POLITICS, PARTISANSHIP AND THE POWER TO VETO: DOES GUBERNATORIAL LINE ITEM VETO POWER AFFECT STATE BUDGETS?

Joseph McCormack[a], Yaniv Reingewertz[b]

Abstract

How does line item veto power affect a state governor's ability to structure the budget? Is line item veto power only relevant as a partisan tool? Further, is it still relevant when the state legislature can override the veto? The purpose of this paper is to examine these questions. We use a rich disaggregated dataset to test the effect of the gubernatorial line item veto on state budgets, depending on political factors. We control for political attributes such as the political affiliation of the governor and legislature, minority status of the governor and the ability of the legislature to override a line item veto. Our results suggest that line item veto power has a very weak influence, if any, on the governor's ability to influence the budget.

Keywords: Veto power, US states, Governors, state budget

JEL Classifications: D78, E62, H72

[a] Department of Economics, George Washington University. [b] Division of Public Administration and Policy, School of Political Science, University of Haifa (yanivrein@poli.haifa.ac.il). We would like to thank Barry Chiswick, Joseph Cordes, Dan Gincel, Oren Levintal, Rafi Rone, Herman Stekler and Tony Yezer for helpful comments and suggestions. We would also like to thank seminar participants at the George Washington University, and the GCER conference participants for their comments.

I. Introduction

As of 2008, 44 states allow their governor the use of a line item veto, the ability to strike specific items in the budget rather than the budget as a whole (NASBO 2008). One of the main justifications for the line item veto is its presumed ability to reduce pork-barrel spending (Fairlie 1917). However, the literature has been unable to clearly demonstrate the fiscal benefits of a line item veto, theoretically or empirically. This paper works to understand if line item veto power allows a governor to implement his party's agenda, through the budget. We use disaggregated data on spending and revenue items to assess whether the effect of the line item veto can be traced when looking on specific budgetary items. This model is then expanded through the use of specific hypothesis testing, analyzing the influence of a line item veto under specific scenarios of political divisiveness.

We follow the literature and try to assess the effect of the line item veto power (hence force *LIV*) under different political scenarios. We try to answer the following questions: Is a governor facing an opposition legislature better able to push forward his party's agenda when he has a line item veto? Is an opposition legislature better able to influence the budget when it has the supermajority needed to override line item veto power, rendering it moot? Does partisan affiliation affect the way *LIV* is used? Our research suggests that the answers to these questions is negative. Our results show very weak evidence, if any, for an effect of the gubernatorial line item veto power on state spending and revenue items, and on state deficits, under various political scenarios.

Our paper offers several contributions compared to previous empirical studies. First, we analyze a richer, disaggregated dataset, comprised of many spending and revenue items, while

most other studies focus on budgetary aggregates. This disaggregation of spending and revenue items provides a more detailed analysis regarding the possible effects of *LIV* on budgetary decision-making, contingent on political attributes.

Second, we focus on a recent sample of 48 US states for the years 1983-2008, while most of the literature analyzes a somewhat outdated sample of the 1960s, 1970s and sometimes the 1980s (e.g., Wiggins 1980, Abney and Lauth 1985, Holtz-Eakin 1988).[1] Using a contemporary sample period is important for at least two reasons. Firstly, the increased divergence of political views in recent decades has created a polarized political system (Hetherington 2001, McCarty et al. 2006, Abramowitz and Saunders 2008). While some doubt this notion, they still accept that partisan sorting is on the rise (Fiorina and Abrams 2008), which in our context should yield the same results. A polarized political arena might lead governors to use *LIV* more frequently under cases of divided governments (Abney and Louth 1985). Secondly, the increased burden on state budgets in recent decades has led to higher levels of fiscal stress, creating an environment where more budget cuts are needed. These two recent changes suggest that *LIV* might have had a more important role in the last two decades compared to the less recent past, and therefore suggest that a reexamination of the influence of gubernatorial *LIV* power is required.

Although the effectiveness of a line item veto is studied at a state level, its analysis is relevant at the federal level as well. In April 1996 Congress granted President Clinton line item veto power. He then exercised this new power to strike down 82 different budgetary line items from a total of 11 bills over an 18 month period. However, the federal use of the line item veto was short-lived. Ultimately it was struck down by the Supreme Court in 1998 under Clinton v.

[1] Following Holtz-Eakin (1988) we exclude Alaska because of its unique budget structure and Nebraska because of its unicameral state legislature.

City of New York. President George W. Bush tried unsuccessfully to reinstate a weaker version of line item veto power in 2006. Though it did pass the House it failed to successfully advance through the Senate. These fairly recent events demonstrate that the line item veto is important from a federal perspective as well as for the state legislative process.

II. Literature Review

There is a large literature exploring the potential effects of a governor's line item veto power on state budgets, but the debate about its effectiveness remains.[2] Theoretical models and empirical research have questioned how the increase in power, given to one individual, will influence or alter the decision making process. In this section we will review both theoretical and empirical literature and show how it relates to our current question.

The theoretical literature has discussed the issue of veto power quite extensively. This discussion often looks at how decisions are made within a committee. Shapley and Shubik (1954) suggest that veto power substantially increases the power a committee member has relative to non-veto power members. McCarty (2000) presents a model that shows how the veto power leads to a lower level of spending due to the increased power of the executive branch. More recently, Nunnari (2011) presents a bargaining model with a veto power, and finds similar results. In a related paper, Nunnari and Zapal (2013) suggest that veto power is more valuable when parties are more polarized.

