This book develops an integrated approach to understanding the American economy and national elections. Economic policy is generally seen as the result of a compromise between the president and Congress. Because Democrats and Republicans usually maintain polarized preferences on policy, middle-of-the-road voters seek to balance the president by reinforcing in Congress the party not holding the White House. This balancing leads, always, to relatively moderate policies and, frequently, to divided government.

The authors first outline the rational partisan business cycle, where Republican administrations begin with recessions, and Democratic administrations with expansions, and next the midterm cycle, where the president's party loses votes in the midterm congressional election. The book argues that both cycles are the result of uncertainty about the outcome of presidential elections. Other topics covered include retrospective voting on the economy, coattails, and incumbency advantage. A final chapter shows how the analysis sheds light on the economies and political processes of other industrial democracies.

PARTISAN POLITICS, DIVIDED GOVERNMENT, AND THE ECONOMY

THE POLITICAL ECONOMY OF INSTITUTIONS AND DECISIONS

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To Marianne and Margherita

Contents

Tables, figures, and boxes

TABLES

FIGURES

BOXES

Series editors' preface

The Cambridge series on the Political Economy of Institutions and Decisions is built around attempts to answer two central questions: How do institutions evolve in response to individual incentives, strategies, and choices, and how do institutions affect the performance of political and economic systems? The scope of the series is comparative and historical rather than international or specifically American, and the focus is positive rather than normative.

For two decades, a – perhaps the – central emphasis of the empirical study of political economy in industrial societies has been on one interaction, the relationship between the impact of the economy on electoral outcomes on the one hand and, on the other, the incentives and abilities of elected politicians to affect, and maybe manipulate, macroeconomic policy in ways which depend critically on the institutional context. In this book, Alberto Alesina and Howard Rosenthal provide by far the richest model of this interaction yet developed, along with a battery of supporting, and generally supportive, empirical evidence. Their model incorporates an explicit theory of voting, in which ideologically moderate voters divide their votes over elected representatives in a political regime in which there are multiple elections and executive and legislative powers reside in separate institutions. By doing so voters achieve significant moderation of economic policy, enforcing a balance between politicians' desires to stimulate output and restrict inflation. A number of observable features, including post-election partisan-inspired cycles in output and the regular midterm loss of votes by the executive's legislative partisans, are derived from the model and shown to be regular features of the American political economy. The book's sweeping synthesis, encompassing a wide range of observable phenomena while unifying explicitly rational approaches to both political and economic behavior, makes it a benchmark achievement in the field and a focus for further theoretical development and empirical investigation.

Acknowledgments

Our collaboration was initiated in the fall of 1987 at Carnegie Mellon University, when we realized that electoral uncertainty might be the fundamental force between two empirical regularities. One regularity, that the economy expands after a Democratic victory in a presidential election and contracts following a Republican win, pertains to the economy. The other, that the president's party inevitably loses vote share in midterm congressional elections, pertains to politics. Research on these two cyclical phenomena – the rational partisan business cycle and the midterm electoral cycle – led to this book. In the following six years we moved to Harvard (Alesina in 1988) and to Princeton (Rosenthal in 1993). In addition, both of us went on leave to other institutions, but we managed to collaborate despite a hectic travel schedule which usually kept us apart. (Each of us accuses the other of travelling too much!)

As our work progressed, we received suggestions, help, and encouragement from many friends and colleagues. First of all we were fortunate to have been joined at Carnegie Mellon by John Londregan, whose econometric skills were essential to the empirical analysis of the political economy of the United States. The results of chapter 9 are based on collaborative work with him which appeared in an article in the *American Political Science Review* in 1993.

We owe much to Guido Tabellini. He introduced the two authors to each other; subsequently, both during his visit to Carnegie Mellon University in 1987/88 and in later years he was a source of comments and intellectual stimuli. We have a major intellectual debt to Yossi Greenberg, who clarified our analysis of the voter equilibrium through concepts presented in another Cambridge University Press volume, *The Theory of Social Situations*. Yossi's initial insights came during a superb conference he organized in Haifa in 1988. Several participants in the conference, particularly Alex Cukierman, Melvin Hinich, Richard McKelvey, Thomas Palfrey, and John Roemer, have had a major influence on our work. The development of the uncertainty

model in chapter 4 was influenced by key insights offered by Geir Asheim. Another important source of direction has come from Keith Poole, whose emphasis on ideological politics resulted in much of the empirical work summarized in section 2.6. James Alt was very important for us. First he encouraged us to write this book and then greatly helped us in getting it published by Cambridge University Press. Finally he provided very useful comments on the first draft of the manuscirpt.

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Our own spatial mobility as authors and the very low typing skills of one of the two authors have resulted in our reliance on a legion of typists. Joy Lee, an exceptionally gifted secretary, typed our early papers. The word processing pools at the Center for Advanced Study in the Behavioral Sciences, the Graduate School of Industrial Administration at Carnegie, and the National Bureau of Economic Research completed the typing and assembled the manuscript.

Our collaborative research was initiated while Alesina was a Political Economy Fellow at Carnegie Mellon under the auspices of the Center for Public Policy headed by Allan Meltzer. Thomas Palfrey is also largely responsible for our opportunity to collaborate at Carnegie Mellon. In 1989/90 Alesina was an Olin Fellow at the National Bureau of Economic Research. The first draft of most of the book was written while Rosenthal was a Fellow at the Center for Advanced Study in the Behavioral Sciences. The Center's attraction as a research environment and the hospitality of the directors, Philip Converse and Robert Scott, are most deservedly widely recognized in the social sciences. Work on the book continued while Rosenthal was a Fellow at the International Centre for Economic Research in Torino, Italy. Further support for this research was provided by the National Science Foundation and the Sloan Foundation.

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