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Divided we reform? Evidence from US welfare policies ☆

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ABSTRACT

Divided government is often thought of as causing legislative deadlock. I investigate the link between divided government and economic reforms using a novel data set on welfare reforms in US states between 1978 and 2010. Panel data regressions show that, under divided government, a US state is around 25% *more* likely to adopt a welfare reform than under unified government. Several robustness checks confirm this counter-intuitive finding. Case study evidence suggests an explanation based on policy competition between governor, senate, and house.

1. Introduction

"Now, hug a Republican", the Economist told President Obama via the title of its November 10th issue after he had won reelection in 2012 (The Economist, 2012). The newspaper referred to the fact that Democrat Obama would again have to deal with a Republican majority in the House of Representatives. As before the election, government would be divided. Divided government means that the President is faced with a majority of another party in at least one of the two chambers of Congress. Usually, it is argued that this hinders legislative productivity since the government cannot get its bill proposals through Congress without getting the consent of the opposition party. The legislative majority may even decide to block any relevant initiatives taken by the President, resulting in complete legislative deadlock. Similar deadlock arguments are often also made with respect to comparable situations of partisan divide in other countries. This paper systematically analyzes this issue for the US states level by answering the following question: Is it really true that actual political reforms are less likely under divided as opposed to unified government? I show that the contrary is in fact the case.

The standard deadlock argument made with respect to divided government is that differing partisan dominance of different institutions leads to a lower propensity to reform since the different parties have to agree on how to deviate from the status quo. This intuition has been theoretically inspired, for example, by George Tsebelis seminal work on veto players (Tsebelis1995, 2002): The more veto players with divergent interests have a say in policymaking, the less likely are reforms changing the status quo. Adapted to the divided

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government case, one could state: If two parties with different partisanship are part of the government, it is more difficult to change the status quo compared to the case of having only one party in government. Similarly, Howitt and Wintrobe (1995) show in a theoretical model how political inaction may result when both parties have power and competition is stiff. Along with conventional wisdom, theory thus suggests that one should expect fewer reforms under divided government compared to unified government. But is this the whole story? Maybe different party dominance of different governmental bodies enhances policy competition between them leading to more reforms in the end. This is why this paper sets out to empirically assess reform adoption by divided versus unified governments.

I investigate whether welfare policies are more likely to be reformed under divided or under unified government using novel data from the US states level from 1978 to 2010. During this period, more than one half of all US state governments were divided. Welfare politics is an interesting case to look at for at least three reasons. First, welfare is one of the policy areas most central to economics and also among the largest budget items both at the US federal level and at the state level (US Government Spending, 2013). Second, during the time span analyzed in this paper, the US Welfare Reform was at the center of the public debate since it represented the largest shift in welfare politics since the New Deal in the 1930s. US states reformed important elements of the welfare system such as work requirements, sanctions, and time limits. The majority of reforms restricted access to the welfare system. However, despite the large public and political interest in these reforms and a large policy evaluation literature on the topic, the political economy aspect is under-researched. Third, welfare politics is a perfect field for the analysis of the effects of divided government since, along with the governors, state legislatures played a key role in the process. If divided government indeed leads to political parties blocking each other, one should definitely observe this for a very partisan issue such as welfare politics. Given all this, this paper analyzes US state level welfare reforms using a rich data set constructed from several different sources. Welfare policy changes for all US states are coded on a yearly basis, and a wide range of demographic, political, and ideological controls are included. The resulting data set gives a comprehensive overview of welfare reform activity in US states between 1978 and 2010.[1]

Different measures of welfare reform are then used as dependent variables in panel data regressions. The main explanatory variable is divided government. By divided government, I mean that the state governor is confronted with a majority of legislators of the other party in one or both of the chambers of the state legislature. Including fixed effects allows within-state identification, i.e., the analysis compares the reform effects of a unified government in Wisconsin with a divided government in Wisconsin (and not a unified government in Wisconsin to a divided government in New York). I show that under divided government the probability that a US state will implement a welfare reform is actually between 5 and 10 percentage points *higher* than under unified government. The size of this effect amounts to between 20 and 50% of the unconditional probability of a US state implementing a welfare reform between 1978 and 2010. The effect is significant and stable across specifications. This result is in contrast to conventional wisdom.

To check the robustness of my finding, I explore potential issues of omitted variable bias, measurement of the dependent variable, differential treatment effects, and estimation technique. To avoid omitted variable bias, I include standard demographic controls, variables related to welfare reform and welfare state crisis, political and ideological controls. I also include year fixed effects and control for a state's reform history and reform spillovers across states. None of these controls affects the result. I also show that the effect does not depend on the way welfare reform is measured in the data and also holds when considering only large or ideologically more extreme reforms, for example. An analysis of different subsamples allows investigating differences in the effect, e.g., for Southern versus non-Southern states. Finally, also with respect to employing different estimation techniques, the result is robust. Divided governments are more likely to reform than unified governments. I also present event study graphs depicting the effects over time.

Why do divided governments reform more? I suggest policy competition between governor, senate, and house as a potential explanation. These three institutions typically engage in stiff competition with each other (e.g., Rosenthal, 2009, p. 197). Under different partisan dominance, this competition may be even more intense. A relevant difference between unified and divided government is that, under the latter, the opposition party has strong legislative agenda setting power: By passing bills, the opposition party dominating a legislative chamber can confront the governor with policy issues. Policy competition between the actors may arise and more innovative policies may be implemented in the end. In some cases, by passing innovative reform bills, the opposition leader may even want to qualify, in the eyes of the voters, as an able future governor.

This interpretation of the findings is supported by welfare reform case studies. For example, in Wisconsin, the state legislature Democratic majority suggested even more drastic welfare reforms than Republican governor Tommy Thompson who is known as a very ambitious reformer of welfare (e.g., Wiseman, 1996, p. 532). And in New Jersey, Democratic assembly majority leader Wayne R. Bryant – and not the governor – was the main mover of welfare reform (e.g. Haskins, 2006, p. 34). Both in Wisconsin and in New Jersey, government was divided at the time. Also the passage of the US Welfare Reform at the federal level in 1996 is itself an example: The Republicans used their majority in both chambers of Congress to challenge Democratic President Clinton on welfare reform by passing significant reform bills. The Clinton administration reacted using vetoes and counter-proposals. In the end, the largest welfare reform since the New Deal was adopted under divided government. However, other theories such as partisan balancing may also be part of the explanation of the findings, and this paper cannot provide a final answer to why divided governments reform more.

The following section presents the related literature. Section 3 gives some background on US welfare politics and presents the data. Section 4 covers the estimation strategy and results. Section 5 offers some extensions and discusses the counter-intuitive finding. Section 6 concludes.

2. Related literature

My work relates to the growing strand of literature on causes and consequences of divided government. Classics on the causes include, for example, Alesina and Rosenthal (1995), Alesina and Rosenthal (1996), and Alesina and Rosenthal (2000), who put forward a balancing theory of divided government, i.e., voters split political power between political actors of different partisanship to get an ideologically intermediate policy in the end.[2] Another classic is Chari et al. (1997), who argue that divided government may be a result of voters wanting a Republican, who is good at keeping overall taxes down, as president but a Democrat, who is good at bringing pork home, as constituency representative in Congress.[3] More recent work stresses the control element of divided government: While Fox and Weelden (2010) present more effective oversight as a theoretical argument in

[1] This paper largely uses the same data as used in Bernecker and Gathmann (2013).

[2] See Fiorina (1996) for a similar argument and an overview of more classic arguments.

[3] See Jacobson (1990) for a related argument.