[2] The line item veto power is part of a broader literature dealing with the power of the executive vs. that of the legislature. This topic is beyond the scope of our study. For a thorough discussion on this issue see, e.g., Kousser and Phillips (2012).

The models discussed above deal with a general ("all-or-nothing") veto power. This paper, however, is analyzing a specific form of veto power - the line item veto, i.e., the ability to veto specific lines within the budget.[3] Carter and Schap (1987) suggest that the level of expenditures is greater in the case of the line item veto than in the case of an “all-or-nothing” veto. This result rests on the assumption that the spending level preferred by the governor is larger than the spending level of a "reversion budget" which would prevail under an "all-or-nothing" veto. This assumption might be reasonable in the case of Democratic governors but could hardly be justified for Republican governors. They also show that the effects of a governor’s line item veto crucially depend on the number of votes needed to sustain or override the veto (a regular majority or a super-majority). Schap (1988) shows that when the executive has the ability to veto a line item, the budget may be inefficient in comparison to situations where the executive has no veto power or an “all-or-nothing” veto power. Further, there is the potential for tradeoffs between the legislative and executive branch in order to avoid line item vetoes leading to higher levels of spending. For these reasons a line item veto may actually have the reverse effect than intended. Carter and Schap (1990) conclude that the veto power is not expected to yield the governor more power (compared to an “all or nothing” veto), expect for specific political scenarios. However, a recent paper by Brown (2012) challenges this view and suggests that *LIV* always makes the governor more powerful, because it reduces the multidimensionality in the budgetary process.

Looking at the empirical literature, many papers have argued that line item vetoes reduce state spending. This effect, however, crucially depends on partisan affiliation and is mostly present when the governor and the legislature do not come from the same party (Abney and

[3] Since 1996, when North Carolina enacted an "all or nothing" veto, all state governors have had an "all or nothing" veto.

Louth 1985, Gosling 1986, Holtz-Eakin 1988, Alm and Evers 1991, Bohn and Inman 1996, Cameron 2000, Wilkins and Young 2002, Besley and Case 2003, Primo 2006). For example, Holtz-Eakin (1988) shows that the line-item veto power, in a situation of divided government, leads to lower spending. These results demonstrate how the line item veto may be more of a political tool than a budgetary one, a belief that is supported by the results of Abney and Louth (1985), who show that the line item veto is used more frequently in situations of divided government.[4] The effect of the line item veto may also depend on its form and the kind of legislation on which a governor may exercise the veto power (Abney and Louth 1997). Most notably, a line item veto promotes fiscal responsibility when it allows the governor to reduce appropriations or to delete narrative provisions in appropriations bills.

As noted above, there is a wide literature claiming that the line item veto power reduces spending, at least when the governor and the legislature are from different parties. However, many other papers suggest that the line item veto power does not have a significant effect in reducing spending (Nice 1988, Thompson and Boyd 1994, Reese 1997, Gabel and Hager 2000, Ferguson 2003). Carter and Schap (1990) survey the early literature and conclude that the evidence regarding the effect of the line item veto is tenuous at best. Recent literature has arguably been even more divided in their conclusions regarding line item veto effectiveness.

The effectiveness of a line item veto (*LIV*) should not necessarily be measured by spending reductions alone. A few papers estimate the effect of line item veto power on deficit and fiscal balance (e.g., Bohn and Inman 1996). For this reason we look at how the line item veto may alter overall surplus/deficit. Other papers also check how *LIV* may influence state revenues

[4] However, Carter and Schap (1987) claim that the frequency of using the line-item veto is not necessarily related to its effectiveness.

(Holz-Eakin 1988, Besley and Case 2003). All three papers agree that a minority governor with *LIV* reduces deficits. However, these papers fail to reach a consensus regarding the influence of *LIV* on revenues.

An alternative to the approaches addressed above is to compare the finalized budget to the governor's proposed (and presumably preferred) budget. Dearden and Husted (1993) use this alternative approach and find that when a line item veto exists, there are fewer differences between the governor's proposed budget and the one that passes the state legislature. This shows how a line item veto increases the power of the governor. However, this analysis does not assess whether the budget is desirable for the median voter in the state or only for the party with which the governor is affiliated. In addition the assumption that the proposed budget is the governors' preferred budget ignores strategic decision making and negotiations before the budget is formulated.

Beyond the influence of *LIV* on total spending and revenue, there may be an influence on the *composition* of the state's budget. For example, Alm and Evers (1991) find that the presence of the line item veto power increases spending on transportation, whereas the line item veto combined with a divided government reduces transportation spending. Their paper is possibly the closest to ours.

The empirical literature discussed has several limitations that we try to address. Firstly, the literature, with the exception of Holtz-Eakin (1988), primarily employs the use of cross-sectional variation to estimate the effects of line item veto and does not control for state specific effects.[5] This is problematic since there might be time-invariant unobserved state attributes

[5] Bohn and Inman (1996) and Besley and Case (2003) also use a fixed-effects estimator, but their analysis mentions the line item veto power only in passing.

which are correlated with *LIV* and state spending. Secondly, the literature mainly analyzes the same sample of the 1970s and 1980s, leaving recent data and changes to the political environment largely unscrutinized. Thirdly, most of the literature discusses budgetary aggregates, or even one budgetary aggregate, which offers only a limited account of the possible effects of the line item veto power. Finally, most of the literature does not allow for a full heterogeneous effect of *LIV*, depending on partisan affiliation, majority status of the governor and the ability/disability of the legislature to override a line-item veto. As we will see in this paper, these issues should not be neglected. By incorporating these effects we are able to build upon and strengthen work done by previous authors.

