were equally likely to join corporate boards.

The private sector can attract former political leaders, not only because their political office signals their superior ability but also because of the connections they make in office (Mattozzi and Merlo 2008). Unfortunately, neither the connections that leaders may acquire with specific firms, nor the identification of services that they render to businesses (e.g., Acemoglu et al 2013), can be established in a cross-national research design. Certainly, national political leaders make numerous connections while in office. Many of these are unobservable; the data on political donations by private firms over time are lacking for the majority of democratic nations (McMenamin 2012). Instead, in the empirical section we hypothesize that leaders with longer political experience are able to acquire more political connections, all things being equal. A longer tenure has been shown to be related to better performance

reviewer for highlighting this argument.

and accumulation of specific human capital, with both potentially related to opportunities in the private sector (Brickley et al 1999). Furthermore, studies also found that markets are sensitive to the quality of public officials with finance portfolios, such as central bankers for instance (Gohlmann and Vaubel 2007). Therefore, we additionally account for whether former political leaders previously served as finance ministers or treasury secretaries — the posts that may have permitted leaders to acquire business connections.

In summary, leaders can be attracted to business careers because they are prevented from pursuing the highest political office by institutional constraints, or because of their own personal traits, but also if private careers are especially financially rewarding. In turn, leaders can also be attractive to business because of the mere prestige of having such high-profile individuals on the board, or due to their connections, or their perceived competence.¹¹

¹¹ Additionally, the private sector may also recruit leaders as a reward (Mattozzi and Merlo 2008). Eggers and Hainmueller (2009, p. 531) argue that politicians who help firms while in office, accrue wealth via “lucrative employment opportunities provided to politicians after retirement.” Tenure in office of national leaders, however, coincides with all kinds of economic, financial, and social policies implemented at the time; it is not necessarily correct to attribute causality between policies implemented by leaders’ governments in certain sectors of the economy and their employment by firms in those sectors. Furthermore, ex-leaders typically work for several companies and run their own business consulting interests in retirement (e.g., Schweizer 2015). The identification of post-tenure careers as possible rewards is extremely difficult even at the lower levels of government or specific branches thereof. For instance, the movement of former military generals into the boards of military contractors may simply indicate that the former have the required experience gained from the public job (Etzion and Davis 2008). Therefore, we do not pursue the reward hypothesis in a cross-national setting. Still, in further and supplementary analyses we briefly examine whether economic performance and “pro-business” policies in office are associated with

3 Business careers of former leaders: the data

We examine whether former national political leaders turn to business careers after leaving office, as opposed to staying in politics or pursuing other occupations, such as careers in international organizations or non-profit foundations, for example. The binary dependent variable, therefore, is whether upon leaving office leaders move into the business sector versus other careers. In the period 1960–2010 almost 800 leaders exit office in democracies, i.e., with *Polity2* \geq +6. We exclude leaders that go into exile, experience immunity problems that lead to prosecution, or die shortly after leaving office — in other words, we only focus on leaders who in principle can have further careers after leaving office.¹² Discarding the most immediate period after leaving office when leaders almost always take some time off, altogether there are 551 former leaders who exit office and have future careers. We find that there are 75 former rulers, or 14% in all, who pursue some kind of business career after leaving office, and 476 pursue other types of careers.

What constitutes the business career of political leaders after leaving office? We record leaders as having a *predominantly business career* when their future careers include membership of corporate boards, consulting for private companies, law practice, or running their own business. For example, Jan de Quay (1959–63) of the Netherlands was the chairman of Royal Dutch Airlines (Lentz 1994, p. 579), Geoffrey Palmer (1989–90) of New Zealand ran his own private law practice, and Natsagiin Bagabandi of Mongolia (1997–2005) joined the

future business careers and whether leaders can be shown to influence such policies.

¹²Fully retired leaders are also excluded. Retirement is defined as when a leader retires from public life altogether and there is no record of such leader pursuing any kind of career in retirement. It is conceivable that some leaders are mis-categorized because of the lack of available data. In the supplementary analyses we conduct sensitivity tests.

board of a mining company. Some leaders may be involved in more than one type of career upon retirement. For example, Tony Blair, in addition to his *predominantly business career* that brought him “millions of pounds from a mix of business interests that include advising governments, consultancy work for US investment bank JP Morgan and the lucrative international speaking circuit,”¹³ also headed a charitable foundation. While the predominant majority of leaders can be classified in one category, it is unavoidable that some must be entered in more than one, as this represents a fact of their careers and not a failure of categorization. Indeed, to choose one category over another would be arbitrary when a former leader is reported to be engaged in more than one activity. In the supplementary analyses we examine alternative specifications, however.

