Divided Government and the Adoption of Economic Reforms

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Introduction

Many democratic political systems entail the possibility of non-unified governments, i.e. situations where different political branches are dominated by different party majorities. The most famous example is divided government in the United States in which case the President has to face a majority of the opposing party in either the Senate, or the House of Representatives, or possibly even both. However, also in several other countries do elections often result in similar divisions of political power: In France, for example, the President may have to nominate a Prime Minister from another party than his/her own (so-called "cohabitation"). And even in parliamentary systems such as Germany or Italy, the two legislative chambers may have differing party majorities, resulting in a divided legislature.

A common claim with respect to such non-unified governments is that they are slow in making decisions; or do not make any decisions at all since the parties just block each other. This point has, for example, been made by former White House Counsel Lloyd N. Cutler for divided governments in the United States (Cutler 1988, 489–90): "So you have a government that most of the time, on essential issues, really remains either in a deadlock or in a state where no real decision can be made." A potential consequence is that no relevant reforms can be passed under divided government, as opposed to unified government where one party dominates all branches and can drive through its reforms. This observation by Cutler (1988) seems to have become accepted conventional wisdom by now. For example, The Economist argued along similar lines when analyzing the situation after the November 2012 elections that again confronted Democratic President Obama with a Republican majority in the House of Representatives (The Economist 2012). The claim can also be backed up theoretically. George Tsebelis' veto player theory (Tsebelis 1995, 2002) illustrates nicely how the likelihood of implementing a reform changing the status quo falls the more political actors have a relevant say in policy-making. Thus, divided governments are expected to implement fewer economic reforms compared to unified governments.

However, politics can be more than just fixed opposing partisan views blocking each other. Parties tend to reformulate their policy positions depending on external factors such as political competition. Especially under divided government political competition may, in fact, be particularly intense. Having both parties dominating at least one political branch gives them both considerable agenda-setting powers. These can potentially be used to bring up policy issues. Fruitful policy competition may emerge. It is conceivable that such policy competition induced by divided government leads to more policy reforms being passed compared to a situation of unified government where one party alone dominates policy-making completely. Thus, it is ultimately an empirical question whether it is really true that divided governments implement fewer economic reforms than unified governments.

For this reason I investigate the relationship between divided government and the adoption of reforms empirically in recent work (Bernecker 2014). The focus is on welfare reforms at the US state level. This paper aims to give a short overview of this research. The next section introduces the existing empirical literature on the effects of divided governments. The following section summarizes my findings for welfare reforms in the United States, and the final section is a brief conclusion.

Literature

The effects of divided governments on political outcomes have been empirically analyzed in both political science and economics. In political science, there is a body of literature on policy innovation started by Walker (1969) and reviewed in Berry and Berry (2007) that analyzes the political determinants of reformist

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laws. Some of these studies such as Berry and Berry (1990, 1992) also briefly cover divided government as a potential explanatory factor. More important, however, is the work by David Mayhew (1991, 2005). He shows that in the second half of the 20th century, the number of important laws passed at the US federal level does not actually differ between unified and divided governments. Which laws are important is judged by contemporary or retrospective expert observers. His work cast first doubts on the claim that divided governments pass fewer or less significant laws.

Mayhew's (1991, 2005) work has been criticized by Sarah Binder (1999, 2003). She argues that the number of significant laws passed is an incomplete measure since it does not reflect which important laws discussed during sessions have not actually been implemented. She therefore uses the share of bills passed out of all bills mentioned in relevant newspaper editorials as a key measure of legislative productivity instead. Using this measure for statistical analysis, she finds that divided governments do implement a significantly smaller share of discussed bills only compared to unified governments. This would be in line with standard theory. It has, however, been shown that the whole legislative agenda (i.e. the number of laws discussed) is usually larger under divided governments; and that Binder's (1999, 2003) measure is thus endogenous (Shipan 2006). The results of this strand of literature therefore largely depend on the way legislative productivity is defined. For an overview, see Binder (2011). A further limitation of this literature is that almost all of it focuses on the US federal government. Although this is certainly one of the most interesting levels to study, it does not yield many observations and thus severely limits the power of any statistical analysis.

