



Rewards from public office and the selection of politicians by parties



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ABSTRACT

We investigate the relationship between the quality of politicians, defined in terms of their competence (skills), and rewards from public office in a game between parties and citizens in which parties play a crucial role in the selection of politicians. Parties shape the selection of politicians by manipulating information about the quality of their candidates. An increase in the rewards from public offices leads to two opposing effects on the average quality of politicians. The first is a selection effect, whereby more skilled citizens enter politics, leading to an increase in average quality. The second is a manipulation effect, as parties have the incentive to further manipulate information to increase the probability of election for their unskilled candidates, from whom they can extract higher rents in the form of service duties. We find that the second effect dominates when (i) parties' costs of manipulating information are sufficiently low; (ii) even in the absence of manipulation, the quality of information available to citizens about candidates is sufficiently poor; and (iii) the net gains from becoming a politician for unskilled citizens are sufficiently larger than those for skilled citizens. These findings provide a rationale for the ambiguous sign of the empirical relationship between the quality and pay of politicians.

1. Introduction

The traditional view in political economy has long been that good politics and good policy are the result of well-designed institutional incentives (see Besley, 2005, for a general discussion). More recently, there has been growing attention in the literature on the notion that—aside from incentives—the intrinsic qualities of politicians such as honesty and competence could well matter for quality policies and quality government, which could have a significant impact on socio-economic outcomes¹. If so, the role of institutions, including political parties, in selecting politicians becomes crucial.

The focus of the present paper is on the relationship between politicians' quality, defined in terms of competence, i.e., skills, and the rewards from public office. In particular, in a model in which parties play a role in the selection of politicians, we ask whether raising the pay of politicians leads necessarily to politicians of higher quality. As Figs. 1 and 2 show, prima facie evidence regarding trends in the pay of Italian Members of Parliament (MPs) and US Members of Congress (MCs) and their educational attainment—a measure of skills widely used in the empirical literature—suggests that paying politicians more is not necessarily associated with higher quality.²

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¹ See Besley (2005) and Besley et al. (2005, 2013).

² Educational attainment is a commonly used proxy for competence/skills in the political economy literature. Notable examples include (Besley, 2004; Ferraz and Finan, 2009; Fisman et al., 2015; Gagliarducci and Nannicini, 2013).

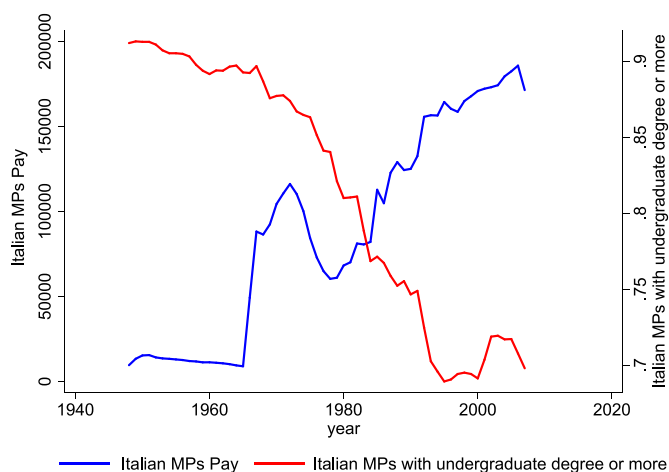


Fig. 1. MP compensation in real terms (2005 dollars) and the percentage of MPs with undergraduate degrees in Italy 1948–2007. *Source:* Fondazione De Benedetti (FRDB), “Italian Members of Parliament” dataset. Data originally collected by Merlo et al. (2008), with support of FRDB.

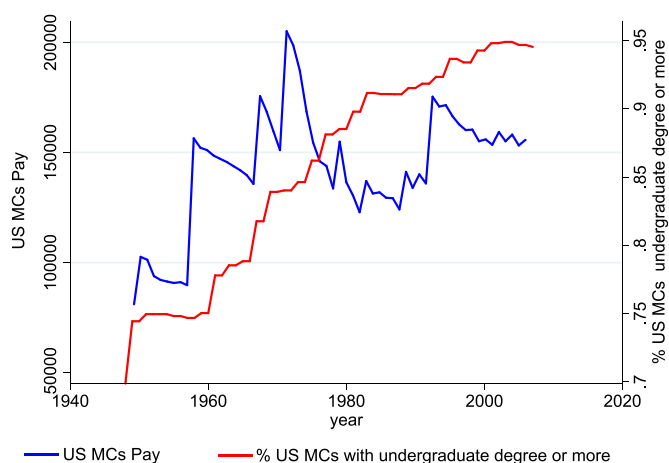


Fig. 2. MC compensation in real terms (2005 dollars) and the percentage of MCs with undergraduate degrees in the US 1948–2007. *Source:* Online bibliographical directory of the United States Congress.

While in the US, the percentage of MCs with an undergraduate or higher level of education increases with pay, this is not the case in Italy, where the two phenomena are strongly negatively correlated.³ A recent strand of the empirical literature addresses the challenging task of identifying the causal effect that politicians’ pay could have on the quality of politicians. Using data from local Italian municipalities, Gagliarducci and Nannicini (2013) show that a higher wage attracts better-educated candidates and that better-paid politicians reduce the size of the government bureaucracy by improving efficiency.⁴ Similarly, using municipal data from Mexico, Dal Bo, Finan and Rossi, 2013, find that announcing a higher salary results in smarter applicants with better personality traits, higher earnings and a better occupational profile. Finally, Ferraz and Finan (2009), find that in the case of Brazilian municipalities, higher wages result in better-educated candidates.

These findings support the case for a positive causal relationship between the pay and quality of politicians, at local level. However, the findings change considerably when national politics is considered. Using data on Members of the European Parliament (MEPs), Fisman et al. (2015), find that ‘high salaries reduce the quality of elected MEPs (as proxied by the quality of the colleges they attended)’, (p. 3). Relatedly, Braendle (2015), finds no significant impact of MEPs’ pay on MEPs’ quality as proxied by formal education, occupational background and political experience. Kotakorpi and Poutvaara (2011) study the relationship between politicians’ wages and quality in the Finnish National Parliament. They report that the wage increase led to better-educated female candidates but had no effect on the composition of male candidates. Finally, Hoffman and Lyons (2013), find almost no correlation between salary and politician performance or quality for US governors and state legislators.

We propose a theory of the role of parties in the selection of politicians that helps to explain why the sign of the relationship between the pay and quality of politicians is ambiguous and is more likely to be positive at the local level than at the national level.

³ The correlation between politicians’ pay and education is approximately 31% in the US and –91% in Italy.

⁴ According to their findings, most of this effect can be attributed to the selection of competent politicians.

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