[FIGURE 1 ABOUT HERE]

The percentage of former leaders in business is relatively stable over the period 1960–2010 with the average being 14%, and 17% in the period in the 2000s. This suggests that the so-called “Blair Disease” is not a recent phenomenon and such moves to the private sector have not become more prevalent over time. If there is any pattern, it is a slight increase in the percentage of former leaders in business compared to those who remain in politics, as opposed to all types of post-office pursuits. However, we compare business careers with all future careers, be that remaining in politics as party leader or working for international organizations, and therefore we are not concerned with an underlying time trend.

To account for the possible attractiveness of business careers to leaders in society, we include *Financial depth*, *Income per capita*, logarithm, average *CEO compensation*, *Inequality* measured as Gini index of household disposable (post-tax, post-transfer) income — all for

¹³“Tony Blair businesses amass £13m cash after surge in profits,” *Guardian*, 5 January 2014, Katie Allen.

the last year in office. *Parliamentary regime* is included to control for the possibility of political careers in the future. Term limits are strongly collinear with parliamentarianism as almost all democratic presidents face binding tenure limitation, and are therefore excluded. Additionally, we include *Right ideology* and a prior *Business career* of leaders, coded from biographical entries. Likewise, we account for age at the time of departure from office as older leaders may have less stamina to withstand the stress of yet another high-status job. All leader-related indicators are time-invariant (Baturu 2014). In a separate specification we include the World Values Survey's (WVS) *Income equality*, *Business ownership* and *Wealth accumulation* to account for cultural norms. Higher values stand for "We need larger income differences as incentives for individual effort", "Private ownership of business and industry should be increased" and "Wealth can grow so there's enough for everyone", respectively. We also use additional indicators of individual background and pro-business policies in office as detailed in the supplementary materials.

4 What explains the business careers of former leaders?

We estimate a probit model where we specify the probability of a leader joining private sector upon exit from office as a function of indicators for various country and personal traits. Our dependent variable in all estimations is a binary indicator denoting leaders who go into business after leaving office versus any other active occupational pursuit they may undertake (political, academic or public service). In our estimations, the unit of analysis is a political leader retiring from political office during the time period 1960–2010. As explained above, the independent variables are either averaged per tenure or take the values for the last year in office. Since leaders from the same country are not independent observations, all our

estimations are done with robust standard errors clustered by country.

In our analysis we estimate four main specifications: in the first, baseline model, we aim to account for private sector attraction and country characteristics in leaders' decision to move to the private sector (Model 1 in Table 1). The second specification focuses on specific leader traits that may make them desirable to the private sector (Models 2–3 in Table 1). We also explore a combination of the first two specifications (Models 4–5 in Table 1). Yet another specification extends the first ones by further examining societal norms like inequality and wealth desirability (Model 6 in Table 1).

Our baseline model (Model 1 in Table 1) specifies the probability of moving to private sector as a function of country's level of economic development (*Income per capita*), whether the country is a parliamentary democracy, whether it belongs to countries with an Anglo-Saxon tradition, the level of economic inequality, its financial depth, and the benchmark CEO compensation in the private sector.

In turn, Models 2–3 in Table 1 account for the business and economic education background of leaders. Indeed, leaders with specific background traits may be more attractive to business. Also, to account for the magnitude of political connections made in office we additionally include *Years in politics* — only years in official politics prior to assuming the highest office are counted, such as being a member of parliament, cabinet minister, governor, and the like. Likewise, *Ex finance minister* is included as an additional measure of the attractiveness of leaders to the business sector. Finally, we hypothesize that higher economic growth, measured over the leader's tenure, may render leaders more attractive or signal their competence to firms. Models 2 and 3 differ in that the latter is fitted controlling for time invariant country specific fixed-effects characteristics using a conditional logit.

We explore a combination of our first two specifications in Models 4–5 that combine two

explanations for leaders' future careers, with Model 5 fitted as the fixed-effects specification, as in Model 3. When the outcomes do not vary within a country, the fixed effects estimation loses observations for countries where either all or no leaders went into the private sector, in addition to any other time invariant variables like *Parliamentary* democracy and *Anglo-Saxon* countries.