III. THEORY

The literature dealing with the line item veto power offers many intervening factors that influence the ability or desirability of using the *LIV*. These factors mostly revolve around the issue of partisan affiliation. The partisan affiliation of the governor is one of the crucial factors which determine his policy and budgetary approach (Ferguson 2003, Primo 2006). Divided government is an important factor in general, as well as in the literature on the line item veto (Krehbiel 1996, Cameron 2000). A governor facing an opposing legislature is expected to find it hard to implement his agenda compared to a governor which its party has a majority in the legislature. This situation might change if this minority governor has the ability to veto specific line-items. In addition, *LIV* might be over-ruled by a vote in the legislature which passes with a super-majority, which is usually two thirds of the votes (Carter and Schap 1987). If one party holds enough seats in the state legislature, it might be able to strike down line item vetoes.

Spending limits might also affect the effectiveness of the line item veto power (Primo 2006), though in our empirical design this issue is not relevant.[6]

Following the lessons of the literature we analyze the effect of *LIV* through four hypotheses. These hypotheses test whether the budgetary effects of the *LIV* power depend on the partisan affiliation of the governor, the ability of the legislature to override the veto, and the minority/majority status of the governor.

Hypothesis 1: **Partisan affiliation and divided government**: A Republican governor with *LIV* facing an opposition legislature without override ability will reduce spending and reduce revenue, compared to a Democratic minority governor with *LIV* and no override.

Hypothesis 2: **Override ability**: A Republican governor with *LIV* facing an opposition legislature will not be able to reduce spending and revenue if the legislature has the power to override the veto.

Hypothesis 3: **Divided government**: A Republican governor with *LIV* facing an opposition legislature will not behave differently than a Republican governor with *LIV* in the majority.

Hypothesis 4: **Partisan affiliation**: A Republican majority governor with *LIV* will tend to cut spending and revenue compared to a Democratic majority governor with *LIV*.

Hypothesis 1 tests the differences between Republican and Democrat governors, in situations of divided governments. Hypothesis 2 tests whether the override ability of the legislature has an influence on the way *LIV* is used. Hypothesis 3 tests whether divided government alone has any effect on the way *LIV* is used. Finally, hypothesis 4 tests whether party differences are present

[6] The use of state fixed-effects controls for the stringency of spending limits, since those do not change over time.

even when government is not divided. The last hypothesis is not directly related to *LIV*. Its purpose is to provide evidence regarding partisan differences not related to *LIV*, which can be compared to partisan differences when *LIV* is important.

IV. DATA

This paper is built upon two separate types of data: budgetary data and political data, gathered for all 50 states of the United States from 1983 through 2008. Following the work of Holtz-Eakin (1988) we exclude Alaska and Nebraska from our analysis. Nebraska is excluded because of their unique unicameral non-partisan legislature. Alaska is also removed, not for political reasons, but because of their unique budget generated by oil revenue, differentiating them from other states beyond just fixed effects. Table I presents summary statistics for the budgetary and political variables for the entire sample period. All dollar values presented in Table 1 and throughout the paper are measured in 2010 real dollars, per capita. Mean expenditures per capita are $4,395 while mean revenues per capita are $4,806. Taxes are $2,077 per capita on average, or 43.22% of total revenues. A breakdown of expenditures and tax revenues to specific items can also be found in Table I. In addition, we can see that during our time horizon, 86% of state governors had a line item veto, while during 50% of the sample period the states had Republican governors. We can also see many cases of divided government, as 48% of the state legislatures were purely Democratic. This allows us to see the interaction of two different political parties through the governors' interaction with the state legislature. The interactions of these political variables can also be seen in Table I.

The variables presented in Table I are gathered from a variety of sources. Budgetary data are provided by the Census State and Local Government Finance Report, which is an annual survey of state and local government finances based on information from public records. Political variables come from the US census, Carsey et al. (2008) and other sources which will be explained below.[7] Deficits are calculated, since they are not provided by the source, as total revenues minus total expenses; therefore positive values are surpluses while negative values represent state deficits. All remaining variables are gathered directly from their independent sources.

Using the method presented by Holtz-Eakin (1988), expenditures are deflated using the Gross Domestic Product (GDP) implicit price deflator while revenues are deflated using the implicit price deflator of personal consumption expenditures (PCE). The governor in power for each state is gathered through the use of Professor James Synder's "dataverse" (Carsey et al. 2008). In order to understand if the governor is in the majority or minority when compared to the state legislature, the number of seats held by Democrats, Republicans, and independents (others) is provided by the Elections section of the Census National Data Book, referring to elections for Gubernatorial and State Legislatures (Table 419).

V. METHODOLOGY

[7] Holtz-Eakin (1988) uses a measure of line-item veto, taken from the Advisory Commission on Intergovernmental Relations (ACIR 1986). Our analysis uses the National Association of State Budget Offices (NASBO) "Budget Processes in the States," which is released following major state changes in various years. This line-item veto data provided by the NASBO begins in 1987, so data prior to 1987 relies on Holtz-Eakin (1988).

Our empirical model analyzes the influence of gubernatorial line item veto (*LIV*) on aggregated and disaggregated state budgets. By examining the additional power over a state's budget given to a governor through *LIV* we can understand differences in budgetary decisions which are generated through political opposition. Focusing on the partisan nature of *LIV's* use, our assumption is that *LIV* increases a governor's power, especially under the case of a divided government. We also allow the influence of line item veto to differ between political parties, and to depend on the ability of the legislature to override the specific budget provisions struck down by the governor's *LIV* use.

