Divided Government, Delegation, and Civil Service Reform*

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Abstract

This paper sheds new light on the drivers of civil service reform in U.S. states. We first demonstrate theoretically that divided government is a key trigger of civil service reform, providing nuanced predictions for specific configurations of divided government. We then show empirical evidence for these predictions using data from the second half of the 20th century: states tended to introduce these reforms under divided government, and in particular when legislative chambers (rather than legislature and governor) were divided.

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1 Introduction

In a spoils system, the bureaucrats tasked with implementing policies are closely aligned with (and controlled by) the party that legislated or endorsed those policies. A major development in 20th-century politics was the introduction of civil service reforms, which sought to give greater independence to bureaucrats. These reforms introduced professionalized civil service careers, filled by merit rather than by party loyalty, where bureaucrats had tenure across ruling administrations and protections against political interference.

This paper investigates the causes of these reforms, with two major contributions. First, we provide a new model that emphasizes the policy delegation preferences of unified and divided principals under different civil service systems; the model predicts stronger incentives to enact a civil service reform under divided government. Second, we report empirical evidence that, indeed, civil service reforms in U.S. states have occurred with significantly greater frequency during periods of divided government.

Previous work suggests the centrality of electoral incentives in civil service reform. In one major strand of the literature (the "insurance" view), an incumbent party accrues private benefits from the patronage system but entrenches the bureaucracy through reform when it is about to lose (Ting, Snyder, Hirano and Folke 2013). In the other major strand (the "investment" view), an independent civil service is introduced to increase the efficiency of public goods production by government agencies (Huber and Ting 2016). Considering the role of party polarization, the two views can be reconciled: incentives to invest in an independent bureaucracy will be higher if the opposition has preferences that are not so far from those of the incumbent party's (Huber and Ting 2016). Our model produces results in line with these in terms of the role of party polarization, but the main mechanism involves divided government policymaking rather than electoral incentives.

Our model highlights that under standard assumptions on asymmetric information between principals and agents, the delegation of policymaking to a Governor or the bureaucracy will be chosen by the principals (the parties controlling the two chambers) only under specific conditions. In particular, delegation to the Governor happens in equilibrium only under unified government, whereas delegation to the bureaucracy happens in equilibrium only when the principals are divided and the bureaucracy is independent. Thus, if in the status quo the bureaucracy is not independent, it is precisely under divided government that both parties unanimously prefer to increase bureaucratic independence. We also show that under divided legislative chambers the preference for an independent and more powerful bureaucracy is unconditional, whereas, in the case of unified legislative chambers and a different-party governor, the incentives to introduce a merit system depend on party polarization, in a manner consistent with previous findings.

We test the main implication of our model by looking at the relation between introducing an independent bureaucracy and divided government in U.S. states during the 20th century. These reforms had three major components: meritocratic recruitment, political independence, and tenure. As a result of these reforms, the direct influence politicians had exerted on bureaucrats under the spoils system decreased drastically.[1] Our panel data approach uses state and year fixed effects to address the major sources of selection bias at the state level. We find that states with divided control of state government were more likely to introduce civil service reforms. The result is robust to different measures of divided government and to the inclusion of a range of time-varying state-level covariates. Indeed, the divided-legislative-chambers case proves to be the most relevant.

2 Background and Literature Review

2.1 A Brief History

In 1801, the presidency changed hands for the first time in history and the issue emerged of how to deal with politically affiliated public servants (Congress 1976). The newly elected

[1]These reforms have already been used in the literature to study the introduction of an independent bureaucracy (Folke, Hirano and Snyder 2011; Ting et al. 2013; Ujhelyi 2014).

president Thomas Jefferson opted for a strategy of equal division of government offices between parties, which was then followed by his successors (Congress 1976). Until the 1830s, relatively low turnover and high stability characterized the federal civil service. By the mid-1830s under Andrew Jackson, patronage criteria started to dominate the recruitment of civil servants and arbitrary removal for political reasons became a widespread practice (Theriault 2003). At the end of the 19th century, as Hoogenboom (1959, p.301-302) put it, 'a civil servant would almost certainly be removed if he ceased his political activities or if his patron lost his influence'. Civil servants had varied and irrelevant backgrounds, were hired on a temporary basis and their morale was very low (Hoogenboom 1959). This led to very low levels of professionalization of civil servants, high instability in the provision of public goods and disproportionate power of politicians (Hoogenboom 1959; Congress 1976).

After the civil war, several attempts at reforming the civil service were made, but they all failed. In the 1870s some minor provisions were passed through executive orders (Naff, Riccucci and Fox-Freyss 2001; Shafritz 2012). During the Hayes presidency, various civil service reform associations were established, with the New York civil service reform association as the first one (Congress 1976). In 1881, the newly elected President Garfield was shot by a job seeker disappointed by the patronage system (Hoogenboom 1959; Dresang 1982; Naff, Riccucci and Fox-Freyss 2001; Theriault 2003; Shafritz 2012). This sparked national attention to the issue of civil service reform. In the same year, Senator Pendleton presented a bill to the Senate, which was approved two years later (Hoogenboom 1959; Congress 1976; Naff, Riccucci and Fox-Freyss 2001; Theriault 2003). The Pendleton Act established three principles in civil service: competitive examination, political neutrality, and security of tenure (Hoogenboom 1959; Congress 1976; Skowronek 1982; Shafritz 2012). In other words, civil servants started to be hired and promoted based on examination and no removal on political (and religious) grounds was allowed (Hoogenboom 1959). [2] As reported by Hoogenboom

[2] It should be noted that the Civil Service Commission in charge of implementing the reform put more effort into enforcing some principles over others. For instance, since the very beginning the commission

(1959), almost half of the entire civil service was covered by this act by 1900. It should also be noted that a good portion of the civil servants covered by the act were top-level bureaucrats (Hoogenboom 1959).

Beginning in the 1880s through the 1920s, Congress passed a series of minor laws that sought to strengthen the merit system. These included the 1912 Lloyd-La Follette Act, which improved protection from dismissal (Huber and Ting 2016). Finally, by the 1930s, two main pieces of legislation were enacted. First, the 1930 Hatch Act sought to restrict political activity by civil servants (Congress 1976). Second, in 1939 the Congress amended the Social Security Act, requiring the establishment of merit systems in those state departments cooperating with the administration of the Act. By the beginning of WWII, a strong merit system was in place at the federal level and it was not subject to any major change until the Civil Service Reform Act in 1978, which established performance review and merit pay, and the 1993 National Performance Review, which continued along the line of increasing public servants' accountability and reducing their independence (McGrath 2013).

