



THE REVOLVING DOOR INDICATOR

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The **Revolving Door Indicator (RDI)** is a proxy for the extent of **state capture** by **politically connected firms** in **industrialized countries**

Political Connections and State Capture

- **State Capture** (SC) occurs when "outside interests are able to bend state laws, policies and regulations to their benefit through corrupt transactions with public officers and politicians."

U4 Anti-Corruption Center

- SC is **pervasive and a very secret form of corruption** in both developed and developing countries
- SC contributes to **persistent inefficient states**
- SC is a strong **impediment to growth, efficiency, and social** equality.

Acemoglu et al. (2012)

Moreover,





In industrialized countries, where explicit bribes cannot be safely paid, capturing States requires **political connections**







Political Connections and State Capture



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Washington Post : "Fed up with Wall Street Revolving Door"

K. vanden Heuvel, July 30, 2013.

NY Times : "A Former Regulator Returns to Private Practices"

B. Protess, Januray 29, 2014

Le monde: "A New York, la Fed en plein conflit d'intérêt avec Goldman Sachs" M. Damgé, October 11, 2013

The Telegraph: "Whitehall's revolving door speeds up: ex-ministers and civil servants seeking jobs in private sector doubles" C. Hope, December 14, 2013

Political Connections and State Capture





What is the public opinion on these dubious political connections?

Increasing awareness of the promiscuity between public servants and the business elite

The public has put pressure on Larry Summers to withdraw his name from Fed. consideration









What happens in the academic realm?



Web of Science's citation report: "Political connections"



In industrialized countries, State Capture is tangible through the <u>Revolving Door</u> (RD) phenomenon.



After completing their bureaucratic terms, heads of state agencies are entering the very sector they have regulated

Political Connections and State Capture



Examples of RD in the financial sector in the US:

Name	Former public agencies m	New private employers		
Alan Greenspan	Chair, Fed	Paulson and Co.		
Glenn Hubbard	Treasury Department	KKR Financial Co.		
Robert Zoellick	State Department	Goldman Sachs		
Larry Summers	Treasury Secretary	Goldman Sachs		
Jacob Lew	Office of Management and Budget	Citigroup, CEO/alt-investment		
Timothy Geithner	Chair, Fed	EM Warburg, Pincus & Co		
Samuel Berger	NS advisor – White House	ASG		
Harold Ford, Jr.	House of representative	Morgan Stanley		
Warren Rudnam	White House	ASG		

Source: www.opensecret.org

Political Connections and State Capture



Examples of RD in the financial sector also flourish in the EU:

Name	Former public agencies 🔟	New private employers	
Christian Thimann	European Central Bank	AXA's Executive Committee	
Jörgen Holmquist	DG Internal Market and Services	Interel	
Martin Bresson	Counsellor, Danish Presidency of the EU	Fleishman-Hillard	
Eddy Wymeersch	Committee of European Securities Regulators	Association for Financial Markets in Europe	
Meglena Kuneva	European Commissioner for consumer protection	BNP Paribas, Non-executive member of the board	
Charlie McCreevy	European Commissioner for internal market and services	Ryanair, BNY Mellon, Sentenial & others, Non-executive director	



Illustration : Top 5 US private organizations (not lobbying firms) employing former regulators

Organization	Number of revolving door people profiled
US Chamber of Commerce	101
Pharmaceutical Rsrch & Mfrs of America	53
National Assn of Manufacturers	48
General Electric	43
Lockheed Martin	41

Source: www.opensecret.org





The **Revolving door** is related to **three** forms of **conflict of interest**:

1. The regulatory capture

Peltzman, 1976; Spiller, 1990; Brezis and Weiss, 1997

2. The abuse of power

Brezis, 2013

3. The lobbying capture

Vidal et al., 2012

The Revolving Door Indicator (RDI) places the emphasis on the first two forms of RD:

Revolved regulators are "in-house lobbyists" devoted to their organizations' regulatory objectives.





• The RDI sizes up **the concentration of the revolving door** in sectors and countries:

$$RDI_{s} = \frac{\sqrt{\left(\sum_{i=1}^{K} \left(\frac{r_{i}}{R_{s}}\right)^{2}\right)} - \sqrt{1/K_{s}}}{1 - \sqrt{1/K_{s}}}$$

- **Revolved regulators** (r) are firms' shareholders or top officers who held **key positions in the regulatory agency**.
- **Revolving firms** (i) are companies hiring former regulators.