To test the influence of *LIV* on state budgets we estimate equation (1):

(1) $$\mathrm{Y_{s,t}} = \beta_0 + \beta_1 \cdot \mathrm{GovR_{s,t}} + \beta_2 \cdot \mathrm{legDem_{s,t}} + \beta_3 \cdot \mathrm{ovrd_{s,t}} + \beta_4 \cdot (\mathrm{GovR} \cdot \mathrm{legDem})_{s,t} + \beta_5 \cdot (\mathrm{GovR} \cdot \mathrm{ovrd})_{s,t} + \beta_6 \cdot (\mathrm{legDem} \cdot \mathrm{ovrd})_{s,t} + \beta_7 \cdot (\mathrm{GovR} \cdot \mathrm{legDem} \cdot \mathrm{ovrd})_{s,t} + \beta_8 \cdot \mathrm{Log(Population)}_{s,t} + \beta_9 \cdot \mathrm{Log(Personal\ Income\ per\ Capita)}_{s,t} + \beta_{10} \cdot \mathrm{Log(State\ Grants)}_{s,t} + \beta_{11} \cdot \mathrm{Log(Assets)}_{s,t} + \beta_{12} \cdot \mathrm{Log(Debt)}_{s,t} + \delta_s + \gamma_t + \varepsilon \qquad (1)$$

The dependent variable $Y_{s,t}$ is the log transformation of revenue or expenditure items, all in real per capita terms, in state *s* and in year *t*. We also use fiscal balance as a dependent variable, but since it can take negative values the log transformation is inappropriate. Therefore, we use fiscal balance (surplus or deficit) as a percentage of gross state product. We include state fixed effects δ_s and year fixed effects γ_t as control variables. We then look at four political variables and their interactions. The first is a dummy variable for the presence of a line item veto, $LIV_{s,t}$. $GovR_{s,t}$ is a dummy variable for a Republican governor. $LegDem_{s,t}$ equals one if Democrats have a majority in the state legislature, and zero otherwise. This variable, interacting with the partisan affiliation of the governor, will capture the minority or majority status of the governor. One complication arises because of the bicameral nature of state legislatures. If control in both upper and lower houses is not held by the same party it is hard to classify the state legislature as having

one party in control. Here we arbitrarily defined a divided legislature as "non-Democrat", while in the robustness check we chose the opposite assumption. Finally, $ovrd_{s,t}$ is a dummy variable for situations in which the legislature has a super-majority that can override a line-item veto.[8] We then interact these variables with each other to get a better understanding of the effect of line item veto given these political variables. This allows us to see how *LIV* influences state budgets and finances, given the political party of the governor and state legislature rather than independently. Following Holzt-Eakin (1988) we include five control variables: population, personal income per capita, total intergovernmental grants, total assets, and total debts. Finally we cluster our standard errors to account for heteroskedasticity.

As discussed in the theory section, we hypothesize and test four hypotheses regarding the effect of *LIV* on state budgets. These hypotheses are designed to test whether the influence of LIV depends on partisan affiliation, divided government, and on override ability of the legislature.

Another reason for focusing on interactions between *LIV* and the various political factors has to do with the inability to test the effect of *LIV* directly, since there is almost no variation in *LIV* status over time. Since all states (except for Maine) did not change *LIV* status during the sample period, state fixed-effects capture the direct effect of *LIV* on state budgets. The coefficient for the variable *LIV* represents only Maine, and is therefore not representative of the entire states.[9]

[8] A Democratic majority in the legislature is assumed only in cases when Democrats have a majority in both houses. Similarly, override ability is assumed only when the same party holds a super-majority in both houses.

[9] The sample includes Maine only for the years when the governor had *LIV* power. Abadie et al. (2010) suggest using the Synthetic Control Group method when studying changes in one state. We used this method to test the effect of the *LIV* change in Maine on state budget and found no statistically significant results (results available upon request).

In addition to the approach taken above, we provide an alternative analysis which focuses on the 42 states that had *LIV* during the sample period.[10] Dropping non-*LIV* states allows us to avoid selection issues within the results. Comparing a governor without *LIV* to a governor with *LIV* would essentially mean comparing between *LIV* and non-*LIV* states. However, *LIV* status might be correlated with unobserved state attributes within their fiscal institutions, causing selection bias. For this reason, our hypotheses focus, solely, on governors with *LIV*. Looking only on *LIV* states is still informative regarding the effects of line item veto since we control for the ability of the legislature to over-ride the line item veto. We suggest that a governor with line item veto facing a super-majority legislature with the ability to over-ride the veto is similar to a governor without a line item veto, hence the results of the former might be indicative for the latter.

Some papers have explored whether the adoption of the line item veto might be endogenous to the political system. Specifically, *LIV* might be employed by fiscal conservatives who fear losing power in the future (Figueriedo 2003). The findings of Figueriedo (2003) describe the early history of the adoption of line item veto rules and are not entirely relevant for our sample period.[11] First, the only change in LIV (Maine 1997) happened when Maine had a Democratic legislature, contrary to the findings of Figueriedo (2003). Second, other states did not change their line item veto status during our sample period, so the issue of endogenous adoption of a line item veto is not relevant in our context.

