Do Me a Favor: Vote Trading in the Ukrainian Parliament

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Abstract

Greater availability of the roll call data had enriched the existing literature on political economy of policy determination. In this paper I analyze vote trading in the Ukrainian parliament on the WTO-related and other trade related legislation using roll call data. Roll-call voting has been heavily studied in the case of U.S. congress, including determinants of protectionist sentiments among the US Congressmen. I focus on the relationship between voting behavior, party affiliation and constituency characteristics as well as on the creation of the inter-party coalitions leading to log-rolling. I employ a two-stage procedure to identify vote trading. Though the ideology seems to be persistently important in explaining voting behavior I also find evidence on the presence of vote trading among the parliament members.

JEL Codes: F13, F5, K33.

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1 Introduction

‘To vote or not to vote? That is a question’ would say Hamlet if he happened to be elected to Verkhovna Rada of Ukraine or any other parliament. Such rhetoric is an essential attribute of any policy-making process that takes place in a legislative body and often accompanied by heated verbal debates between opponents. Politicians are rational agents—or at least we want to believe that they are—and as microeconomic theory tells us all rational agents make their choices given their beliefs, incentives and constraints. But unlike with the choices of other rational agents, such as consumers for example, the decisions to vote for or against a particular legislative initiative made by policy makers have enormous influence on the life of an entire country and sometimes other countries as well. Hence, understanding of the driving forces behind politicians’ behavior in the parliament is crucial for ensuring political support for any economic reform, e.g. trade liberalization or social security restructuring.

If MP preferences over a particular bill are well defined he will vote ‘for’ a bill that benefits his constituency and ‘against’ a bill that harm his constituency. However, parliament members throughout their office term have to vote on many bill that do not directly affect them and their constituency. Parliament members legislators can only cast a single vote in each decision, so the only way for an individual to exert more influence on a particular bill is by trading votes with fellow legislators. Hence, an MP might agree to support another bill protecting other industries in exchange for a vote from other MPs in order to guarantee that the desired bill is passed. For example, an MP coming from the electoral district with high share of employed in metals industry will ‘sincerely’ support bills benefiting metals industry and will strategically vote for a bill granting protection to, say, food industry in return of votes cast by ‘food’ MPs.

Logrolling or votes trading which is used to describe the above exchange of political support extended by single parliament members or factions in the course of legislative voting (Miller, 1999).

This paper tries to give an answer to the following questions:

First, what factors determined political support/opposition to the trade related laws, in particular bills related to the WTO accession? For this purpose, I make use of roll call data on votes in the three convocations of the Ukrainian parliament covering the period from 1998 till early 2006. I concentrate on the bills listed as those written for the purpose

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1 Sometimes, as it is happens in Ukraine, debates grow into ‘wrestling’ between deputies from opposing factions.

2 Parliament elected in 2006 (5th convocation) lasted slightly more than a year before being dissolved by the President. The snap elections were held on September 30th 2007 bringing the 6th convocation of the parliament to power.
of WTO harmonization. The mixed electoral system that existed in Ukraine from 1998-2006 allows to study behavior of the parliament members elected according to different electoral rules: proportional representation and in single-mandate districts (SMD). As the political economic models predict, officials face different incentives in the two systems. While parliament members elected in SMD are directly accountable to the voters in their electoral district and can be called off or not reelected in the new round of elections, the reelection probability for those that entered parliament through party list depends on their list number, which is often determined by the party leaders based on the party loyalty of the candidate. Therefore one would expect that voting behavior of the SMD candidates will be influenced by their constituency social and economic characteristics to far greater extent than for PR candidates, whose constituency is the entire country.

Second, since voted bills affect different industries and industries are not evenly distributed across electoral districts there is a scope for potential logrolling when voting on trade related laws. Using official minutes of the plenary sessions and the roll call data I identify beneficiary industry for each trade-related law voted in the two convocations. Employing a two stage procedure proposed by Irwin and Kroszner (1996) I seem to find some evidence on the presence of logrolling the Verkhovna Rada.