In Model 6 we explore whether the propensity to take high-paying private sector jobs is associated with societies with a higher tolerance for inequality and those that value business pursuits. We replace our measure of inequality from the combined model (Model 4) with the WVS indicators for prevailing cultural attitudes, *Income equality*, *Business ownership* and *Wealth accumulation*. *Anglo-Saxon* indicator is excluded since it is associated with the cultural attitudes of such countries.

[TABLE 1 ABOUT HERE]

The results of the first model specification in Table 1 indicate that former leaders in *Anglo-Saxon* countries are more likely to pursue business careers in retirement. Likewise, while the indicator for average annual *CEO compensation* in the American economy is only a benchmark for the likely compensation in the global market, its coefficient is also statistically significant. *Inequality* and *Financial depth* both also have the expected direction of effects but the coefficients are not statistically significant.

The results of Models 2–3 suggest that neither economic education of leaders, nor the length of their political careers can predict their future business careers. The selected measures are admittedly rather crude as a longer time in politics can also indicate that the individual is a career politician and therefore has not only developed more political connections but is also more likely to remain in politics. It is also somewhat collinear with *Age* and therefore the negative sign of its coefficient can simply mean that more experienced politi-

cians are also older. We interpret the results in Models 2–3 to indicate that relevant business connections developed by former politicians while in office are difficult to observe. However, leaders who pursued business careers before becoming politicians are more likely to return to the private sector after leaving office, as evidenced by the statistically significant coefficient on *Business career* in all model specifications. Likewise, leaders who preside over a growing economy are more likely to turn to the private sector in retirement. A former *Finance minister* is also more likely to turn to business, albeit the coefficient is statistically significant at the level of 0.1 only.

Estimation results of combined specification (Models 4–5) broadly support those from earlier specifications: leaders' personal background, as well as growth in disposable income over tenure matter for their private sector careers. Likewise, Model 4 reveals that *CEO compensation* and *Anglo-Saxon* capitalist model are positively associated with the propensity to take up jobs in the private sector, the former albeit at the 0.1 level. The fixed effects estimation results in Model 5 are also in line with previous estimates. Using “full” Model 4 and holding other predictors at their means, we can additionally assess the predictive margins. We find that when leaders with prior business experience preside over high economic growth at two standard deviations above the sample average, there is 47% probability of a future business career as opposed to 17% probability of such leaders with the growth at two standard deviations below the average.

The results in Model 6 in Table 1 show that all three World Values Survey predictors have the expected sign of the coefficient but only *Business ownership* is statistically significant. The result suggests that a stronger sentiment for “Private ownership of business and industry should be increased” is indeed associated with the business careers of leaders. Unfortunately, we cannot include “pro-business” survey indicators in the fixed effects model

specification as it reduces the sample size by more than half.

In summary, former Anglo-Saxon leaders and those with prior business careers are more likely to turn to private sector employment in retirement, especially when CEO pay rates are high. Individual background matters: one in every three leaders who pursued business careers after leaving office already had such a career before. In contrast, only one in ten without prior business credentials made such a switch. Still, the majority of leaders who pursued a business career after office had no prior business background. There is also evidence that leaders who occupied finance ministry in the past, as well as leaders in societies that favor private sector pursuits, will be attracted to business careers after office. We find no evidence that ideology plays any role in the likelihood of leaders' future business careers.

5 Further analyses: performance in office and business careers

Are former leaders who turn to business careers in retirement associated with different economic outcomes and policies beyond economic growth? While our primary aim was to find what individual and structural factors are associated with “revolving door” phenomenon among ex-leaders — investigated in the section above — we can also examine whether former leaders who had presided over specific economic policies or outcomes in office are more likely to turn to private employment than those who turn to other careers or continue in politics. In this section, therefore, we discuss what policies may be attractive to business and whether leaders can in fact be responsible for such policies.

Previously we showed that growth over tenure is strongly associated with the future business careers of leaders. Outside actors may also form an opinion about a leader from

comparing economic performance of a country in relation to the wider world economy. Model 1 in Table 2 which is a simplified version of the “full” model in Table 1, i.e., excludes several indicators for individual traits, includes an indicator that compares national growth rates over average world growth rate to capture whether an individual country is under- or over-performing compared to other countries, and also to control for wider global economic slowdowns that voters or firms are unlikely to hold against a leader. As can be seen in Table 2, the new indicator is a statistically significant predictor of the likelihood of business careers.

