MONKEY CAGE

How and why retired politicians get lucrative appointments on corporate boards

By Maxwell Palmer and Benjamin Schneer
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The start of the 114th Congress brings new faces to the Capitol, but it also marks the end of careers in public service for many elected officials. Sixteen senators and 60 House members left public office during or at the end of the last Congress. What's next for them? Since the Ethics Reform Act of 1989, former members of Congress have been prevented from working as lobbyists during a "cooling off" period. But don't worry about them. Many will still benefit from the political connections, influence and expertise they accumulated during their time in office.

In our recent working paper "Capitol Gains: The Returns to Office from Corporate Board Directorships," we document the employment of former senators and governors on boards of directors. These are plum jobs that pay an average of $251,000 per year for part-time work.

More than 45 percent of senators who have left office since 1992 have served on the board of a publicly traded firm; in comparison, only 20 percent of former senators have worked as registered lobbyists. While lobbying regulations require former senators to wait two years before registering as a lobbyist, there is no such restriction on joining a board.

Of former officeholders who accepted a board position, 60 percent of senators and governors joined within the same year that they left office. At the end of the previous Congress, departing Sens. Scott Brown (R-Mass.), Olympia Snowe (R-Maine), Kent Conrad (D-N.D.) and Kay Bailey Hutchison (R-Texas) all joined boards within a year of leaving office.

It appears this trend will continue in 2015. Former senator, governor, and secretary of agriculture Mike Johanns (R-Neb.) joined the board of Deere & Co., the tractor and farm equipment manufacturer, on Jan. 8, only five days after leaving the Senate (and a spot on the Committee on Agriculture, Nutrition and Forestry). Former senator Saxby Chambliss (R-Ga.) recently expressed interest in joining a board in the near future.

Sometimes board service is just a rest stop between runs for office. In December, Jeb Bush (R-Fla.) stepped down from the boards of Rayonier and Tenet Healthcare in preparation for his presidential run. Between retiring from the Senate and his appointment as secretary of defense, Chuck Hagel (R-Neb.) spent three years on the board of Chevron.

But how do we know that these lucrative employment opportunities are due to time spent in office? After all, many elected officials have already had successful careers in business, law or other arenas that might prove attractive in the boardroom. The same characteristics that help get someone elected could also make him or her attractive to a firm.

Our paper shows conclusively that this is not the case. To isolate the effect of holding office, we examined the career outcomes of candidates who ran for office and lost and candidates who ran for office and won. By comparing the outcomes for candidates who barely lost to candidates who barely won — what is known as a "fuzzy regression discontinuity design" — we found that winning office to the Senate or a state governorship led to **a 30 percent increase in the odds of later serving on a corporate board**. On a per year basis, holding one of these offices yielded an average increase in income of more than $125,000 annually through board service alone.

So what makes a former elected official an attractive board member? Perhaps firms want advisers with special insight into lawmaking and government. Or firms might want to buy access to the connections that former lawmakers have made while in office. Firms might also just value status or reputation. To adjudicate between these and several other possibilities, we looked at former senators who did and did not serve on corporate boards.

Holding a leadership position — as either a party leader or a committee chair/ranking member — did not improve the odds of board service. It also did not matter if a candidate lost reelection or willingly retired. Reputation—to the extent it is captured by these characteristics—played less of a role than one might think. We also found no significant differences based on ideology; liberal and conservative senators had comparable levels of board service.

Specialized knowledge also did not seem to matter much. Committee memberships, which offer an opportunity to develop expertise in a particular area, were not associated with service on corporate boards, except in two cases: service on the Finance and Intelligence committees.

What seems to matter more are the networks that members have. Former senators who had developed connections to other legislators—measured with bill co-sponsorship—were more likely to end up on boards.

With fresh connections to current members of Congress and administration officials, we expect several recently departed senators to soon be advising and assisting companies from the boardroom—more than a year before they could legally do so as lobbyists. Given the prevalence of these positions and the opportunities they offer for peddling connections and influence, we should be paying more attention to the post-political careers of elected officials beyond just lobbying.

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