Civil service reforms at the federal level triggered an active debate at the state level. [3] Nonetheless, 50 years after the Pendleton Act, only nine states had introduced comprehensive merit systems in the spirit of that act, namely, systems characterized by meritocratic recruitment, bureaucratic tenure, and political independence. The real push came with the 1939 amendment to the Social Security Act. In response to this, states adopted limited merit systems covering all agencies administering funds under this act (Ujhelyi 2014). Simultaneously and in some cases independently from the pressure from the federal level, states started to reform their civil service radically. New York and Massachusetts were the first

strongly focused on competitive examination, whereas only a few decades after its establishment started focusing on competitive promotions.

[3] It should be noted that the initial stimulus for reform at the federal level came from the New York civil service reform association. Policy diffusion between the federal and the state level was not exclusively top-down.

states to implement a comprehensive merit system at the end of the 19th century. These were followed by most of the states before WWII and a few laggards in the 1950s and 1960s. More recently, starting with Georgia in 1996, several states have undergone a process of decentralization of the state personnel system (McGrath 2013), to improve accountability and performance, along the line of the 1993 National Performance Review.

2.2 Public Goods and Private Benefits

Several factors are considered relevant for civil service reform across the U.S. states. Traditional explanations focus on the reformist movement for good government of the 19th century (Johnson and Libecap 1994; Kernell and McDonald 1999; Weber and Brace 1999; Ruhil and Camões 2003; Theriault 2003; Folke, Hirano and Snyder 2011; McGrath 2013; Housel 2014; Ujhelyi 2014). At the end of the 19th century, a militant minority composed of politicians from both parties and civil society members started to exert increasing pressure on the federal government to improve the efficiency of bureaucracy (Johnson and Libecap 1994).

Similar dynamics were in place at the state level. In 1950s Oklahoma, for example (Housel 2014), an advocacy coalition composed of newspapers, educators, a few legislators, and the League of Women Voters was behind the governor's efforts to introduce a comprehensive civil service reform. The reform extended merit principles to most state employees.

The reason for the emergence of this progressive movement was arguably the perceived inefficiency of the patronage system. A spoils system meant a bureaucratic system characterized by high turnover (especially for high-level positions) and mismanagement of human resources (Johnson and Libecap 1994; Folke, Hirano and Snyder 2011; McGrath 2013; Housel 2014; Ting et al. 2013). Under a patronage system, at every change in government, a high share of employees used to be fired and new ones hired. In 1950s Pennsylvania, more than two-thirds of public employees in highway positions changed jobs when Democrats took power (Sorauf 1959).

High turnover was coupled with serious mismanagement of human resources. Civil servants were not hired or allocated according to efficiency criteria, but according to political affiliation and also other aspects, such as friendship and ethnicity (Sorauf 1959; Johnston 1979). Civil servants were supposed to spend a good portion of their working time (as well as their salary) participating in political activities, such as attending political meetings, canvassing voters, and so on (Hoogenboom 1959; Ting et al. 2013). [4] In this spoils system, the power of politicians on state civil servants was strong, much stronger than that of business.

The consequences of this system were a loss of resources, amounting to millions of dollars in some states (Housel 2014); loss of trust in the government (Housel 2014); a very low consideration for public service as an occupation (Stahl 1956); strong sense of insecurity in public employment (Sorauf 1959); low salaries, especially compared with the private sector (Folke, Hirano and Snyder 2011). The traditional explanations focusing on the reformist movement for a good government were later incorporated into a more contemporary public management approach to civil service reform (McGrath 2013).

While the explanations discussed above focus on the incapacity of patronage systems to create public goods, other explanations looked at the private benefits the patronage system used to create for specific constituents. Some studies emphasize the variation in preferences between different constituencies to which different bodies were accountable as a crucial factor determining the introduction of the merit system. As Housel (2014) points out for the introduction of comprehensive civil service in Oklahoma, traditionally the legislature used to represent the rural part of the state, whereas the governor the urban part, which used to benefit the most from the patronage system. These dynamics are also found at the federal level, where the introduction of rural free delivery routes, a central part of the programme which replaced the patronage system in the postal office, became central for Republicans to gain the support from farmers in key areas (Kernell and McDonald 1999).

[4] For instance, in 1882 in Virginia civil servants were assessed five percent by local politicians (i.e. they were supposed to contribute five percent of their salary to the local party) (Hoogenboom 1959).

Recent work in political economy has tried to make sense of these two contrasting views by looking at the electoral incentives behind legislators' behavior. Huber and Ting (2016) distinguish between the so-called "insurance" and "investment" views.

The "insurance" view suggests that incumbents will favor civil service reform when they are electorally vulnerable (Skowronek 1982; Geddes 1994; Ruhil and Camões 2003; Ting et al. 2013). According to Ting et al. (2013), the incumbent party will create an independent bureaucracy when it is losing ground, to avoid that the other party gets in control of the bureaucracy under a spoils system. The intuition of this model is that for the incumbent party, an independent civil service is preferable to a spoils system controlled by the opposing party. This follows from an electoral advantage to incumbency due to a spoils system. With a merit system, moreover, the incumbents can lock in both policies and loyal employees as agents, at least in the short term (Ruhil and Camões 2003; Ujhelyi 2014).[5]

Conversely, the "investment" argument says that incumbents will favor delegation when they are electorally secure, as politicians need the assurance of remaining in power to reap the benefits of delegation (Huber and Ting 2016). This logic is in line with those explanations discussed above that focus on the efficiency of the bureaucratic system in creating public goods.

These two views can be nested in a unique framework focusing on party polarization. The model proposed by Huber and Ting (2016) assumes that incumbents choose the mix between patronage appointees, functional to provide private benefits, and civil servants, functional to generate public goods, depending on the opposing party's preferences. Investments in good government accrue benefits in the future and help the opposing party once they get into power. Therefore incentives to invest in civil service will be higher if the opposition has similar policy preferences. This is still dependent on the prospect of winning, however; when the incumbent is electorally vulnerable, the incumbent puts greater weight on the

[5] According to Enikolopov (2014), patronage allows targeting of a particular group of voters and solving the commitment problem in vote-buying.

opposition's preferences.

As a complement to these recent insights, we can now propose a simple model that shows how these considerations are particularly relevant when considering the possibility of divided government.

3 A Simple Model

In this section we first illustrate the equilibrium delegation patterns for all combinations of principals and agents and in all types of civil service regimes; then we will draw the implications for reform incentives by the legislators.