The economics literature has focused on fiscal policy and budgets as outcome variables of interest. One of the first contributions is the one by Roubini and Sachs (1989) which shows that coalition and minority governments are worse at managing budgets during crises in OECD countries. This study thus provides initial insights into how non-unified governments may have negative effects in the realms of budget politics. One issue, however, may be that countries with politically very different institutions are put into a single regression analysis. This is why Poterba (1994) and Alt and Lowry (1994) both investigate the US state level offering the possibility of deep statistical analysis, while keeping the level of institutional heterogeneity at a minimum. Both studies confirm that unified governments are indeed better able to respond to fiscal crises. Recently, the timing of passing budgets has also been compared for divided versus unified US state governments (Andersen et al. 2012, Klarner et al. 2012). These papers find that budgets are more likely to be passed late under divided governments.

Divided government and welfare reforms in the US states

There are different types of divided governments at the US state level depending on which party dominates which of the three institutions Governor (G), State Senate (S), and State House (H), as illustrated in Figure 1. In unified governments, either all three are dominated by Democrats (blue) or all three are dominated by Republicans (red). This means that the respective party controls the gubernatorial office and also has majorities of seats in both legislative chambers. In divided governments, one of the three institutions is dominated by another party than the other two. This definition entails six different possible forms of divided governments. It is conceivable that these different forms have a differential impact on the adoption of reforms. However, this report focuses on solely distinguishing the two categories of divided and unified governments as the most basic differentiation of forms of government. For a more detailed

Figure 1

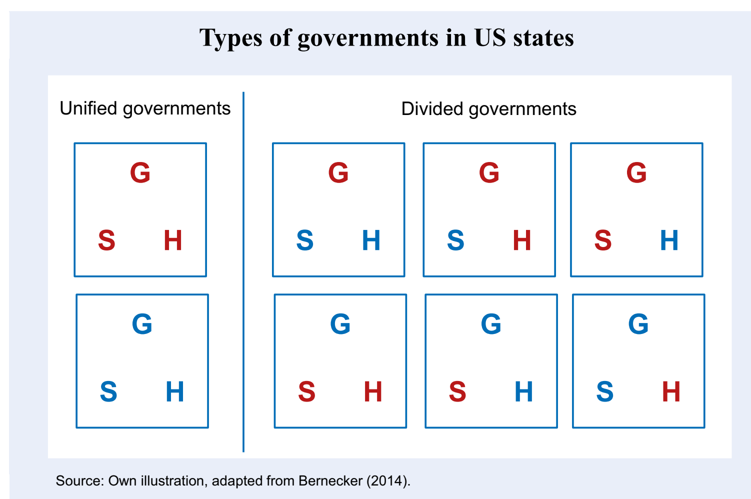
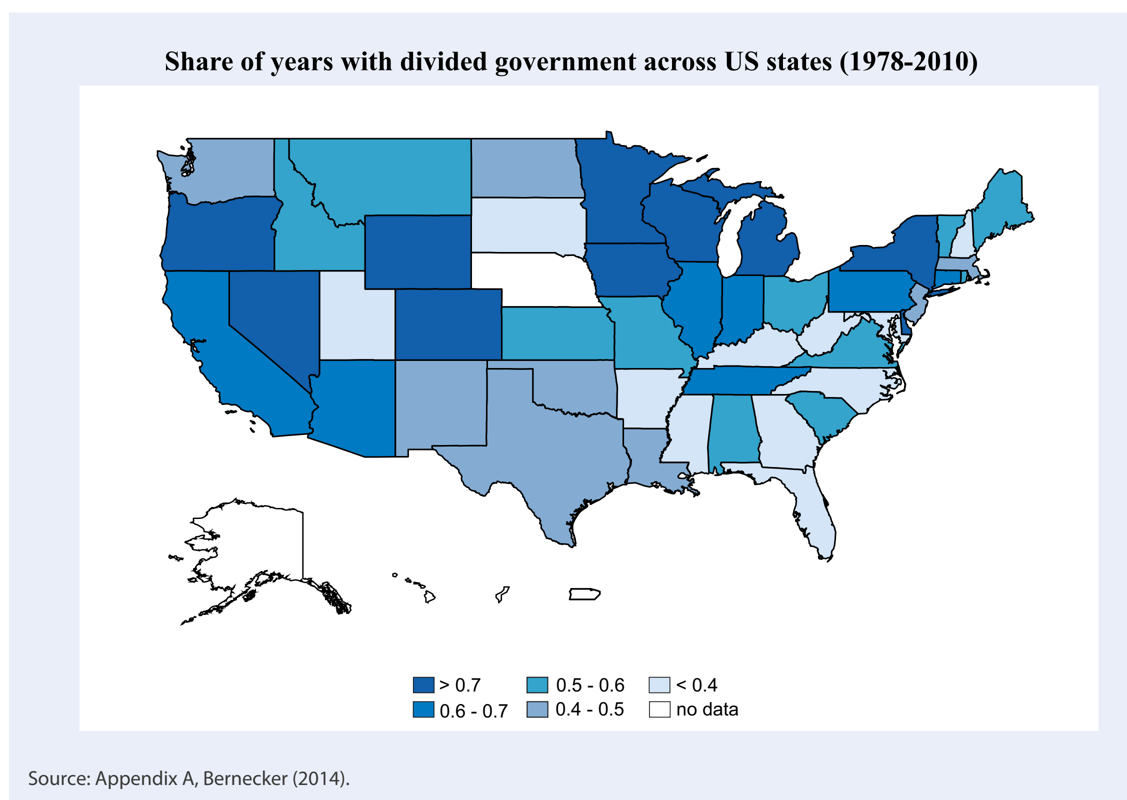