VI. RESULTS

[10] As noted above, Alaska and Nebraska are not included in the analysis.
[11] More information about the early history of the adoption of the line item veto can be found in Wells (1924).

a. State spending

We start with the influence of gubernatorial *LIV* on state spending. The baseline results, estimating equation 1, are presented in Table II. Columns 1 through 7 analyze the effect of *LIV* on the following spending variables: total spending, capital expenses, current expenses, education, welfare, highways and health. We can see that several variables have a statistically significant effect on various spending items. For example, a Republican governor seems to cut spending on welfare; a Republican governor facing a democratic legislature is associated with an increase in spending on education. As mentioned above, looking on the coefficient of *LIV* is misleading as it only represents Maine. It is important to note that looking at specific coefficients might be misleading because the marginal effect of each variable is determined by all interactions, and not only by the coefficient of the variable itself. For example, the marginal effect of a Republican governor facing a Democratic legislature with override ability is the sum of all relevant coefficients, and is not represented only by the coefficient on govR-legDem-ovrd. To deal with this issue we test the marginal effect of specific hypotheses in Table III.

Table III provides a more in depth analysis of the results of Table II. Every column tests a different hypothesis and every row reports the results of each hypothesis test for a different spending item. Column 1 in Table III examines whether *LIV* has a different partisan effect: it tests whether a Republican governor with *LIV*, facing a Democratic legislature (i.e. a minority governor), has a different effect on spending compared to a Democratic governor with *LIV* facing a non-Democratic legislature. This allows us to see whether *LIV* does in fact cause changes to spending through increases in partisanship when the governor is in the minority. Column 2 checks the effect of the override provision: we test whether a Republican minority

governor with *LIV* has a different effect on state spending when the state legislature can override his veto, compared to a similar governor who faces a legislature without override ability. In column 3 we explore whether the effect of *LIV* depends on minority status. We test whether a Republican governor with *LIV* has a different effect over state budgets when he is in the minority compared to being in the majority. Finally, in column 4 we compare a majority Republican governor with *LIV* to a majority Democratic governor with *LIV*. This test is done for comparison purposes, as the literature does not suggest that majority governors have to use *LIV*.

The results of Table III show very small effects of *LIV* on state spending, and most results are statistically indistinguishable from zero, at conventional significance levels. One result which is statistically significant at the 5% level suggests that a Republican minority governor spends more on education compared to a majority Republican governor (Column 3). Since higher education spending is usually on the agenda of the Democratic Party, this result is providing evidence regarding the ineffectiveness of *LIV* power. Additional results which are marginally statistically significant suggest that Republican governors spend more on highways compared to Democratic governors (Column 4). This result is not related to *LIV* status.

The hypotheses tests which are performed in Table III are by no means the only hypotheses which could be conceived. However, we believe them to be representative of the effect of LIV, conditional on the political variables we focus on. In addition, some of the alternative hypotheses could not be tested in a satisfactory manner using our methodology. For example, one such hypothesis would test the effect of a Republican minority governor with *LIV* on state spending, compared to the effect of a Republican minority governor without *LIV*. The problem with this test is that the treatment group (Republican minority governors with *LIV*) only

includes states with *LIV*, while the control group (Republican minority governors without *LIV*) only includes states without *LIV*. Since the control group is different than the treatment group the results might be biased. In other words, under this hypothesis test *LIV* would be correlated with unobserved state attributes, causing endogeneity bias in the estimates.[12]

b. State revenue items

Table IV presents the results of estimating equation 1 for state revenue items. *LIV* is thought to be a tool used to reduce pork barrel spending but it might have an influence on revenues as well. While *LIV* mainly targets appropriation bills, the threat of exerting the *LIV* power might provide the governor with additional influence not only on spending items but potentially on revenue items as well. In any case, a complete analysis of state budgets cannot ignore the revenue side. Columns 1 through 6 (Table IV) estimate the effect of *LIV* and political affiliation on total revenue, tax revenue, non-tax revenue, income taxes, corporate taxes and sales taxes, respectively. The tax items are decided upon in the legislature, while non-tax revenue is mainly comprised of intergovernmental transfers. Therefore, we wouldn't expect *LIV* to influence non-tax revenue, and it is mainly presented in order to provide a complete budgetary analysis.

The results of Table IV mirror the results of Table II. A Republican governor is associated with a decrease in state revenues, especially income taxes and corporate taxes, while a Republican governor facing a Democratic legislature is associated with an increase in those items. A Republican minority governor with *LIV* seems to lower corporate taxes (Column 5).

[12] The results of this hypothesis test suggest that endogeneity bias does exist and is large in magnitude (results are available upon request).

Again, looking on specific coefficients might be misleading, as the marginal effect depends on the interactions between the variables. We therefore move to discuss the results of Table VI (Panel a), which provide the results of the hypothesis tests.

Panel a. of Table VI suggests that *LIV* has little, if any, effect on state revenues. Specifically, a Republican minority governor with *LIV* seems to increase income tax, both compared to Democratic minority governors (Column 1) and compared to Republican majority governors (Column 3). Since this effect is in contrast with the expected effect of a Republican governor, we suggest that it has more to do with minority status. It appears that the senate is able to exert its influence even when *LIV* is present.

c. Fiscal balance

Table V presents the results of the influence of line item veto power on state assets, debts and surplus (columns 1, 2 and 3, respectively). Most coefficients are not statistically significant, and those which are significant tend to cancel each other out (see the coefficients on LegDem and LegDem-Liv in Column 3). Looking at Table VI (Panel b) which tests these effects more precisely, we do not observe an overall effect of *LIV* power on assets, debts or surplus/deficit. It seems that looking on budgetary aggregates such as debts and deficits is too crude of a measure.

d. Robustness checks

Appendix Table I and II describe two robustness checks which have been done for the entire set of results presented in Tables III and VI. For illustration purposes and in order to be concise we present the hypothesis tests and not the regression tables, which are available upon

request. First, Appendix Table I.a and I.b present the hypothesis tests for a sample which does not include states that had no *LIV* power. This is done in order to make sure that the results are not affected by selection bias, as explained in the methodology section. Second, Appendix Table II.a and II.b present the results of a specification with a different dependent variable, which is the first difference of the dependent variable of equation 1. For example, instead of using log state spending per capita we are now using the first difference of log state spending per capita as the dependent variable. The first difference is used in order to make sure that state-specific trends do not affect the results. Focusing on first differences also rules out persistence in the dependent variable, which may bias the results.

