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## ABSTRACT

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Electoral institutions interact through the incentives they provide to policy makers and voters. In this paper divided government is interpreted as the reaction of voters to a systematic control problem. Voters realize that term-limited executives (“lame ducks”) cannot credibly commit to a moderate electoral platform due to missing reelection incentives. By dividing government control voters force a lame duck to compromise on policies with an opposing legislature. Based on data from the US states, I present evidence showing that the probability of divided government is about 8 to 10 percent higher when governors are lame ducks. *Journal of Comparative Economics* **000** (2017) 1–14. University of Fribourg, CESifo and CREMA, Bd. de Perolles 90, 1700 Fribourg, Switzerland.

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## 1. Introduction

Electoral institutions define the rules and structures of interactions between voters, politicians, and parties. Rational individuals optimize within this set of rules. The various institutions interact through the incentives they provide to individuals. It is from this perspective that I analyze two important phenomena in the political system of the USA: divided government and term-limited and thus unaccountable politicians. I argue that divided government can serve voters as a mechanism to moderate term-limited executives (henceforth “lame ducks”) who are otherwise unaccountable and who cannot credibly commit to a moderate policy platform due to their lack of electoral incentives. A divided government forces lame ducks to compromise on policy with an opposing legislature. In the empirical analysis, I study whether there is a higher probability of divided government in office terms when the executive term limit is binding; that is, when the executive is a “lame duck”.

In a series of empirical specifications I attempt to identify the causal effect of lame duck governors on the occurrence of divided government in US states. First, I estimate standard panel data models including state and year fixed effects. Second, I focus on selection and last-period effects as potential confounding factors. Third, I take advantage of close elections

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and implement an approach which is similar in spirit to a regression discontinuity design. Fourth, I explore various other mechanisms that might affect the occurrence of divided government. Over all specifications, I find robust evidence that lame ducks face an approximately 8 to 10 percent higher probability of divided government.

Section 2 presents the major arguments of two hitherto separate literatures and discusses the main mechanism through which divided governments and binding term limits interact. Section 3 introduces the data and the empirical strategy. Section 4 reports the empirical results. Section 5 concludes.

## 2. Divided government: the reaction of voters to a systematic control problem

To provide a foundation for the main argument that voters divide government power to control an unaccountable lame duck, I briefly introduce the main arguments and mechanisms established in two relevant literatures.

### 2.1. Causes of divided government

Divided government is a common phenomenon in presidential systems in which the executive and legislative branches are elected separately by voters. A prime example is the political system of the United States with its two main parties, the Republican and Democratic Parties. At the federal level, divided government was the dominant form of government during the period from 1952 to 2010. Approximately 59 percent of all the governments were divided in the sense that the Presidency and the Federal Congress – the Senate and/or the House of Representatives – were dominated by opposing party majorities.

Fiorina (1992) and Alesina and Rosenthal (1995, 1996) analyze the causes of divided government in a spatial voting framework and argue that the division of government control is the result of rational voter behavior. Fiorina puts forward “balancing explanations” of divided government, in which voter decisions have “[...] an element of purpose or intention in them.” (Fiorina, 1992: 65). He proposes the idea that divided government is the electoral result of rational decisions by moderate voters who balance political power between opposing party ideologies to moderate policy outcomes. Hence, voters at the center of the policy spectrum moderate policy by electing different parties into the branches of government. This requires sophisticated voters who understand the institutional setup, enabling them to make use of the extensive checks and balances inherent to a system with such a strong separation of powers. Similar in spirit to Fiorina (1992), Alesina and Rosenthal (1995, 1996) build a formal model that extends the standard spatial voting theory to include the separate election of the executive and legislative branches with the possibility of dividing government control. In their model, policy is viewed as a compromise between the executive and the legislative branch. When both branches are held by one party – known as unified government – the party in power can implement its preferred policy. When the branches of government are dominated by different party majorities, the opposing parties in the different branches become veto players and they are forced to compromise on policy. Voters whose positions fall between the preferred party positions take advantage of this legislative–executive interaction to moderate policy outcomes. The mechanism relates directly to the fundamental concept of the separations of powers, in which, by the design of appropriate checks and balances, a conflict of interest is created and the executive and the legislative branch are required to compromise (Persson et al., 1997). Alesina and Rosenthal (1995) argue that divided government “[...] is not an undesired result of a cumbersome electoral process, nor is it the result of a lack of rationality or of well-defined preferences of the electorate. Divided government occurs because moderate voters like it, and they take advantage of “checks and balances” to achieve moderation. In dividing government, the voters force the parties to compromise: divided government is a remedy of political polarization” (Alesina and Rosenthal, 1995: 44).<sup>1</sup>

Their formal model is consistent with three important empirical observations: divided government, split-ticket voting, and the midterm cycle. The theory predicts divided government as an outcome of voters’ strategic electoral balancing of party ideologies in government, in which moderate voters split their tickets. In general elections, when the executive and (partly) the legislative are simultaneously elected, voters are uncertain about which party will be holding the executive. Voters who want to moderate policy by dividing government will therefore hedge the legislature by dividing power between the legislative branches. Once the uncertainty about the incumbent party in the executive is resolved, voters might want to moderate the government in midterm elections further by shifting even more legislative power to the opposition party. This results in the well-documented midterm cycle.

### 2.2. Term-limited executives and electoral accountability

Regular elections make politicians respond to citizens’ preferences, which makes it the prime democratic channel through which citizens can hold politicians accountable (e.g., Alt et al., 2011). From this perspective, introducing term

<sup>1</sup> Fiorina’s argument is not based on active moderating behavior. Under the assumption of sincere voting, moderate voters divide government power because divided governments offer policies closer to their bliss points compared to unified governments. In contrast, the argument by Alesina and Rosenthal (1995) is based on an active strategic moderation effort of voters (for evidence on balancing behavior, see Mebane 2000 and Mebane and Sekhon 2002). The basic idea that voters actually choose divided government is inspired by the well-documented phenomenon of split-ticket voting. For evidence of split-ticket voting, see, e.g., Fiorina (1992) and Burden and Kimball (2002). An alternative model of split-ticket voting is provided by Chari, Jones and Marimon (1997).

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