A high value of RDI reflects to what extent firms may bend state laws, policies and regulations at the expense of the others.

Brezis (2013), equation 10a: $Max \ profit_i = f\left(\frac{H_i}{H_a}\right)$

Therefore this indicator focuses on the relative political influence of firms $\left(\frac{H_i}{H_a}\right)$.



- *r* is the number of revolved regulator in firm *i* of sector *s*.
- R_s is the sum of revolved regulators r in sector s.
- K_s is the sum of firms *i* in sector *s*.





Sector-level analysis





• The RDI is a proxy indicator of State Capture



Since,

• The RDI is a **direct measure** of the Revolving Door, which is a **major dimension of State Capture in industrialized countries**.

In industrialized countries, the revolving door is to State Capture what blood pressure is to heart attack







- The type of data required is extensively used in various articles
 - Faccio, M. (2006) "Politically connected firms", *The American Economic Review*, 96(1), 369-386.
 - Amore, M.D., and Bennedsen M. (2013) "The Value of Political Connections in a Low-Corruption Environment" *Journal of Financial Economics*, 110(2), 387-402.
 - Luechinger and Moser (2012) "The value of the revolving door: Political appointees and the stock market", Cesifo.
- Data on **organizations' officer names** can be gathered from national and international dedicated databases:
 - Reuther's Worldscope and Extel databases.
 - Lexis-Nexis.







- Data on **former regulators' name** can be gathered from national agency/parliament websites and international dedicated websites:
 - CIA's Chief of State website,
 - Cabinet Members of Foreign Governments directory
- and cross-checked with data from internet websites focused on conflicts of interest :
 - Opensecret.org
 - keionline.org
 - muckety.com
 - corporateeurope.org

Data collection sector-by-sector, country-by-country, requires very few inputs but **patience**.



RDI and Policy



- Decreases in the RDI may reflect a **progress** induced by:
 - post-regulatory employment regulations: length of cooling off period after an incumbent regulator has left office;
 - improved relative working conditions in public agencies.
 - longer term in public office.

Moreover,

• Changes in the RDI are **comparable over time** and **between countries**, which allows tracking progress and making cross-country comparisons



RDI Properties



Specific: address state capture through the revolving door, a prevalent form of corruption in industrialized countries

Measurable: direct and objective measure of the revolving door

Achievable: data is common knowledge and can be gathered centrally



Relevant: the revolving door is a major dimension of state capture which is on the spotlight in industrialized countries

Timely: disaggregated sector measures can be calculated rapidly

Economical: can be computed centrally and requires internet access as principal input

Replicable: can be compared over time, between sectors and between countries

Concluding Remarks



- State Capture through the Revolving Door has become an increasingly acute problem in industrialized countries.
- We must find a way to tackle this problem.
- To tackle this problem, we need to measure it.
- To measure it, we have the Revolving Door Indicator.

Concluding Remarks



- "If you have ten thousand regulations you destroy all respect for the law." Winston Churchill
- If you have thousand regulators using the revolving door, you destroy all respect for regulators and regulatory agencies.











Thank you.

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Sector-level analysis: example 2

Sector I	Sector II	Sector III	Sector IV
		L.	-
		شا شا شا	
laa laa laa		فينا بلينا بلينا	
laa laa laa		فيا فيا فيا	
$\mathbf{RDI}_{sector} = 1$	$\mathbf{RDI}_{sector} = 0.86$	$\mathbf{RDI}_{\mathrm{sector}} = 0$	$\mathbf{RDI}_{\text{sector}} = 0.73$





Country-level analysis: regular approach







Country-level analysis: another approach

$$RDI_{s} = \frac{\sqrt{\left(\sum_{i=1}^{K} \left(\frac{r_{i}}{R_{s}}\right)^{2}\right)} - \sqrt{1/K_{s}}}{1 - \sqrt{1/K_{s}}}$$

- r is the number of **revolving firms** in sector i of country s.
- R_s is the sum of revolving firms r in country s,
- K_s is the sum of sectors i in country s.





Country-level analysis: another approach



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