The results outlined in Appendix Table I.a are mostly in line with those of Table III, and suggest that *LIV* power hardly affects state spending. The table does suggest one different effect. A Republican minority governor cuts welfare spending by 8.5% compared to a Democratic minority governor. This result also affect current spending and total spending, which diminish by 2.9% and 3.2%, respectively. These results, which do not repeat for majority governors (Column 4), suggest that *LIV* is effective, and enables a Republican governor to cut welfare spending, even when he is facing a Democratic legislature. The results of Appendix Table I.b are very similar to those of Table VI, and suggest that income tax is higher for Republican minority governors, suggesting that the legislature has the upper hand in revenue decisions.

Appendix Table II.a shows the results for state spending, using dependent variables in first differences. The results of Appendix Table I.a do not hold as Republican minority governors are no longer associated with a decrease in welfare spending. However, Republican majority governors are now associated with lower welfare spending, suggesting that partisan affiliation,

not minority status and *LIV* power, drive the results. In addition, Republican minority governors seem to lower health spending compared to Republican majority governors, which is giving an indirect support for the claim that *LIV* reduce spending.

Appendix Table II.b is consistent with Table VI, with three exceptions. First, the result that Republican minority governors increase income taxes no longer holds. Second, Republican minority governors increase the surplus compared to Democratic minority governors (Column 1). Third, a Republican majority governor is associated with lower sales tax, compared to his Democratic counterpart.

Summing up the results of the Appendix Tables, we suggest that the baseline results hold, and that *LIV* power doesn't seem to have a noticeable effect on state sending and state revenue items. Two exceptions might be lower welfare spending levels (Appendix Table I.a), and higher surplus levels (Appendix Table II.b), both for the case of a Republican minority governors compared to a Democratic minority governor. The ability of minority governors to implement their agenda suggests that *LIV* increases their bargaining power. However, these results are not robust to changes in the specification.

In addition to these robustness checks we also used the GMM estimator which is designed to fit dynamic panel data models (Arellano and Bond 1991) (results available upon request). Dynamic panels are defined as panels in which the dependent variable is persistent; hence the dependent variable at time *t* depends on that of time *t-1*. If this is indeed the case, then the fixed effects estimator will be biased (Nickel 1981). Arellano and Bond (1991) suggest using a GMM estimator which uses lag values of the dependent variable as instrumental variables for the (one) lag dependent variable. While this criticism is highly relevant for the coefficient on the

lagged dependent variable, Judson and Owen (1999) show that the bias is smaller for other independent variables. The results of the GMM estimator are in line with our baseline results, and show no significant influence of *LIV* on state spending or revenue items.

VII. CONCLUSIONS AND POLICY IMPLICATIONS

The results of this paper suggest that *LIV* is not an effective tool in increasing the political power of the governor. Even when looking on various specific budgetary items we still do not observe a significant effect of *LIV* on state budgets. Our results are based on a contemporary and disaggregated dataset of state budgets. Based on our analysis we cannot reject the hypothesis that *LIV* has a very weak, if any, effect on state budgets and on the political power of the governor.

There are several possible explanations as to why *LIV* power does not increase political power and therefore does not influencing state budgets, even under highly polarized political circumstances. First, it might be the case that political polarization is not affecting line item veto power as much as the literature claims. Second, fiscal rules and fiscal stress might have disciplined politicians from both sides to the extent that they do not wish to induce pork-barrel spending and increase deficits. Finally, the line item veto might not be sufficiently different from the "all-or-nothing" veto which is also at the disposal of governors.

Our results also suggest that establishing a line item veto at the federal level would not reduce the deficit significantly, and therefore would have no result on the growing level of debt. Even the possibility that the result would lead to further partisan bickering between the parties is

not supported. The political divide between Congress and the President in organizing and passing a budget would not yield any beneficial effects by incorporating line item veto authority.

While our systematic analysis suggests that the overall effect of increasing a governor's power through *LIV* on state fiscal policy is negligible, it doesn't rule out transitory or case specific effects. It might well be the case that under certain circumstances *LIV* is effective and enables the governor to force his opinion on the legislature. However, these cases are rare enough so that the overall effect would be close to null. Further analysis into possible heterogeneous effects of *LIV* power in different times and different states is left for future research.

REFERENCES

Abadie, A., Diamond, A., and Hainmueller, J. (2010). Synthetic control methods for comparative case studies: Estimating the effect of California's tobacco control program. *Journal of the American Statistical Association, 105*(490).

Abney, G, and Lauth, T. P. (1985). The Line-Item Veto in the States: An Instrument for Fiscal Restraint or an Instrument for Partisanship? *Public Administration Review*, 45(3), 372-377.

Abney, G., and Lauth, T. P. (1997). The item veto and fiscal responsibility. *The Journal of Politics*, *59*(03), 882-892.

Abramowitz, A. I., and Saunders, K. L. (2008). Is polarization a myth?. *The Journal of Politics*, *70*(02), 542-555.

Alm, J., and Evers, M. (1991). The item veto and state government expenditures. *Public Choice*, *68*(1-3), 1-15.

Arellano, M., and Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. The review of economic studies, 58(2), 277-297.