Generally, incumbent politicians are more likely to be re-elected if they preside over income growth or other desirable outcomes such as reduction in unemployment (for review see Mueller 2003, pp. 429–71). In principle, office-seeking politicians have incentives to implement policies that benefit their constituents. Because the modern welfare state has a very large constituency, cutting various spending programs is generally unpopular with the electorate (Pierson and Smith 1993). At the same time, reducing the overall size of government is an often-propagated goal of business-friendly politicians manifesting economically liberal policy preferences and it may endear them to the business community even if it is only due to ideological convergence on this issue.

In practice, the retrospective accountability for economic outcomes can be contaminated by various factors; politicians who roll back spending can employ various blame avoidance strategies (e.g., Vis and van Kersbergen 2007). Still, following the recent Eurozone economic crisis, several governments that turned to the harshest austerity measures — such as those of Portugal, Greece, Ireland and Spain — were all voted out of office during 2011. Out of office they may be, but former political leaders have other career options. For instance, Brian Cowen (2008–11) of Ireland, who presided over “the most austere Budget in the his-

tory of the State”, in retirement set up a consultancy and joined the energy company board.¹⁴

While reasons behind the choice of austerity abound, from creditor pressure to government ideology, the possibility of private sector careers may ease the political costs of unpopular policies for incumbent leaders. If leaders can foresee lucrative employment opportunities should they not be re-elected, they may be more likely to reduce spending or cut programs than otherwise, and will therefore be less concerned with electoral accountability.

Fiscal policy is a key government tool affecting the wider economy and specifically private sector performance (e.g., Blanchard and Perotti 2002). We follow the standard approach in the field and assess fiscal policy performance in terms of public spending as it has the widest cross-section and time-series data coverage. Model 2 in Table 2 includes *Spending change, levels*, measured as a change in the total level of governmental spending over a leader’s tenure. Government spending, however, is likely to depend on economic cycles, with automatic stabilizers potentially obfuscating the degree of governmental control over spending. At the same time, firms will be likely to form an opinion of leaders’ performance from their assessment of discretionary decisions over fiscal policy.¹⁵ In order to address this issue we create a measure of discretionary spending — explained in detail in the appendix — that captures discretionary policy that is driven by reasons unrelated to current macroeconomic conditions (Fatás and Mihov 2003). This alternative measure of government spending is included in Model 3.

In line with expectations, the results of Models 2–3 suggest that leaders presiding over

¹⁴The quote is from Harry McGee, “Few Surprises in Much-leaked Budget,” *The Irish Times*, 9 December 2009. On employment, see Conor Ryan, “Cowen Appointed to Board of O’Brien’s Topaz Energy”, *Irish Examiner*, 3 May 2014.

¹⁵We thank an anonymous reviewer for this suggestion.

reductions in spending have a higher probability of moving to the private sector. Do these results imply that there exist valid concerns for democratic accountability however? First, leaders who experience significant state contraction may simply be no longer attractive to the electorate and so they make a rational career change, turning to business careers instead. If this is the case, the expectation of future careers does not influence their policy-making while in office. However, another and more problematic possibility is seen in the results of Models 2–3 which imply that if a leader counts on a business career in the future, he or she may be less reluctant to enact unpopular policies.

Is it possible to identify whether political leaders are in fact responsible for changes in economic performance and policy implementation? Scholars of leadership who seek to prove that leaders are able to translate their preferences into policies and that the latter, not other actors, institutions, or larger structural factors, are the “causes” behind specific economic outcomes find it close to impossible to do so in a non-experimental setting (Ahlquist and Levi 2011). We accept that complex economic outcomes, such as changes in spending or economic growth are driven by a battery of factors in the domestic and international political economy, institutions and actor configurations; governments enact a plethora of policies in different domains of the economy, and regulate and deregulate specific industries. Country leaders are not free to exert policy influence. Instead, they are often constrained by constitutions as well as other veto players, like legislatures or coalition partners (Tsebelis 2002).

Because accountability is generally diminished by institutions (e.g., Alesina and Rosenthal 1995), as a simple test as to whether leaders can conceivably be seen as responsible for economic changes that occur while they are in office, we interact existing policy constraints (Henisz 2002), averaged over each leader’s tenure, with changes in spending and

economic growth. If leaders are indeed somewhat responsible rather than serendipitously governing while the economy is driven by other factors and actors, then we expect that less constrained rulers who experience a reduction in spending and higher growth, would be in higher demand by the private sector. Table 2 therefore contains Models 4 and 5 that include simple interaction terms between constraints and two economic indicators each, while Model 6 presents a full interactive model (e.g., Braumoeller 2004).