3.1 Divided Government Forms and Delegation

For policy-making and legislative activity, a state legislature can have different active players depending on the context. We can think of potentially two *principals*—the two main parties— and potentially two *agents*—the governor and the bureaucracy. Denote by L and R the two potential principals and by G and B the two potential agents. The reason for using the term "potential" is that under unified government there is effectively only one principal (the party controlling the majority in both chambers) while under divided government there are two principals; and while in a spoils system G and B are one agent (because B is chosen by G), they are two separate agents in a merit system.

In periods of divided government such that the House and the Senate are controlled by different parties, which we will call the *divided chambers* case, there is at least one principal with high distance from the ideology of the Governor, and hence we should expect intuitively less policy-making and legislative activity delegated to the Governor. Also in the other type of divided government, where the chambers are controlled by one party but the Governor belongs to the other party, which we will call the *divided Governor* case, we should expect low levels of policymaking and legislative activity delegated to the Governor. However, these two subcases of divided government may behave differently, as we shall see, in terms of delegation to the bureaucracy.

The formal model captures these ideas in the simplest possible way. Denote by $H \in \{L, R\}, S \in \{L, R\}$ the House and Senate majority, respectively. Assume that each policy decision that needs to be made has the following features. Given the realization of a state of the world $\theta \in \Theta \equiv [0, \bar{\theta}]$, the ideal point for party L would be $\theta - k$, whereas the ideal point for R would be $\theta + k$, for some $k > 0$ capturing bias. This holds for both legislative chambers, the governor, and, under a spoils system, the bureaucracy. Under a merit system, however, the independent bureaucracy B has ideal point θ. Assume that all players have linear loss functions from the bliss point. Meanwhile, assume that the House legislators and Senators have a uniform prior over Θ. G and B can observe perfectly the realization of the state of Nature θ.[6]

Timeline:

1. Nature chooses:
   (a) $\theta \in \Theta$;
   (b) $H \in \{L, R\}$;
   (c) $S \in \{L, R\}$;
   (d) $G \in \{L, R\}$.
2. G and B observe everything, whereas H and S remain uninformed about θ.
3. Then H can either

[6] Of course we could weaken the sharp contrast by making legislators have a slightly better probability distribution given a noisy signal from Nature and we could make G and B have a more precise signal but not perfect, but the sharp contrast between perfectly informed agents and totally clueless legislators is the easiest to model and we do not believe the qualitative results could change in the more complex extensions just mentioned. Note also that especially in the early period of our dataset legislators were part-time politicians, hence the difference in expertise w.r.t. the agents was probably quite large.

(a) propose a delegation choice (G or B) to S; or

(b) propose to choose the policy or legislation without delegation.

4. If H chooses the former, then S can accept or reject; when they accept, the proposed delegation obtains; in case of rejection the policy has to be chosen by political compromise as in the latter case.

5. If H has chosen to go for no delegation or proposed a delegation that was rejected, in both cases the policy chosen is the one that generates equal expected utility gains for H and S, in the spirit of Nash bargaining.

6. In case of proposed and accepted delegation, whoever is delegated, G or B, decides the policy.

Unified government case:

Suppose Nature has chosen $H = S = G = j,\ j = L, R$. In equilibrium, H proposes delegation to G, and S accepts. There is no need for a formal proof, as G has the same preferences as principals and perfect information. In the case of a spoils system, there could also be delegation to the bureaucracy, since $B = j$ with the same preferences and same information. Under civil service reform, the legislature would strictly prefer to delegate to the governor as the bureaucrat has a different ideal point. Therefore under civil service reform and unified government, delegation to bureaucracy is never chosen in equilibrium.

Divided Governor case:

Suppose now that Nature chooses $H = S = j,\ G = -j,\ j = L, R$. The analysis should be separated between a spoils system and a merit system.

Under a spoils system, we have $G = B$ and both governor and bureaucracy have the opposite preference bias to the legislatures. Therefore delegation does not occur in equilibrium if $k > \bar{\theta}/8$. . To see this, note that without delegation the principal — L without loss of generality — would choose the policy $\bar{\theta}/2 - k$, whereas delegation would yield $\theta + k$. Given that the expected information loss by not delegating is $\bar{\theta}/4$, delegation is never chosen if $\bar{\theta}/4 < 2k$, i.e. if $k > \bar{\theta}/8$.

Under a merit system, the bureaucrat is unbiased and therefore closer to the legislature than the governor. Therefore delegation to bureaucracy is strictly preferred to delegation to governor under the merit system. We will discuss this further below when considering the legislature's decision of whether to introduce civil service reforms.

What are the conditions for this form of delegation to B in case of a merit system? With no delegation, Nash bargaining yields a policy choice equal to $\bar{\theta}/2 - k$ (still considering that the chambers are controlled by L). With such an uninformed choice, the expected loss for the principal w.r.t. an informed choice is again $\bar{\theta}/4$. On the other hand, delegating to an independent bureaucrat yields a loss of k. Thus, delegation to an independent bureaucracy (or the temptation to make a civil service reform if not yet in place and not too costly) obtains only if

$$k < \bar{\theta}/4. \tag{1}$$

Divided chambers case:

If Nature chooses $H = j$ and $S = -j$, condition (1) is a necessary condition for existence of an equilibrium with delegation to G.[7] However, (1) would not be sufficient. In fact, delegation to G is dominated, even when (1) holds, by delegation to B if there is a merit system. The reason is that B will choose θ without bias, hence eliminating the tradeoff for the divided principals: the information improvement would come at no bias cost, hence H and S must prefer such a delegation and it becomes the unique equilibrium of the game.

In conclusion,

Proposition 1:

[7] With divided chambers Nash bargaining would generate $\bar{\theta}/2$, G if delegated would choose the correct θ but would apply her policy bias, hence the tradeoff is the same as the one in the previous case for delegation to B.

– (I) Under unified government there is delegation to G.

– (II) Delegation to B is the only equilibrium with a merit system under divided chambers.

– (III) In the divided governor subcase delegation to B with a merit system obtains if and only if (1) holds. For even lower values of k, $k < \bar{\theta}/8$, delegation to B would happen in equilibrium even under a spoils system.

For direct evidence of the policy game delegation results of Proposition 1(I), see Epstein and O'Halloran (1999); Franchino (2004). The other two parts of Proposition 1 will now be useful for the determination of the reform incentives.

3.2 Implications for Civil Service Reforms

The above analysis of equilibrium delegation under all relevant conditions can be used also to characterize the incentives to make a civil service reform when the status quo is a spoil system.

Suppose that before playing the policy game described above H and S can also choose to reform the spoil system and introduce instead a merit system, with a simple consensus rule, and assume a cost of reform $c > 0$. Since under a unified government the equilibrium delegation for policy choices is to G, the civil service reform is never chosen, for all $c > 0$.