Besley, T., and Case, A. (2003). Political institutions and policy choices: evidence from the United States. *Journal of Economic Literature*, *41*(1), 7-73.

Bohn, H., and Inman, R. P. (1996). Balanced-budget rules and public deficits: evidence from the US states. In *Carnegie-Rochester Conference Series on Public Policy* (Vol. 45, pp. 13-76). North-Holland.

Brown, A. R. (2012). The item veto's sting. State Politics & Policy Quarterly, 12(2), 183-203.

Cameron, C. M. (2000). Veto bargaining: Presidents and the politics of negative power. Cambridge University Press.

Carsey, Thomas M., Berry, William D., Niemi, Richard G.,Powell, Lynda W., and Snyder, James M., 2008, "State Legislative Election Returns, 1967-2003",

Carter, J. R. and David, S. (1987). Executive Veto, Legislative Override, and Structure-Induced Equilibrium. *Public Choice*, 52(3), 227-244.

Carter, J. R., and Schap, D. (1990). Line-item veto: where is thy sting?. *The Journal of Economic Perspectives*, *4*(2), 103-118.

Dearden, J. A., and Husted, T. A. (1993). Do governors get what they want?: An alternative examination of the line-item veto. *Public Choice*, *77*(4), 707-723.

De Figueiredo, R. J. (2003). Budget institutions and political insulation: why states adopt the item veto. *Journal of Public Economics*, *87*(12), 2677-2701.

Fairlie, J. A. (1917). The Veto Power of the State Governor. *American Political Science Association*, 11(3), 473-493.

Ferguson, M. R. (2003). Chief executive success in the legislative arena. State Politics & Policy Quarterly, 3(2), 158-182.

Fiorina, M. P., and Abrams, S. J. (2008). Political polarization in the American public. *Annual Review of Political Science*, *11*, 563-588.

Gabel, M. J., and Hager, G. L. (2000). How to succeed at increasing spending without really trying: The balanced budget amendment and the item veto. *Public Choice*, *102*(1-2), 19-23.

Gosling, J. J. (1986). Wisconsin item-veto lessons. *Public Administration Review*, 292-300.

Holtz-Eakin, D. (1988). The line item veto and public sector budgets: Evidence from the states. *Journal of Public Economics, 36*(3), 269-292.

Hetherington, M. J. (2001). Resurgent mass partisanship: The role of elite polarization. In *American Political Science Association,* 95(03), 619-631. Cambridge University Press.

Judson, R. A., and Owen, A. L. (1999). Estimating dynamic panel data models: a guide for macroeconomists. Economics letters, 65(1), 9-15.

Kousser, T., and Phillips, J. H. (2012). The power of American governors: Winning on budgets and losing on policy. Cambridge University Press.

Krehbiel, K. (1996). Institutional and Partisan Sources of Gridlock A Theory of Divided and Unified Government. Journal of Theoretical Politics, 8(1), 7-40.

McCarty, N. (2000). Presidential Pork: Executive Veto Power and Distributive Politics. *The American Political Science Review*. 94(1), 117-129.

McCarty, N., Poole, K. T., and Rosenthal, H. (2006). Polarized America: The dance of ideology and unequal riches (Vol. 5). MIT Press.

National State Counsel of Legislators. 2010. NSCL Fiscal Brief: State Balanced Budget Provisions. A Report by the National State Counsel of Legislators.

National Association of State Budget Officers. Various Years. The Fiscal Survey of States. A Report by the National Governors Association and the National Association of State Budget Officers.

National Association of State Budget Officers. Various Years. Budget Processes in the States.

Nice, D. C. (1988). The item veto and expenditure restraint. *Journal of Politics, 50*(2), 486-499.

Nickell, S. (1981). Biases in dynamic models with fixed effects. Econometrica, 1417-1426.

Nunnari, S. (2011). Dynamic legislative bargaining with veto power. Unpublished.

Nunnari, S. and Zapal, J. (2013). Dynamic policy competition, ideological polarization and the value of veto rights. Unpublished.

Primo, D. M. (2006). Stop us before we spend again: Institutional constraints on government spending. Economics & Politics, 18(3), 269-312.

Reese, C. C. (1997). The line-item veto in practice in ten southern states. *Public Administration Review*, 510-516.

Schap, D. (1988). In search of efficacious executive veto authority. *Public Choice*, *58*(3), 247-257.

Shapley, L.S. and Shubik, M. (1954). A Method for Evaluating the Distribution of Power in a Committee System. *The American Political Science Review*. 48(3), 787-792.

Thompson, P., and Boyd, S. R. (1994). Use of the Item Veto in Texas, 1940-1990. *State & Local Government Review*, 38-45.

United States General Accounting Office (GAO). 1993. Balanced Budget Requirements: State Experiences and Implications for the Federal Government. Briefing Report to the Chairman, Committee on the Budget, House of Representatives. Washington, DC, March.

Wells, R. H. (1924). The item veto and state budget reform. *The American Political Science Review*, *18*(4), 782-791.

Wiggins, C. W. (1980). Executive Vetoes and Legislative Overrides in the American States. Journal of Politics 42, 1110–1117.

Wilkins, V. M., and Young, G. (2002). The influence of governors on veto override attempts: a test of pivotal politics. *Legislative Studies Quarterly*, *27*(4), 557-575.