[TABLE 2 ABOUT HERE]

[FIGURE 2 ABOUT HERE]

There is, however, no interrelationship between observable economic indicators of performance in office and political constraints: none of the interactive terms are statistically significant (Models 4–6). For robustness we further interact the same economic performance indicators with three more measures of constraints, averaged per tenure. We use measures of governmental control of legislature (a dummy variable *All house*), *Polarization* between the executive party and those of the legislature, and *Fractionalization*, the probability of picking two pro-governmental legislators from different parties (Beck et al 2001). Higher values of *Polarization* and *Fractionalization* indicate stronger executive constraints. The estimation results with these alternative measures of constraints are presented in supplementary materials. Here we only show marginal plots of predicted probabilities from the analysis in Figure 2. The rows in Figure 2 display the predicted probability of a private sector career when *Spending* Δ is reduced at two standard deviations below the mean, while *Growth* is at two standard deviations above it, over the range of four indicators of constraints.

The flat lines in Figure 2 suggest that less and more constrained leaders alike have equal chances of business careers. The difference in the probabilities of landing a private sector job between more and less constrained leaders who have equally presided over spending reduc-

tions in office is only in single percentage points and not statistically significant. While this represents only a very indirect test of the identification of leaders' effects, all four selected indicators of constraints point in the direction of either weak or no effect. We interpret these findings to indicate that leaders who foresee a business career in the future do not implement specific policies with such careers in mind. Instead, it is more probable that it is the private sector that attracts leaders who merely appear responsible for economic outcomes.

In the supplementary materials we examine whether various policy changes that can be interpreted as pro-business, for example, changes in *Economic freedom* index, trade openness, investment attractiveness or other policies, have sway over future leaders' careers. Adoption and implementation of pro-business policies can send a clear signal to the private sector about the individual's type. In turn, this makes such politicians into viable candidates for executive positions in the private sector if they decide to explore such opportunities upon leaving office. The results are broadly in line with those reported in the paper: while leaders who experience "pro-business" policies in office are indeed more likely to turn to business careers in the future, we can only conclude that they are perceived as responsible, despite not in fact being responsible in the causal sense. The supplementary materials also provide various sensitivity analyses including different specifications of the dependent variable, different estimation sample, and different operationalization of predictors, among other things. Likewise, we include interactions with the discretionary spending measure. We find that the supplementary analyses support the main results reported above.

7 Conclusions

The public attention that Tony Blair attracted, alongside that of his peers who also opted to pursue wealth after leaving office, led many observers to conclude that the pursuit of

business careers by prominent politicians is a very recent phenomenon.¹⁶ Clearly, it is not. Many leaders in the period 1960–2010 abandoned their prior political career for one in the private sector, or returned to a previously-held business career. Our main aim was to investigate the determinants of the future business careers of political leaders. We found that global CEO compensation rates, whether leaders had served in Anglo-Saxon nations, cultural norms, as well as their prior business careers, contribute to the explanation. We also found that economic growth and reduction in state spending were related to the future private sector careers of leaders. If politicians who oversee reductions in public expenditure turn to business occupations in retirement, it may suggest another possible causal mechanism as to why electoral accountability does not always work. Indeed, political leaders may discard the political costs of austerity or other unpopular policies not only because of their ideological convictions but also if they foresee alternative careers after office. The report in *Financial Times* from which we borrowed the title of this paper argued that “consciously or not, farsighted leaders behave like future employees of the rich” (Kuper, op. cit.). We are reluctant, however, to argue that leaders implement policies with future careers in mind. While it cannot be adequately tested in a cross-national study, it is also extremely unlikely at the top level of political leadership, and a simple test that we conducted in the second empirical section supports this conclusion.

We hope that the paper brings new perspective on the politics of “revolving doors”, providing analyses of the determinants of public and private sector career changes at the

¹⁶“No previous European ex-leaders made this kind of dough. Just 20 years ago the British ex-prime minister Harold Wilson was showing up at the House of Lords stricken with Alzheimer’s, led by his nurse, because he needed the daily attendance fee”. Kuper, op. cit.

highest echelons of leadership for the first time. Likewise, it offers new data on the prior and future business careers of democratic leaders, as well as rigorous analyses that account for the economy, societal norms, institutions, and leaders' perceived performance in office. Future studies can establish if sector-specific policies enacted in office are associated with the firms for which political leaders work in retirement. Likewise, further qualitative studies can also shed more light on whether leaders who have "pro-business" economic preferences and are responsible for policy implementation that favors business, are indeed more likely to go through the "revolving doors" in retirement.