On the other hand, under divided chambers, there would be always consensus to go for a civil service reform for sufficiently small c.

Finally, a threshold value of c below which civil service reform is chosen exists also under divided governor, but subject to the additional polarization condition (1).

In conclusion:

Proposition 2:

Incentives to reform civil service to introduce a merit system may exist only under divided government, and especially so under divided chambers.

Proposition 2, of course, says "may" because a static model can only capture one incentive factor. For example, if in the divided governor case they expect that with high probability the next elections will bring about a unified government then, with a sufficiently low discount rate, a civil service reform would not be chosen even if c is low and polarization is low.

However, the static contrast between unified and divided government in terms of incentives to reform are sharp enough that even the introduction of various types of dynamic caveats would not likely alter our testable prediction. For the dynamic considerations to reverse the static prediction in terms of overall incentives one would have to argue that the probability of reverting back to unified government next period when today we have a divided government is much higher than the probability of facing divided government next period when today we have divided government. Interestingly, one of our empirical findings below is that the significance of divided government for reform incentives are particularly strong when both chambers have a large majority, implying a larger probability of continuation of divided government in the next legislature.

Given recent work by (Caughey, Xu and Warshaw 2017) that finds a minimal partisan difference in state policymaking, we could venture to say that the parameter k of polarization in our model should be thought of as quite small. This implies that the most important general prediction is a higher probability of civil service reform under divided government, whereas the distinction between divided chambers and divided governor could be second-order empirically.

An alternative theory that could lead to the same prediction we make is that both parties would like to reform and modernize state government but no party is willing to unilaterally forego patronage. Divided government presents the opportunity to solve this dilemma. This mechanism is slightly different from the one we propose in the formal model but is in the same general spirit.

Our mechanism is instead quite different from the one proposed by Huber and Ting: they emphasize the fear of replacement by an incumbent, whereas we emphasize a choice during divided government and our mechanism does not need a dynamic framework. The role of party polarization is instead similar in the two different theories. Our first order prediction is that reform is much more likely to happen in divided government years, something that we now turn to test.

4 Evidence on Divided Government and Civil Service Reform

The model described in the previous section generates a prediction that civil service reform is more likely under divided government. This section takes this prediction to the data.

4.1 Anecdotal Evidence

Before discussing the statistical analysis, we provide some anecdotal evidence that the push for civil service reform was mainly bipartisan and the main reforms across the U.S. states were enacted when a single party did not have full control over the government. This is different from what the contemporary political economy literature normally assumes.

The semi-annual Book of the States (BoS) provides detailed discussions of the process of state government reorganization. The BoS documents that reorganization is often overseen by bi-partisan commissions and supported by the use of study groups and public opinion polls (BoS 1954 Section IV). The introduction of the merit system across U.S. states was no different. In the 1940s and 1950s, a series of Little Hoover Commissions, modeled after the Hoover Commission at the federal level, were central in making proposals for strengthening central personnel agencies in several states, such as Montana, Nevada, Illinois, Louisiana, and New Mexico (BoS 1954 Section IV).

An interesting example of this process was Louisiana's 1940 law enacting a comprehensive civil service. The law was drafted by a group of citizens with the help of public interest attorneys, rather than by lobbyists or legislators themselves (Hyneman 1940). The legislation set up a state civil service commission, composed of individuals appointed by state universities and confirmed by the governor, to oversee the implementation of the merit system.

The drafters realized that the merit system would need strong public support to survive (Hyneman 1940).

The reform in Michigan, around the same time, also demonstrates the importance of a bipartisan commission. According to Litchfield (1941, p.80) , “The amendment seeks to set up a system in which the actual administration is conducted by a competent personnel director, who is to be advised by, and in the last analysis checked by, a non-salaried, bipartisan commission”.

Similarly, bipartisan commissions and civil society groups were central in the first wave of civil service reform at the end of the 19th century. The New York Civil Service Reform Association is the exemplary case, which inspired the Civil Service Commission created by the Pendleton Act at the federal level.

Comprehensive civil service reforms were introduced at times when no single party had a stronghold over the government. As pointed out by Dresang (1982, p. 44):

> the cluster of states where reforms have been most frequent and far-reaching are states where there is meaningful two-party conflict in gubernatorial races and where there have indeed been changes in governors and in party control of that office during the period being examined.

This was true also at the federal level, where the discussion about the introduction of a merit system started between the Democrat President Johnson and the Republican-controlled Congress (Ruhil and Camões 2003). In the process of extending the merit system at the federal level, the Congress decided to adopt a strong commitment device (enshrined in the Pendleton Act), which envisaged the automatic expansion of the merit system as the federal civil service grew (Johnson and Libecap 1994). This was done to avoid potential conflicts (and Presidential vetoes) on periodic votes on the expansion of the civil service (Johnson and Libecap 1994).

4.2 Data

This subsection describes the data used for the analysis of divided government and civil service reform. First, we define civil service reforms as the extension to U.S. state agencies of the principles established by the Pendleton Act. These include meritocratic recruitment, bureaucratic tenure, and political independence.[8]

The argument that these civil service reforms created an "independent" bureaucracy, as defined in our theory, requires some discussion. First, Schuster (2018) shows that the introduction of bureaucratic tenure, one of the principles in the reforms we study in this work, has a strong effect on the principal-agent relation in place between political patrons and appointee-clients. Tenure protections reshape the incentive structure under which bureaucrats act, as legislators lose their power over their career and remuneration (Schuster 2016, 2018). As a result, bureaucrats become less responsive. The same can be argued for political independence, as bureaucrats no longer have to be associated with a party to keep the job and make a career, and meritocratic recruitment, as parties no longer can use recruitment as a mechanism to control current and future bureaucrats. To summarize, civil service reform selects for less ideological bureaucrats and imposes weaker political incentives once they are in office. Therefore we argue that the bureaucrat is better able and more incentivized to choose the policy that best matches the state of Nature, even if that means going against the policy bias of the party in power.[9]

Second, we also look at another dimension of the independence of bureaucracy. Indeed,

[8]Some work (Ruhil and Camões 2003) focuses on the first introduction of merit principles in state civil service, which in most cases it was partial, namely applied only to some agencies. In line with the recent political economy literature (Folke, Hirano and Snyder 2011; Ting et al. 2013; Ujhelyi 2014), we look at the introduction of merit principles to the entire civil service. We acknowledge that job tenure and political neutrality were added gradually to the Pendleton Act.