This paper contributes to the existing literature on the voting behavior of the legislators and brings new perspective on the policymaking process in Ukraine.

The paper is organized as follows: next section gives an overview of the existing literature and theoretical underpinnings. Section 3 introduces to the reader the structure of the Ukrainian parliament, while Section 4 outlines the empirical methodology and data used in the analysis. The results are presented in Section 5 which is followed by concluding remarks.

2 Voting behavior of politicians and logrolling

Existing literature on voting can be grouped along several dimensions. The first group of studies uses electoral rules to explain the cross-country variation in the policy, being it transfers, subsidies or other policy instruments. More recent strand of literature is focused on the much more disaggregated level–politicians’ behavior, in particular on what determines patterns in voting and law drafting of the lawmakers (Gagliarducci et al, 2008). The unit of analysis in this group is a vote cast by a particular member.

Earlier works in the second group included primarily research on congressional voting in the US given the impressive record of roll call data dating back as early as 1970s. The
topic has drawn more attention recently as voting roll call data are becoming more and more available for other countries.

The motivation of a policy maker when making decisions is believed to consist of two parts: self-interest and social welfare. Electoral rules affect both components. In the first case, office-motivated officials who care about the reelection probability would behave differently in proportional representation (PR) and in majoritarian electoral systems (SMD). In order to be reelected the PR candidates should ‘please’ party leaders to get to the higher number on the party list. At the same time, the probability of reelection of the SMD candidates depends almost solely on their district constituency. The effect of electoral system on the second component is more ambiguous, as politician may weigh differently welfare of various social groups in the society. For example, Joanis (2007) develops a dynamic probabilistic voting model and shows that allowing for time perspective in the models of electoral competition changes the main implication of the support of the swing voters.

Egger et al. (2008) investigate the differences in the scope and target of government spending under majoritarian and proportional electoral systems. Their model, which combines electoral competition and legislative bargaining, predicts higher redistributive spending in majoritarian system, which would favor special interest groups.

Trade policy being an integral part of the public policy will be also influenced by the institutional environment determined, in turn, by the political and electoral system in a country. Political institutions are believed to shape trade policy formation through their effect on legislative body insulation from the special interest groups (Milner, 1999).

For example, Gawanda et al. (2009) studies how socioeconomic factors and institutions affect the extent to which governments care about the social welfare when deciding on trade policies. They find that political institutions requiring more stringent checks and balance, more informed voters are associated with a greater weight on the social welfare put by the governing parties.

Fredriksson et al. (2008) study determinants of the trade policy combining lobbying approach with the majoritarian elections. Their model predicts that more protection is given to the industries concentrated in the majority districts even if this industry is not organized in Grossman and Helpman (1994) context. The prediction is confirmed for the American economy.

Another factor that influences trade policy is the ideology of the governing party. Using two-sector, two-factor Heckscher-Ohlin framework Pushan and Mitra (2005) show that interaction of party ideology and country factor endowment leads to the interesting

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4Through the paper abbreviation PR will be used for proportional representation, while SMD which stands for single-mandate district will be used to denote majoritarian electoral system.
results further confirmed by a cross-country analysis: ceteris paribus, shift in the ideology to the left leads to higher level of protection in capital-abundant economies and trade liberalization in countries where capital is relatively scarce.

Similarly, Blonigen and Filgio (1998) using data on congressional voting study how socioeconomic characteristics of congressmen constituencies, such as unemployment, FDI, etc., influence their stance on trade policy. They draw conclusion that controlling for ideological preferences is important since FDI is found to have opposite effect on protectionists and liberalists: while for liberalists, an increase in FDI in a congressman state induces political support, it makes protectionists to take tougher stance on trade policy.

Baldwin and Magee (2000) study how campaign contributions shape congressional voting on trade bills. In line with economic theory, congress members are more likely to vote for free trade laws if they received contributions from businesses while contributions from labor unions make congress members more protectionist in voting.