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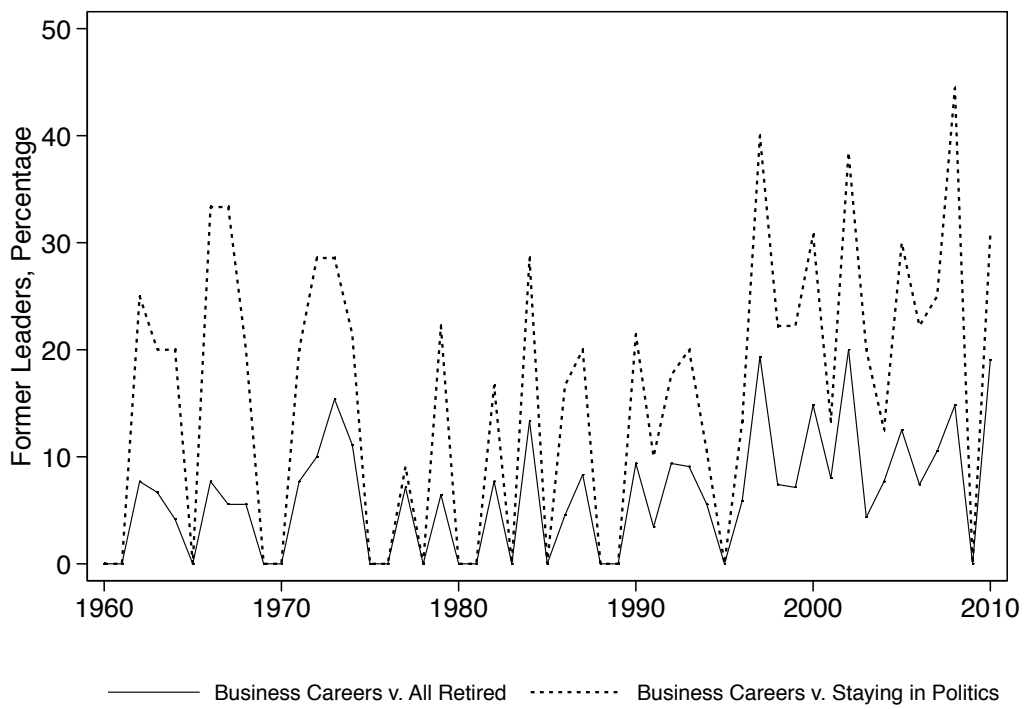


Figure 1: *Former leaders in business careers, 1960–2010.*

	<i>economy</i>		<i>traits</i>		<i>full</i>		<i>soc. norms</i>
	1:	2:	3:	4:	5:	6:	
Income pc (log)	0.040 (0.306)	0.286 (0.201)	1.064 (1.332)	0.041 (0.296)	0.246 (3.907)	-0.080 (0.396)	
Parliamentary dem.	0.253 (0.249)	0.061 (0.195)	–	0.235 (0.248)	–	0.544 (0.346)	
Anglo-Saxon countries	1.109*** (0.181)	0.888*** (0.194)	–	1.131*** (0.218)	–	–	
Inequality	0.010 (0.013)	–	–	0.005 (0.013)	0.124 (0.079)	–	
Financial depth	0.002 (0.002)	–	–	0.001 (0.002)	-0.003 (0.011)	0.005 (0.004)	
CEO compensation	0.049** (0.018)	–	–	0.033+ (0.018)	0.051 (0.064)	0.014 (0.029)	
Right ideology	–	0.101 (0.173)	-0.246 (0.363)	0.025 (0.200)	-0.505 (0.437)	-0.163 (0.240)	
Years in politics	–	-0.008 (0.007)	-0.016 (0.015)	-0.005 (0.009)	-0.009 (0.022)	-0.025** (0.010)	
Business career	–	0.890*** (0.228)	1.348*** (0.401)	0.893*** (0.254)	1.321** (0.518)	0.618+ (0.346)	
Ex finance minister	–	0.398+ (0.214)	0.431 (0.455)	0.299 (0.296)	0.154 (0.673)	0.064 (0.359)	
Economics degree	–	-0.208 (0.184)	-0.280 (0.404)	-0.125 (0.221)	0.059 (0.511)	-0.253 (0.266)	
Leader's age	–	-0.016+ (0.008)	-0.022 (0.023)	-0.015+ (0.009)	-0.024 (0.026)	-0.002 (0.014)	
Growth over tenure	–	0.010** (0.005)	0.034** (0.013)	0.015** (0.006)	0.036** (0.016)	0.027** (0.010)	
Income equality, WVS	–	–	–	–	–	0.039 (0.151)	
Private business, WVS	–	–	–	–	–	0.344** (0.169)	
Wealth accumulation, WVS	–	–	–	–	–	0.158 (0.232)	
Constant	-2.363+ (1.326)	-1.660** (0.845)	–	-1.516 (1.347)	–	-4.647+ (2.529)	
N	436	536	316	431	228	239	
N countries	87	93	35	86	32	52	
χ^2	75.780	57.506	25.149	73.403	27.400	43.888	