[9]It should be noted that appointment mechanisms are common practice in measuring delegation to independent agencies (Volden 2002*a*).

it might be that although independent bureaucrats can more easily follow Nature, their role is attenuated by the presence of politically appointed top-level bureaucrats. In this vein, we consider the appointment rules for the personnel executive, namely whether the personnel executive is appointed by the governor or an independent body (Ujhelyi 2014). Under the governor's appointment, there is less independence.

The time period under analysis is 1965 through 1983. The main practical reason is that data on the appointment rules of the personnel executive from Ujhelyi (2014) is available only for this period. In addition, the pre-1980s reforms are more comparable in this regard (Ujhelyi 2014). Also, the 19th century and early 20th century reforms at the state level were strongly influenced by top-down policy diffusion from the federal level (Ruhil and Camões 2003). For instance, the 1930 Hatch Act represented an important piece of legislation for the civil service, restricting the ability of civil servants to take part in political activities at the federal level. It had a strong effect on the civil service reforms enacted after that year at the state level. Also, in 1939 the Congress amended the Social Security Act, requiring the establishment of merit systems in those departments cooperating with the administration of the Act. As such, in the study of the causes of civil service reform, it is advisable to concentrate on the reforms which started after these waves of policy diffusion from the federal level.[10] In any case, we include year fixed effects to control for any nationwide federal level influences.

We have the following variables for variation in civil service rules. First, we have a dummy variable for the introduction of a comprehensive merit system in the state bureaucracy. Second, we consider the appointment rules for the personnel executive.[11] In the preferred

[10] It should be noted that this sample allows controlling for the influence of vertical policy diffusion from the federal level and horizontal policy diffusion across states. The period of analysis ends at the time of the Civil Service Reform Act, which started a period of retrenchment of the merit principles in the public administration, at federal and then at local level (McGrath 2013; Ujhelyi 2014).

[11] As explained in the Appendix, we also thoroughly reviewed the primary and secondary sources suggested by Ujhelyi (2014) and Ting et al. (2013) (see Table A1 in the Appendix).

specification, we combine these two variables together, deriving a single index to summarize independence. This variable takes value 0 where no comprehensive merit system is in place, value 1 where a comprehensive merit system (with no independent personnel executive) is in place, and value 2 where a comprehensive merit system (with an independent personnel executive) is in place. We also use the introduction of a comprehensive merit system as a dichotomous dependent variable in one specification. Over this period, 12 states with patronage systems introduced comprehensive merit systems as defined above. Additionally, looking at reforms that changed appointment rules for the personnel executive, there were 38 changes in 26 states (Ujhelyi 2014). Overall, we have variation in the dependent variable for 30 states. Moreover, it should be noticed that variation does not only go one way: in the period under analysis, some states moved from a merit system with an independent personnel executive to one without.

Our data on divided government comes from the partisan balance dataset in Klarner (2003). First, we have *Divided Any*, which means any division of party control across the two legislative chambers and the governorship. Formally, it takes value 0 where there is unified Democratic or Republican control of both the legislature and governor's office and value 1 otherwise. Second, we have *Divided Governor*, which means that the legislature is politically unified, but the governorship is controlled by the other party. A variant of this measure is *Divided Governor Veto*, which captures the more divisive situation where the legislative party has a veto-proof majority.[12] Finally, we define *Divided Chambers* as the case where the two legislative chambers are controlled by different parties.[13] The model highlights the important differences between these forms of divided government.

Control variables are taken from Ujhelyi (2014), which include the following. Citizen

[12]This is a common measure of government divisiveness for separation of powers systems (Epstein and O'Halloran 1994, 1999; Volden 2002*a*,*b*).

[13]In the Appendix, we look at other measures including *Divided Government Tax and Budget* which is a variant of Divided Government Veto.

ideology measures how liberal congressional candidates are, irrespective of their parties, and use their vote share to measure the ideology for the electorate (Berry, Ringquist, Fording and Hanson 1998). The fraction of the urban population measures the percentage of the total population in a state living in urban areas, according to the US Census. We also take into consideration the number of full-time state employees, according to the US Census, and income. For more information on these variables, see the Appendix in Ujhelyi (2014). To some extent, these control variables allow accounting for the alternative explanations the literature has so far put forward. The number of full-time public employees might influence the introduction of a merit system, as a higher number of civil servants employed under a patronage system might lead to a stronger opposition to reform. Conversely, it might also be that the increasing number of patronage positions raises the cost of maintaining the spoils system, as happened at the federal level (Johnson and Libecap 1994). Table A2 in the Appendix shows the descriptive statistics of the variables used in this analysis.

4.3 Empirical Strategy

Our empirical approach relies on fixed effects estimation using ordinary least squares. We use state fixed effects to control for any time-invariant state-level confounding factors.[14] We use year fixed effects to control for nationwide time-varying factors. We use state-level time trends to allow for pre-existing confounding trends.

We estimate a linear model of $MeritIPE_{st}$, which equals zero for no reforms, one with a merit system (but no independent personnel executive), and two for a merit system with

[14]As mentioned above, by the 1940s most states had already introduced some sort of merit system in the civil service (Ruhil and Camões 2003). Some of them had introduced partial reforms, while others had enacted comprehensive reforms. We use state fixed effects to control for this heterogeneity across states at the beginning of our period of analysis.

an independent personnel executive. The model is

$$MeritIPE_{st} = \alpha DividedGovernment_{st} + X'_{st}\beta + \gamma_s + \delta_t + \phi_{st} + \varepsilon_{st} \tag{2}$$

where $DividedGovernment_{st}$ measures divided government, X_{st} is a vector of time-varying state characteristics, γ_s and δ_t are state and year fixed effects and ϕ_{st} represents state time trends.

We cluster standard errors by state to allow serial correlation within state over time (Bertrand, Duflo and Mullainathan 2004). Consistent estimation of treatment effects follows from the standard assumptions on parallel trends. We use the reghdfe Stata package.[15]

4.4 Results

Our first results are reported in Table 1. We look at the effect of any divided government on merit reform choice probability using the fixed-effects model in (2). We can see that with state fixed effects, or with state and year fixed effects, there is a positive and significant effect. Before getting to other specifications, we also report in Column 3 the same specification as 2 with Divided Veto as the explanatory variable. This is a more divisive partisan condition (legislators have a veto-proof majority), and we would expect a larger effect. As can be seen, it is a larger coefficient and it is significant at the 1% level. Overall, these results support the prediction in Proposition 2 that merit reform is more likely under divided government.

Next, we see that the effect of Divided Any is robust to the inclusion of controls (Column 4), but not to the inclusion of state trends (Column 5). The effect is marginally significant ($p < .1$) in the ordered logit model, which relaxes the linearity assumption in the outcome variable. Finally, there is no effect of Divided Any on the binary merit system outcome which disregards the IPE reform.