In a recent paper Conconi et al (2010) show that politicians stand on the trade policy issue will be affected by how much time is left before new election, i.e. how long he is going to stay in office. Making use of the differences in term length for Congressmen and Senators, as well as the fact that not all Senate members are elected simultaneously they show that House representatives on average are more protectionist than Senate members given constituency characteristics. However, after controlling for remaining time in the office they find "the protectionist effect of election proximity" on Senators.

My paper is also related to the papers dealing with a country in transition such as the paper written by Kunicova and Remington (2008) on Russian parliament, Duma, which had similar mixed structure as the Ukrainian parliament. In particular, they study how electoral rules affect party cohesion in voting behavior of the officials elected through different tiers: in single-mandate districts or through party list. Their main finding is that majoritarian deputies are more likely to vote contrary to the leader of the faction they are affiliated with.

There is also a number of studies that have used roll call data from Verkhovna Rada. Thus Herron (2002a) using data for the first three sessions of the 3rd convocation of Verkhovna Rada (1998-1999) shows that though seat type (PR or SMD) and dual candidacy affect faction cohesion in the parliament, factional affiliation explain most variation in voting behavior of the parliament members.5

5Other papers include another work by Herron on factional switching (see Herron 2002b), Thames (2004) and Protsyk and Wilson (2003).
3 Ukrainian Parliament

Parliament members of Ukraine are elected by the citizens of Ukraine of 16 years and older on the basis of equal and direct universal suffrage through secret vote. The elections for the first convocation of the Ukrainian parliament, Verkhovna Rada (VR), took place in 1990. Initially, the elections were held under majoritarian system, where all 450 parliament members were elected in the single-mandate district in two-round system. The system was inherited from the Soviet Union where Rada’s predecessor ’Verkhovny Sovet’ was an artificial authority without any real powers. The new Ukrainian Constitution adopted in 1996 introduced changes to the electoral system: starting from the third convocation (1998-2002), half of the parliament members were to be elected in single-mandate districts as before, but with simple plurality rule, while remaining 225 seats were allocated through party lists in a nation-wide electoral district. The entrance threshold was initially set to 4%.

The mixed electoral system existed until 2006 elections (fifth convocation) when it was replaced by proportional representation with closed party lists according to the Constitution amendments that followed Orange Revolution in 2004. The threshold level was decreased from 4% to 3%.

It should be mentioned that third and forth convocations differed in one important aspect. During the elections of 1998 each candidate had a possibility to run in both electoral tiers, that is compete in single-mandate districts and be listed on party list becoming a dual candidate. Overall, 212 deputies out of 477 who served in the 3rd parliament were running as dual candidates.

Similarly to Russian Federation, under the mixed electoral system parliament members of Ukraine could voluntarily form factions either on party basis or non-party (independent) basis. The factions were required to consist of at least 25 members. Membership in faction gave some administrative benefits and improved chances of landing on ’desirable’ parliament committee (Kunicova and Remington, 2008). Given the weak party system in Ukraine the factions played an important role in the parliament under mixed electoral system.

4 Data and Methodology

I use the roll call data for the 3rd and 4th convocations (1998-02 and 2002-06, respectively) of the Verkhovna Rada. Altogether 477 and 504 parliament members (MP) served during
the third and forth convocations, respectively. Among them, in each convocation more than 40 per cent were incumbents that is served as parliament members in the preceding convocation. At the beginning of the convocation the average age of the deputies was around 48 years, with the youngest MP of 23 years and the oldest MP of 82 years. Gender representation in the Ukrainian parliament looks despondent and the situation even worsened: the share of women declined from 8 per cent in the third parliament to only slightly more than 5 per cent of all MPs, which is in stark contrast to the Western European democracies, where many legislative bodies have gender quotas. Almost all MPs received bachelor degree or higher, some deputies hold candidate and doctoral degrees (20 and 10 per cent of all deputies, respectively).