Figure 2

Share of years with divided government across US states (1978-2010)



Source: Appendix A, Bernecker (2014).

differentiation, see Bernecker (2014). On average, over half of all US state governments have been divided in past decades.

Divided governments are not evenly distributed across the US states. Figure 2 shows the incidence of divided governments from 1978 to 2010. On the one hand, there are states that have rarely had a divided government in past decades like Georgia or South Dakota. On the other hand, there are states that ended up with government being divided almost all of the time such as Delaware or New York. This is to be expected given that some states are swing states with many competitive elections whereas others are safely dominated by only one party for most of the time. When analyzing the effect of divided government on reform adoption, there is therefore only limited value in comparing, for example, reform adoption by a divided government in New York to reform adoption by a unified government in Georgia. Not only are these states very different when it comes to the frequency of divided government, but politics could work differently in these two states for several other reasons as well. Therefore, the econometric approach employed in Bernecker (2014) is to run fixed effects panel data regressions instead that allow for within-state identification. This means that reform adoption by a divided government in New York is only compared to reform adoption by a unified government in New York. This allows clean identification of the effect of divided government on the adoption of economic reforms.

To analyze the adoption of economic reforms, I focus on welfare policy reforms at the US state level between 1978 and 2010. These reforms include, for example, the introduction or abolishment of, or changes to work requirements, time limits, or sanctions for welfare recipients. Another example of a welfare reform is the introduction of a family cap policy. Such a policy rules that a welfare benefit recipient that conceives a child while already on welfare does not get any benefits for this child when it is born. Since the number of welfare recipients was on the rise in the 1980s and early 1990s, most of these reforms sought to restrict access to welfare. For more background on welfare reforms at the US state level and a political economy analysis, see Bernecker and Gathmann (2013). Welfare reforms are typically a very partisan issue, i.e. parties tend to have opposing views on such reforms. This makes welfare reforms in particular a very sensible instrument for analyzing the reform adoption effects of divided governments: if it is really true that under divided governments parties just

block each other and no reforms can be passed, this should definitely be reflected in the data for a partisan topic such as welfare. In this sense analyzing welfare reform is a conservative test of standard theory.

Table 1 presents a very first look at the data. It shows that unified governments on average reform their welfare system in 20% of all years from 1978 to 2010, whereas divided governments do so in 25%. This difference is not only statistically significant, but also contradicts conventional wisdom. Divided governments pass more welfare reforms than unified governments. But does this counter-intuitive result also hold when running controlled regression analyses?

Table 1

Welfare reforms in US states under unified and divided governments

	Unified governments	Devided governments	Test of difference
Mean reform years	0.20	0.25	0.025**
Observations	695	779	

Notes: Between 1978 and 2010, unified governments reform the welfare system in 20% of all years, divided governments in 25% of all years. A mean comparison t-test shows that this difference is significant at the 5% level (**) with a p-value of 2.5%.

Source: Table 15, Bernecker (2014).

Table 2 presents the results from estimating linear probability models. The dependent variable is a dummy whether there was a welfare reform adopted in a given year or not. The explanatory variable of interest is a dummy that is equal to one if government was divided in a given year. Specification (1) only adds year fixed effects to this regression, i.e. in case there are particularly “reformist years” they can no longer bias the estimation. The significant coefficient of the divided government dummy means that, according to this regression, divided governments are 4.13% more likely to reform welfare. This result confirms the result of the mean comparison in Table 1 and is actually also very similar in size.