Our second set of results, reported in Table 2, unpack the divided government effects sep-

[15]This is the panel data model discussed in Correia (2016).

Table 1: Divided Government and Civil Service Reform

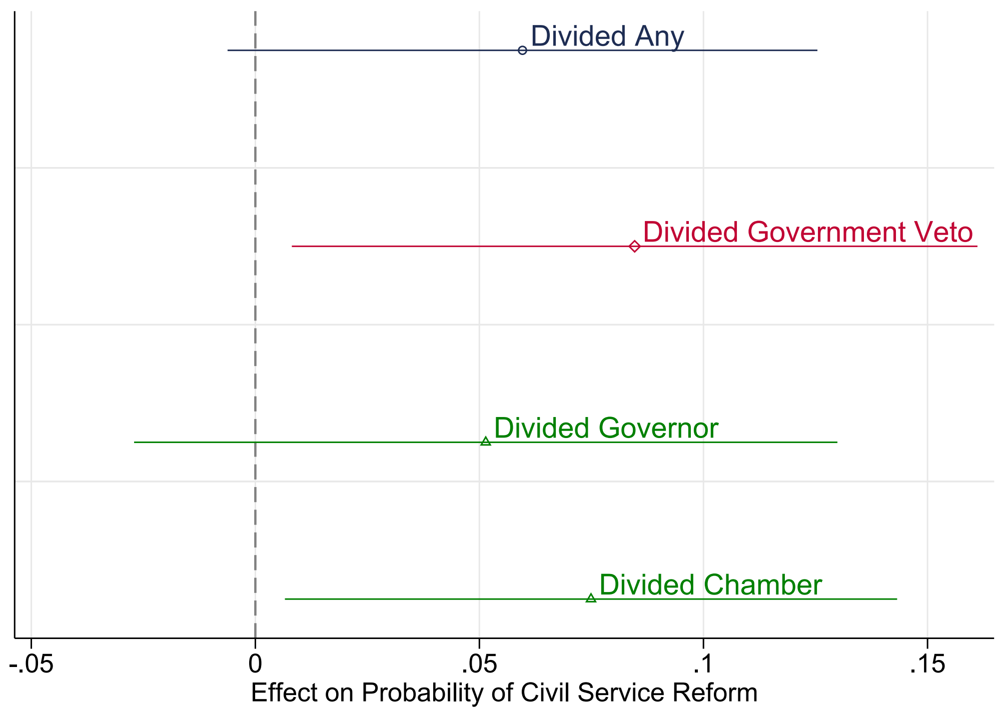
VARIABLES	(1) Merit IPE	(2) Merit IPE	(3) Merit IPE	(4) Merit IPE	(5) Merit IPE	(6) Merit IPE - Ologit	(7) Merit
Divided Any	0.109*	0.110*		0.0931*	0.0535	0.559+	0.0105
	(0.0451)	(0.0455)		(0.0454)	(0.0374)	(0.306)	(0.0143)
Divided Veto			0.149**				
			(0.0505)				
Citizen Ideology				1.191**	0.616*	8.142**	0.265
				(0.434)	(0.250)	(2.874)	(0.184)
Percent Urban				6.816+	3.803	45.33	5.501**
				(3.561)	(8.033)	(29.55)	(1.781)
Income				-0.00110	0.0398	-0.0987	-0.0191
				(0.0629)	(0.0826)	(0.449)	(0.0273)
Full-time Employment				-0.518	0.235	-2.678	-0.380
				(0.572)	(0.371)	(4.175)	(0.248)
Observations	830	830	830	830	830	830	893
R-squared	0.608	0.631	0.633	0.658	0.838		0.704
State FE	X	X	X	X	X	X	X
Time FE		X	X	X	X	X	X
State-Specific Trends					X		

Notes: Column 1 shows the results for the OLS regression model with state fixed effects. Column 2 adds year fixed effects. Column 3 is the same as Column 2, but with Divided Government Veto as the explanatory variable rather than Divided Any. Column 4 goes back to Divided Any and adds time-varying controls (citizen ideology, urban population, (logged) number of state employees and (squared) income). Column 5 uses these controls and adds state-specific time trends. Column 6 uses ordered logistic regression and includes state and time fixed effects and controls. Column 7 uses the same specification of Column 4, but uses the introduction of a comprehensive merit system as (dichotomous) dependent variable, without taking into consideration the appointment rules for the personnel executive. In all models standard errors are clustered by state. **p<.01; *p<.05; +p<.1.

arately by Divided Governor (unified legislature and opposing governor) and Divided Chambers (divided legislature). With state fixed effects (Column 1) or state and year fixed effects (Column 2), there is a positive effect of both variables on civil service reform (marginally significant at $p < .1$). After adding controls (Column 3), the effect of Divided Governor is reduced to zero while the effect of Divided Chambers is increased and becomes statistically significant. A larger and more significant effect for Divided Chambers (relative to Divided Governor) is seen when including state trends (Column 4), and in the ordered logit specification (Column 5). Finally, in Column 6 we see that in the case of basic merit reform disregarding IPE (Column 6), there is no effect of Divided Governor but a strong and statistically significant effect ($p < .01$) of Divided Chambers.

These results are summarized by the coefficient plot in Figure 1. There is a generally positive effect of divided government on the probability of civil service reforms. That effect is

Figure 1: Summary of Results



Notes: Coefficient plot for main regression results. Estimates are from regressions of $MeritIPE$ on Divided Any (first line, in blue), Divided Veto (second line, in red), and Divided Governor + Divided Chambers (third/fourth lines, in green). Regressions include state fixed effects, year fixed effects, and state-specific trends, with standard errors clustered by state. Error spikes give 90% confidence intervals.