<table>
<thead>
<tr>
<th>Share among MPs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbents</td>
<td>40.0%</td>
</tr>
<tr>
<td>Females</td>
<td>5.7%</td>
</tr>
<tr>
<td>High education</td>
<td>98.4%</td>
</tr>
</tbody>
</table>

As mentioned above both convocations functioned under mixed electoral system with half of MPs elected in single mandate districts (SMD) and other half via party lists (PR). Parliament members, including both SMD and PR, were affiliated with 27 and 31 parties in the 3rd and 4th convocations, respectively. Around one third of MPs declared to be independent from any political force. As Figure 2 demonstrates, Ukrainian parliament was characterized by significant party fragmentation, attribute intrinsic to proportional representation systems. Six party blocks passed the electoral threshold of 4 per cent.

The roll call dataset contains information on all votes of each parliament member regardless of whether a law, resolution or other legislative act was passed or not in the first, second reading, or in the final reading. The 4th convocation was characterized by the higher number of trade related laws as after the "Orange" Revolution and change in the power division parliament members considered and adopted a set of important WTO accession-related laws. The list of the laws voted during this convocation can be found in the Appendix A.

Using roll call dataset I can extract votes related to the international trade, including the WTO harmonization of the legislation. Overall I get 53 and 73 votes for two convocations, respectively, out of which only 28 and 37 resulted in obtaining required majority.

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6 According to Ukrainian legislation, parliament members cannot serve in executive and legislative bodies at the same time. Thus people’s deputies appointed as members of the government had abandon Parliament and be replaced.

7 During the Soviet times, women also had guaranteed quotas in Verkhovnyi Soviet. However, their involvement in the actual political leadership conducted exclusively by the Politburo of the Communist Party was very limited as well.

8 Some descriptive information can be found in Table 2
(226 votes). All votes are coded as dummy variables, taking on value of 1 if a parliament member voted for a particular bill and 0 otherwise. Votes for MPs who were absent during a particular voting are recorded as missing.

In order to determine the relevance of a particular law as well as the subject of voting I studied the official minutes of the plenary sessions of Verkhovna Rada available online on the official website of the VR. Often, parliament members have to vote on different draft versions of the same law submitted by deputy groups, parliament committees, government, etc. Hence, if MPs had to vote on several drafts I include all of them and classify them as more/less protectionist. I should mention that it happen often with trade-related bills contrary to the labor bills, for example (Besedina and Coupe, 2010).

Each trade related law can be viewed as brining more protection or liberalization for a particular industry. However, this is not the end of the story since protection/liberalization of an industry will affect downstream and upstream industries related to it as well. For this end, I identify upstream and downstream industry affected by a particular bill.

In order to construct constituency characteristics I matched administrative rayons (similar to counties in the US) to the electoral districts. In majority of cases the electoral districts encompass several rayons, on the contrary big cities have several electoral districts. Overall there are 225 SMD electoral single-mandate districts and one nation-wide for PR.

I construct a panel using data for the two convocations where each trade related vote cast by a parliament member becomes observation.

First I estimate an empirical model of the probability of voting for protection

$$vote_{ijt} = \alpha + \beta X_{it} + \delta Z_i + a_i + d_t + u_{it}$$

where $vote_{ijt}$ is a binary variable taking on value 1 if MP $i$ voted for a law $j$ in year $t$ and 0 otherwise. 'Otherwise' includes 'voted against', 'abstained' or 'did not vote'. $X_{it}$ are socio-economic characteristics of constituency of MP $i$, such as export share in total output, unemployment rate, share of agriculture, etc. interacted with the mandate type (SMD or PR), $Z_i$ are MP's characteristics such as age, gender, etc. $a_i$ are individual-specific fixed effects and $d_t$ are time dummies which control for the time left in the office. For example, statistically significant year dummy for the last year of the convocation could be considered as an evidence of "the protectionist effect of election proximity" mentioned above (Conconi et al., 2010).