Table 1: *Business careers of former democratic leaders* Note: All estimations exclude leaders who retired, went into exile, were arrested or jailed after leaving office. The choice of business occupation is compared with other post-tenure careers. Models 1, 4–5 (with inequality) are via multiple imputation. Models 1–2, 4 and 6 are probit regression models with standard errors clustered by country, Models 3 and 5 are conditional logit (fixed effects) estimations. The number of observations differs as fixed effects estimation drops countries with time-invariant variables. + p<0.10, ** p<0.05, ***p<0.01.

	<i>spending</i>			<i>constraints</i>		
	1:	2:	3:	4:	5:	6:
Income pc (log)	0.108 (0.315)	0.012 (0.312)	-0.009 (0.340)	-0.069 (0.311)	-0.078 (0.310)	-0.081 (0.313)
Financial depth	0.003 (0.003)	0.002 (0.002)	0.004 (0.003)	0.002 (0.002)	0.002 (0.002)	0.003 (0.002)
Inequality	0.005 (0.014)	0.009 (0.014)	0.012 (0.013)	0.009 (0.015)	0.009 (0.014)	0.009 (0.014)
Right ideology	-0.034 (0.195)	0.068 (0.204)	-0.038 (0.201)	0.044 (0.203)	0.047 (0.204)	0.044 (0.204)
Parliamentary dem.	0.027 (0.270)	0.133 (0.278)	0.088 (0.220)	0.090 (0.283)	0.078 (0.280)	0.092 (0.284)
Leader's age	-0.019** (0.009)	-0.015+ (0.008)	-0.016+ (0.009)	-0.015+ (0.008)	-0.015+ (0.008)	-0.015+ (0.008)
Business career	0.906*** (0.230)	0.910*** (0.235)	0.981*** (0.236)	0.908*** (0.233)	0.904*** (0.231)	0.908*** (0.231)
Anglo-Saxon countries	1.105*** (0.213)	1.150*** (0.215)	1.173*** (0.207)	1.219*** (0.220)	1.217*** (0.218)	1.213*** (0.218)
Growth over tenure		0.038*** (0.008)	0.019** (0.006)	0.037*** (0.008)	0.014 (0.027)	0.010 (0.029)
Growth over world growth	0.019** (0.008)	–	–	–	–	–
Spending Δ , levels	–	-0.008** (0.003)	–	-0.012 (0.011)	-0.007** (0.003)	-0.007 (0.010)
Discretionary spending	–	–	-0.043** (0.021)	–	–	–
Political constraints	–	–	–	0.474 (0.837)	0.253 (0.751)	0.201 (0.787)
Pol. constraints \times Spending Δ	–	–	–	0.011 (0.025)	–	0.004 (0.025)
Pol. constraints \times Growth	–	–	–	–	0.052 (0.059)	0.070 (0.067)
Growth \times Spending Δ	–	–	–	–	–	0.000 (0.000)
Pol. constraints \times Growth \times Spending Δ	–	–	–	–	–	-0.001 (0.001)
Constant	-1.236 (1.446)	-1.357 (1.459)	-1.452 (1.549)	-1.218 (1.487)	-1.103 (1.458)	-1.127 (1.465)
N	437	446	354	445	445	445
N countries	87	87	82	86	86	86
χ^2	62.272	68.710	79.843	68.330	67.899	90.387

Table 2: *Business careers of former leaders, spending and constraints in office* Note: All estimations are on the same sample as in Table 1. Inequality is estimated via probit regression with multiple imputation. Models 1–6 are probit regression models with standard errors clustered by country; conditional logit (fixed effects) estimations are available in the appendix. + $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