Naturally, there are many more variables that could still bias the estimation. This is why specifications (2) to (5) add more and more control variables to the regression. Specification (2) adds state fixed effects, i.e. uses within-state variation in the form of government to identify the effect on reform adoption. Specification (3) adds a state-specific linear time trend. Specification (4) adds a range of demographic controls such as the unemployment rate in a state, its per capita income, the share of welfare recipients, or the share of immigrants in the population. Specification (5) adds several political control variables. Among those are pre- and post-election year controls, measures for the political polarization of legislative chambers, the share of women in the legislature, and a dummy whether the governor can still be reelected for another term or has already reached the time limit.

All specifications find a significantly positive effect of having a divided government on the likelihood of adopting a welfare reform. Across all specifications, the size of the effect is around 5%. Given that the likelihood of a unified government to adopt a welfare reform is about 20% (Table 1), the likelihood of adopting a welfare reform is 5/20 = 25% higher under divided government. Thus, the effect is not only statistically significant, but also sizeable. The statistical tests shown in Tables 1 and 2 do not necessarily establish causality. However, further econometric analysis in Bernecker (2014) does indeed reveal that the result is causal. In US states from 1978 to 2010, divided governments adopted welfare reforms more often than unified governments.

One explanation for the finding that divided governments reform more can be based on political competition. It is known that the different political branches in US states often engage in stiff political competition with each other (Rosenthal 2009). When it comes to innovative policymaking, this competition may be even more pronounced when different branches are dominated by different political parties. Divided government gives both parties relevant agenda-setting powers in policymaking. If political parties use this power to confront their counter-part with political reform ideas, more reforms may eventually be passed compared to a situation with unified government where one party alone may dominate policymaking. This and other potential explanations are also explored econometrically in Bernecker (2014).

A nice example of reform adoption under divided government caused by political competition across branches is provided by the passage of the landmark US Welfare Reform at the federal level in 1996. Haskins (2006) discusses the history of this reform in great detail. Bernecker (2014, 22) provides a brief overview of the reform: in 1992, presidential candidate Clinton cam-

Table 2

Divided government and adoption of welfare reforms in US states

OLS regressions with reform year dummy as dependent variable					
	(1)	(2)	(3)	(4)	(5)
Divided government	0.0413** (0.0195)	0.0552*** (0.0183)	0.0600*** (0.0204)	0.0649*** (0.0229)	0.0637*** (0.0234)
Year FE	√	√	√	√	√
State FE		√	√	√	√
Linear trend			√	√	√
Dem. controls				√	√
Pol. controls					√
Observations	1,474	1,474	1,474	1,343	1,343
R squared	0.253	0.283	0.315	0.326	0.335

Notes: The dependent variable in all specifications is a dummy that is equal to one when a state reformed its welfare system in a given year. Divided government is a dummy that is equal to one when the majority of the state's lower or upper legislative chamber is from another party than the governor. All specifications include year fixed effects, all from (2) onwards state fixed effects, all from (3) onwards state-specific linear time trends, all from (4) onwards lagged demographic controls such as unemployment rate, per capita income, or immigrant population share. Specification (5) additionally includes political controls such as election year, political polarization of chambers, or lame duck governor control. For details, see the source. Robust standard errors clustered at the state level are shown in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

Source: Tables 2 and 3, Bernecker (2014).

paigned on welfare reform. The Democrats not only won the presidency, but also majorities in both Senate and House. However, during 1993 and 1994 no welfare reform was passed. Although government was unified, almost nothing happened since Democrats were themselves divided on the issue. When the Republicans won majorities in both Senate and House in the 1994 midterm elections, they almost immediately adopted a conservative welfare reform law. Clinton vetoed the law. However, he was obviously challenged in the realms of welfare policy. After negotiations with the Republicans, a joint welfare reform was finally passed under divided government in 1996. This case study evidence from the federal level supports the econometric findings for the state level: Competition under divided government may lead to more reforms being passed than under unified government.

Conclusion

Bernecker (2014) shows that, contrary to conventional wisdom, US state governments pass more welfare reforms when they are divided among parties. Standard theory suggests that having more veto players in government should result in fewer reforms being passed. However, in this case, having different parties dominating different political bodies seems to enhance political competition between them, and thus also reform-making. Since non-unified governments are a common phenomenon in many democracies and since these governments are often blamed for legislative gridlock, the results presented in this paper therefore call for further research analyzing the relationship between the form of government and reform-making in other countries too.

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