Table 2: Divided Governor, Divided Chamber, and Civil Service Reform

VARIABLES	(1) Merit IPE	(2) Merit IPE	(3) Merit IPE	(4) Merit IPE	(5) Merit IPE - Ologit	(6) Merit
Divided Governor	0.112*	0.110+	0.0765	0.0438	0.439	-0.00878
	(0.0531)	(0.0581)	(0.0557)	(0.0453)	(0.389)	(0.0193)
Divided Chambers	0.101+	0.111+	0.130*	0.0712+	0.770*	0.0535**
	(0.0557)	(0.0605)	(0.0584)	(0.0397)	(0.363)	(0.0188)
Citizen Ideology			1.192**	0.614*	8.205**	0.268
			(0.436)	(0.250)	(2.867)	(0.184)
Percent Urban			7.020+	3.873	46.69	5.724**
			(3.617)	(8.003)	(29.79)	(1.802)
Income			0.00488	0.0426	-0.0589	-0.0133
			(0.0631)	(0.0839)	(0.452)	(0.0276)
Full-time Employment			-0.541	0.230	-2.830	-0.406
			(0.579)	(0.374)	(4.212)	(0.251)
Observations	830	830	830	830	830	893
R-squared	0.608	0.631	0.659	0.838		0.707
State FE	X	X	X	X	X	X
Time FE		X	X	X	X	X
State-Specific Trends				X		

Notes: Column 1 shows the results for the OLS regression model with state fixed effects. Column 2 adds year fixed effects and Column 3 time-varying controls (citizen ideology, urban population, (logged) number of state employees and (squared) income). Column 4 uses these controls and adds state-specific time trends. Column 5 uses ordered logistic regression and includes state and time fixed effects and controls. Column 6 uses the same specification of Column 3, but uses the introduction of a comprehensive merit system as (dichotomous) dependent variable, without taking into consideration the appointment rules for the personnel executive. In all models standard errors are clustered by state. **p<.01; *p<.05; +p<.1.

largest and most significant for the Divided Veto and Divided Chambers treatments. Overall, these findings support the main predictions in Proposition 2. Not only does divided government generally increase the frequency of merit reform, that effect is significantly stronger under Divided Chambers.

5 Conclusion

The analysis in this paper shows that when the government is divided, it is more likely that a strong civil service reform takes place. Under unified government, we predict that only delegation to the Governor can be rationalized. Under divided chambers, both parties would like to delegate as much as possible to the bureaucracy but only if such a bureaucracy is independent, hence the preference for delegation to an independent agency generates also the incentive to push for a civil service reform if the status quo displays a spoil system.

The previous literature stressed the very different possibility that a party in power would want to create a merit system if they are about to lose power, to avoid that the opposing party gets hold of the spoils system or sets policies ideologically disliked. Other work suggests that it is when the party in government is sure about maintaining control over the state institutions for the foreseeable future that they create a merit system, to reap the benefits of an efficient bureaucracy. Both strands rely on the assumption that there is a single party in power (i.e. unified government). Our theory is different, emphasizing, on the contrary, the crucial role played by divided government of various kinds and strength, both in terms of delegation incentives and in terms of reform incentives. The empirical evidence supports our novel view.

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Appendix: Divided Government, Delegation, and Civil Service Reform

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Contents

1 Dates of Adoption of Merit Systems

Table A1 below shows the dates of the adoption of the merit systems across US states. We rely on two main secondary sources, namely Ujhelyi (2014) and Ting, Snyder, Hirano and Folke (2013). Where the dates are the same in these two sources, no further research is carried out. Where these two dates differ, we look for further secondary and primary sources. In some cases, no sources were available and hence we relied on Ujhelyi (2014) 'as default'. In those cases where we find that primary sources contradict his findings, we specify it in the Notes column.

State	Introduction Merit System			Notes
	Ujhelyi (2014)	Ting et al. (2013)	This Paper	
AK	1960	1960	1960	Same
AL	1939	1939	1939	Same
AR	1969	1968	1969	Ujhelyi (2014) as default
AZ	1968	1968	1968	Same
CA	1913	1913	1913	Same
CO	1919	1918	1918	Colorado Constitution amended in 1918
CT	1937	1937	1937	Same
DE	1968	1966	1966	Law enacting merit system passed in 1966
FL	1967	1968	1967	Florida statute enacted in 1967
GA	1945	1953	1945	Georgia constitution amended in 1945
HI	1955	1955	1955	Same
IA	1967	1966	1966	Iowa Code enacted in 1966
ID	1967	1969	1967	Ujhelyi (2014) as default
IL	1905	1905	1905	Same
IN	1941	1941	1941	Same
KS	1941	1941	1941	Same
KY	1960	1954	1960	Law passed in 1960
LA	1952	1940	1952	Ujhelyi (2014) as default
MA	1885	1885	1885	Same
MD	1921	1921	1921	Same
ME	1937	1937	1937	Same
MI	1941	1937	1940	Ujhelyi (2014) as default
MN	1939	1939	1939	Same
MO	1945	1946	1945	Constitution amended in 1945
MS	1977	1976	1976	Code enacting merit system adopted in 1976
MT	1976	1976	1976	Same
NC	1949	1949	1949	Same
ND	1975	1974	1975	Ujhelyi (2014) as default
NE	1975	1974	1975	Ujhelyi (2014) as default
NH	1950	1954	1950	Ujhelyi (2014) as default
NJ	1908	1908	1908	Same
NM	1961	1962	1961	Ujhelyi (2014) as default
NV	1953	1953	1953	Same
NY	1883	1883	1883	Same
OH	1913	1913	1913	Same
OK	1959	1958	1959	Merit system adopted in 1959
OR	1945	1945	1945	Same
PA	1963	1968	1963	Ujhelyi (2014) as default
RI	1939	1939	1939	Same
SC	1969	1973	1969	Ujhelyi (2014) as default
SD	1973	1968	1973	Ujhelyi (2014) as default
TN	1937	1937	1937	Same
UT	1963	1962	1963	Ujhelyi (2014) as default
VA	1943	1942	1943	Ujhelyi (2014) as default
VT	1950	1950	1950	Same
WA	1961	1961	1961	Same
WI	1905	1905	1905	Same
WV	1989	1989	1989	Same
WY	1957	1956	1957	Personnel Act adopted in 1957

2 Descriptive Statistics

Table A1: Descriptive Statistics

VARIABLES	N	mean	sd	min	max
Civil Service Reform	950	0.889	0.314	0	1
Citizen Ideology	912	0.432	0.175	0.00963	0.869
Income	912	10.68	1.889	5.297	15.80
IPE	849	0.455	0.498	0	1
Percent Urban	912	0.659	0.143	0.321	0.917
Population	912	7.927	1.000	5.775	10.14
Full-time Employment	912	10.47	0.846	8.434	12.40
Divided Government	931	0.458	0.498	0	1
Simple Divided Government	931	0.300	0.458	0	1
Divided Government Veto	931	0.345	0.476	0	1
Divided Government Tax and Budget	931	0.361	0.481	0	1
Civil Service Reform IPE	849	1.331	0.685	0	2
Divided Governor	931	0.300	0.458	0	1
Divided Chamber	950	0.155	0.362	0	1
Divided Any	931	0.458	0.498	0	1