Next I am interested in the question whether there was logrolling in Verkhovna Rada or not. If MP preferences over a particular bill are well defined he will vote 'for' a bill

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9'Did not vote' means that the MP was present in the parliament but chose not to vote for a law. In this contest not voting is almost equivalent to voting against.
that benefits his constituency and ‘against’ a bill that harm his constituency. However, parliament members throughout their office term have to vote on many bill that do not directly affect them and their constituency. Hence, an MP might agree to support another bill protecting other industries in exchange for a vote from other MPs in order to guarantee that the desired bill is passed. For example, an MP coming from the electoral district with high share of employed in metals industry will ‘sincerely’ support bills benefiting metals industry and will strategically vote for a bill granting protection to, say, food industry in return of votes cast by ‘food’ MPs.

Following Irwin and Kroszner (1996) I employ a two-stage procedure in which I first estimate the so called basic vote equation for each industry specified above. From these equations, one can calculate the predicted values of each MP’s vote on particular bill. In the second stage the basic equation is augmented by inclusion of the predicted values from the first stage: equation for metals will include the predicted values of votes on food and vice versa:

\[
\begin{align*}
\text{vote}_{ijt} &= \alpha + \beta X_{it} + \delta Z_i + \gamma_j \hat{\text{vote}}_{ikt} a_i + d_t + u_{it} \\
\text{vote}_{ikt} &= \alpha + \beta X_{it} + \delta Z_i + \gamma_k \hat{\text{vote}}_{ijt} a_i + d_t + u_{it}
\end{align*}
\]

where \( k \neq j \).

If there was logrolling, the votes for different industries should move in the same direction, that is the coefficients on the predicted values should be positive and significant. As Irvin and Kroszner (1996) write the identification is achieved by inclusion of the specific producer interests in the base equation for a particular industry affected by the bill and exclusion of the specific producer interests of other industries not affected by the bill.

Thus base equation for metals includes metal employment and share of metals in total output but food employment is not included. But the second stage equation for food industry, which includes the predicted metals vote as RHS variable does include food employment but does not include metals employment.

As a robustness check I will estimate simultaneous equation model which allows for correlation of the error terms (Stratmann, 1992).

5 Preliminary Results
References


Appendix A

List of laws adopted by the 4th convocation of Verkhovna Rada (2002-2006)

1. The Law of Ukraine “On Amendments to the Law of Ukraine “On the Corporate Profit Tax”, dated 24 December 2002, under No. 349-IV, improved procedures for corporate profit taxation of operations involving the furnishing (receipt) of financial assistance, brought into order the definition of “usual prices”, introduced methods for the calculation of usual prices, expanded a list of groups of fixed assets that are subject to depreciation simultaneously with a change to tax depreciation rates, reduced the rate of the corporate profit tax from 30 to 25 per cents as from the 1st of January 2004;

2. The Law of Ukraine “On the Personal Income Tax”, dated 22 May 2003, under No. 889-IV, changed cardinaly the personal income taxation system, encouraged an increase and legalization of income earned by individuals through, in first place, a decrease of the tax rate to 15% (during the transition period of 3 years the tax rate was equal to 13%), expanded social benefits and cancelled tax benefits by professional features;


7. The Law of Ukraine “On Amendments to Article 15 of the Law of Ukraine “On the Postal Service”, dated 18 May 2004, under No. 1722-IV (in respect of the exclusive right of the national operator to send simple letters weighing less than 50 grams);

8. The Law of Ukraine “On Amendments to the Law of Ukraine “On Metrology and Metrological Activities”, dated 15 June 2004, under No. 1765-IV, in respect of use in Ukraine of units of measurement for physical units, assurance of the integrity of measurements, bringing of same in accordance with the international standards;

market;


11. The Law of Ukraine “On Amendments to certain Laws of Ukraine”, dated 6 July 2005, under No. 2734-IV, in respect of implementation of legislation in accordance with the requirements set forth in the multilateral WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS);


Source: Ukrainian Center for International Integration, http://wto.inform.org.ua/uwto/