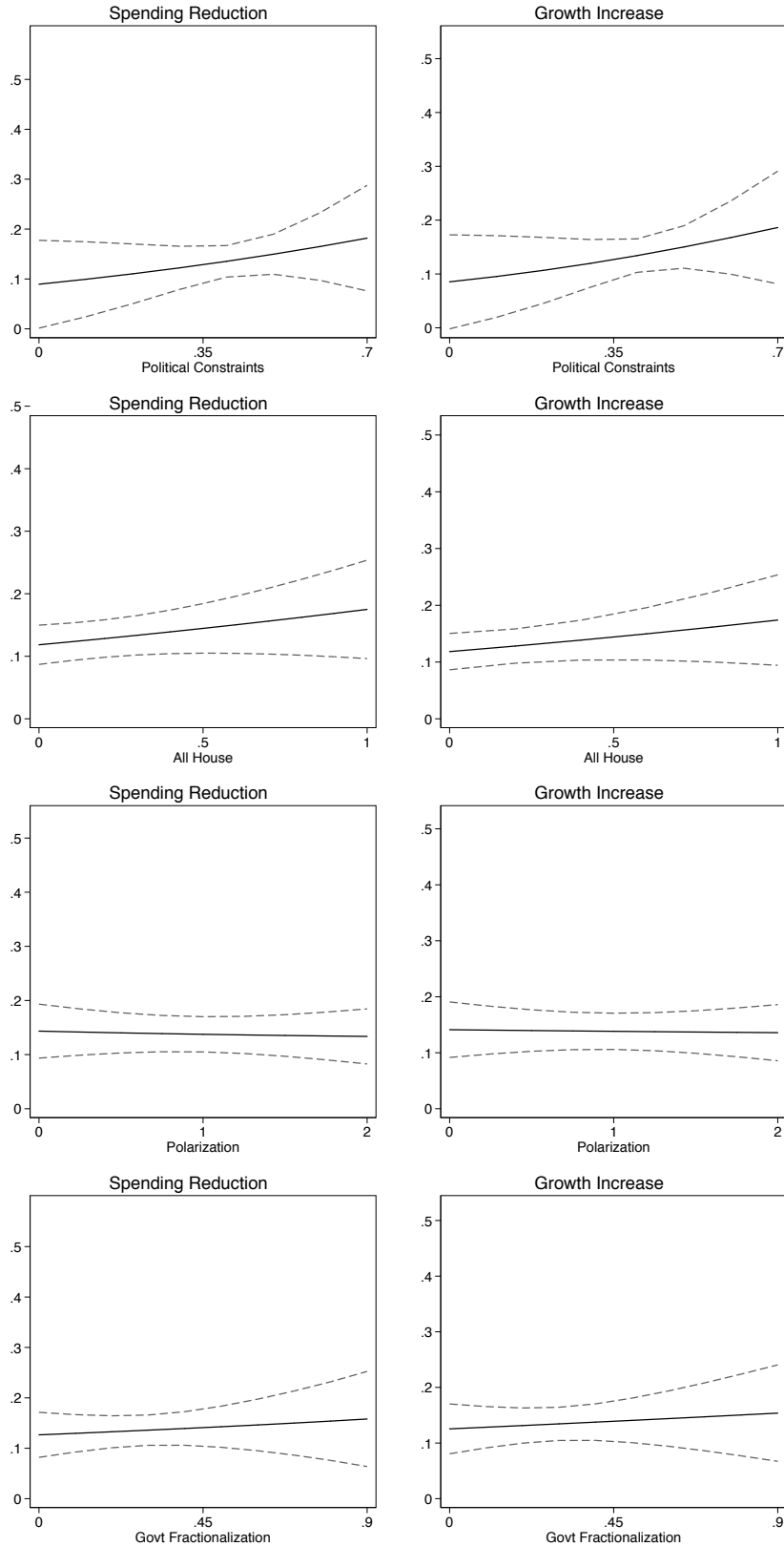


Figure 2: *Are leaders (really) responsible for economic outcomes? Constraints, performance, and business careers.* Note: Predicted probabilities of business careers are estimated following a series of interaction models, using *margins* in Stata. Graphs in the left column display probabilities of business career when *Spending* Δ is fixed at -2 standard deviations below the mean, over the range of 4 different indicators for constraints in office, separate estimations. Similarly, graphs on the right display probabilities when *Growth over tenure* is fixed at $+2$ standard deviations above the mean, over the range of 4 indicators. First row reports Models 4–5, Table 2, second to fourth rows display results estimated from auxiliary models in supplementary materials.