3 Robustness Checks

Table A2: Divided Government Veto and Civil Service Reform

VARIABLES	(1) Merit IPE	(2) Merit IPE	(3) Merit IPE	(4) Merit IPE (O. Logit)	(5) Merit
Divided Government Veto	0.145**	0.149**	0.0804+	0.852**	0.0302+
	(0.0519)	(0.0520)	(0.0460)	(0.312)	(0.0156)
Citizen Ideology			0.648*	8.242**	0.0404
			(0.258)	(2.942)	(0.138)
Percent Urban			2.497	40.85	2.273
			(8.030)	(29.12)	(3.777)
Income			0.653	1.386	0.342
			(0.430)	(1.770)	(0.204)
Income2			-0.0270	-0.0607	-0.0140+
			(0.0172)	(0.0774)	(0.00823)
Full-time Employment			0.202	-3.170	-0.0219
			(0.388)	(4.207)	(0.146)
Observations	830	830	830	830	893
R-squared	0.609	0.633	0.842		0.852
State FE	X	X	X	X	X
Time FE		X	X	X	X
State-Specific Trends			X		X

Notes: Column 1 shows the results for the OLS regression model with state fixed effects. Column 2 adds year fixed effects and Column 3 time-varying controls (citizen ideology, urban population, (logged) number of state employees and (squared) income) and state-specific time trends. Column 4 uses ordered logistic regression and includes state and time fixed effects and controls. Column 5 uses the same specification of Column 3, but uses the introduction of a comprehensive merit system as (dichotomous) dependent variable, without taking into consideration the appointment rules for the personnel executive. In all models standard errors are clustered by state. **p<.01; *p<.05; +p<.1.

Table A3: Divided Government and Civil Service Reform

VARIABLES	(1) Merit IPE	(2) Merit IPE	(3) Merit IPE	(4) Merit IPE (O. Logit)	(5) Merit
Divided Government	0.109*	0.110*	0.0557	0.577+	0.0157
	(0.0464)	(0.0469)	(0.0386)	(0.307)	(0.0122)
Citizen Ideology			0.645*	7.996**	0.0391
			(0.258)	(2.981)	(0.139)
Percent Urban			2.322	41.10	2.245
			(8.083)	(29.85)	(3.826)
Income			0.664	1.273	0.348+
			(0.430)	(1.769)	(0.205)
Income2			-0.0276	-0.0568	-0.0143+
			(0.0172)	(0.0774)	(0.00829)
Full-time Employment			0.196	-3.087	-0.0246
			(0.389)	(4.248)	(0.146)
Observations	830	830	830	830	893
R-squared	0.609	0.633	0.842		0.852
State FE	X	X	X	X	X
Time FE		X	X	X	X
State-Specific Trends			X		X

Notes: Column 1 shows the results for the OLS regression model with state fixed effects. Column 2 adds year fixed effects and Column 3 time-varying controls (citizen ideology, urban population, (logged) number of state employees and (squared) income) and state-specific time trends. Column 4 uses ordered logistic regression and includes state and time fixed effects and controls. Column 5 uses the same specification of Column 3, but uses the introduction of a comprehensive merit system as (dichotomous) dependent variable, without taking into consideration the appointment rules for the personnel executive. In all models standard errors are clustered by state. **p<.01; *p<.05; +p<.1.

Table A4: Simple Divided Government and Civil Service Reform

VARIABLES	(1) Merit IPE	(2) Merit IPE	(3) Merit IPE	(4) Merit IPE (O. Logit)	(5) Merit
Simple Divided Government	0.0862	0.0815	0.0285	0.300	0.000324
	(0.0522)	(0.0606)	(0.0417)	(0.367)	(0.0142)
Citizen Ideology			0.658*	7.911**	0.0431
			(0.254)	(3.008)	(0.137)
Percent Urban			2.847	41.91	2.519
			(7.999)	(30.16)	(3.752)
Income			0.659	1.242	0.348+
			(0.429)	(1.745)	(0.204)
Income2			-0.0275	-0.0582	-0.0143+
			(0.0172)	(0.0762)	(0.00826)
Full-time Employment			0.197	-3.161	-0.0270
			(0.392)	(4.288)	(0.147)
Observations	830	830	830	830	893
R-squared	0.609	0.633	0.842		0.852
State FE	X	X	X	X	X
Time FE		X	X	X	X
State-Specific Trends			X		X

Notes: Column 1 shows the results for the OLS regression model with state fixed effects. Column 2 adds year fixed effects and Column 3 time-varying controls (citizen ideology, urban population, (logged) number of state employees and (squared) income) and state-specific time trends. Column 4 uses ordered logistic regression and includes state and time fixed effects and controls. Column 5 uses the same specification of Column 3, but uses the introduction of a comprehensive merit system as (dichotomous) dependent variable, without taking into consideration the appointment rules for the personnel executive. In all models standard errors are clustered by state. **p<.01; *p<.05; +p<.1.

Table A5: Divided Government Tax and Budget and Civil Service Reform

VARIABLES	(1) Merit IPE	(2) Merit IPE	(3) Merit IPE	(4) Merit IPE (O. Logit)	(5) Merit
Divided Government Tax and Budget	0.147**	0.153**	0.0788	0.876**	0.0313+
	(0.0521)	(0.0525)	(0.0469)	(0.317)	(0.0159)
Citizen Ideology			0.644*	8.194**	0.0385
			(0.257)	(2.937)	(0.139)
Percent Urban			2.433	41.14	2.237
			(8.012)	(29.15)	(3.771)
Income			0.649	1.372	0.341
			(0.430)	(1.766)	(0.204)
Income2			-0.0269	-0.0609	-0.0140+
			(0.0172)	(0.0774)	(0.00822)
Full-time Employment			0.187	-3.277	-0.0281
			(0.391)	(4.213)	(0.145)
Constant	1.299**	1.054**	-18.96		-25.13
	(0.0183)	(0.104)	(33.36)		(16.05)
Observations	830	830	830	830	893
R-squared	0.609	0.633	0.842		0.852
State FE	X	X	X	X	X
Time FE		X	X	X	X
State-Specific Trends			X		X

Notes: Column 1 shows the results for the OLS regression model with state fixed effects. Column 2 adds year fixed effects and Column 3 time-varying controls (citizen ideology, urban population, (logged) number of state employees and (squared) income) and state-specific time trends. Column 4 uses ordered logistic regression and includes state and time fixed effects and controls. Column 5 uses the same specification of Column 3, but uses the introduction of a comprehensive merit system as (dichotomous) dependent variable, without taking into consideration the appointment rules for the personnel executive. In all models standard errors are clustered by state. **p<.01; *p<.05; +p<.1.

References

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