Table I. Summary Statistics

	Mean	Standard Deviation	Min	Max
Expenditures (per capita):				
Total	4,394.52	1,333.50	1,734.57	9,745.54
Capital	354.22	154.59	100.11	1,544.27
Current	4,040.30	1,247.87	1,549.52	8,757.17
Education	1,406.17	426.23	362.74	3,628.70
Highway	360.58	134.88	117.97	1,063.42
Welfare	873.28	413.07	172.78	2,507.59
Health	146.14	79.58	28.29	539.38
Revenues (per capita):				
Total	4,806.16	1,488.01	1,955.37	14,375.00
Non-Taxes	2,729.21	1,061.31	792.74	11,961.81
Taxes	2,076.95	588.34	683.96	4,601.73
Income	763.14	450.67	0.00	2,360.65
Corporate	123.18	78.89	0.00	476.45
Sales	1,009.19	369.96	155.43	2,662.26
Assets (per capita):				
Cash & Securities	8,396.01	4,408.41	1,490.48	38,510.52
Debt (per capita):				
Total Outstanding	2,613.09	1,757.13	189.86	11,229.82
Political Variables:				
Line Item Veto (LIV)	0.86	0.34	0.00	1.00
Republican Governor (GovR)	0.50	0.50	0.00	1.00
Democratic Legislature (LegDem)	0.48	0.50	0.00	1.00
Override Authority (ovrd)	0.32	0.47	0.00	1.00
Interaction Variables:				
govRliv	0.43	0.50	0.00	1.00
govRLegDem	0.22	0.42	0.00	1.00
govRovrd	0.16	0.37	0.00	1.00
LegDemliv	0.43	0.49	0.00	1.00
ovrdliv	0.27	0.44	0.00	1.00
LegDemovrd	0.23	0.42	0.00	1.00
govRlegDemovrd	0.09	0.29	0.00	1.00
govRlegDemliv	0.19	0.39	0.00	1.00
govRovrdliv	0.13	0.33	0.00	1.00
legDemovrdliv	0.20	0.40	0.00	1.00
govRlegDemovrdliv	0.07	0.26	0.00	1.00

Note: The table includes budgetary data for 48 states during the years 1983 to 2008, leading to 1,344 observations. All monetary values are in 2010 real dollars. The table also includes political variables for 48 states for the years 1983-2008 (1,223 observations). The components of current expenditures and tax revenue shown below them are not all inclusive and only represent the major components.

Table II. The effect of line item veto on state spending

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Expenses	Capital Expenses	Current Expenses	Education	Welfare	Highway	Health-Care
liv	0.104**	0.039	0.101**	-0.003	-0.051	0.130**	0.808***
	(0.044)	(0.107)	(0.039)	(0.058)	(0.082)	(0.064)	(0.115)
govR	-0.089	-0.108	-0.088	-0.087	-0.063***	-0.109**	0.081
	(0.060)	(0.065)	(0.060)	(0.057)	(0.022)	(0.052)	(0.079)
legDem	0.018	-0.033	0.020	0.051	-0.038	-0.040	-0.029
	(0.030)	(0.076)	(0.026)	(0.038)	(0.027)	(0.032)	(0.060)
govRliv	0.073	0.089	0.073	0.063	0.015	0.109*	-0.091
	(0.062)	(0.073)	(0.061)	(0.060)	(0.029)	(0.056)	(0.089)
govRlegDem	0.092*	0.033	0.098*	0.185**	0.029	0.092*	0.019
	(0.055)	(0.070)	(0.055)	(0.070)	(0.059)	(0.055)	(0.134)
legDemliv	-0.050	-0.006	-0.051*	-0.058	-0.009	-0.022	0.065
	(0.033)	(0.087)	(0.029)	(0.042)	(0.044)	(0.045)	(0.077)
Ovrdliv	0.010	0.048	0.010	0.011	0.046	0.029	0.144***
	(0.031)	(0.097)	(0.026)	(0.029)	(0.045)	(0.073)	(0.047)
govRlegDemliv	-0.072	-0.015	-0.077	-0.139*	-0.002	-0.083	-0.055
	(0.059)	(0.086)	(0.059)	(0.071)	(0.068)	(0.064)	(0.144)
govRovrdliv	-0.018	0.005	-0.027	-0.023	-0.006	-0.030	-0.174**
	(0.014)	(0.096)	(0.018)	(0.022)	(0.060)	(0.073)	(0.079)
legDemovrdliv	-0.049	-0.092	-0.049	0.017	-0.123	-0.008	-0.198**
	(0.043)	(0.120)	(0.037)	(0.043)	(0.079)	(0.097)	(0.095)
govRlegDemovrdliv	0.017	0.038	0.023	0.017	-0.043	0.051	0.277***
	(0.027)	(0.156)	(0.027)	(0.034)	(0.076)	(0.122)	(0.099)

Note: This table looks at the determinants of log spending per capita for 48 states from 1983 to 2008, leading to 1223 observations. Significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects. Standard errors are clustered at the state level.

Table III. Hypotheses Tests for Table II

	(1)	(2)	(3)	(4)
Hypothesis:	Minority gov. with LIV: Rep. vs. Dem.	Rep. min. gov. with LIV: with OVRD vs. without OVRD	Republican Governor with LIV in minority vs. majority	Maj. Gov. with LIV: Rep. vs. Dem.
Total Expenditure	-0.028	-0.041	-0.012	0.015
	(0.017)	(0.036)	(0.016)	(0.009)
Capital Expenses	-0.041	-0.002	-0.022	0.020
	(0.045)	(0.114)	(0.045)	(0.043)
Current Expenses	-0.026	-0.043	-0.011	0.016*
	(0.018)	(0.034)	(0.015)	(0.009)
Education	0.016	0.023	0.040**	-0.018
	(0.021)	(0.023)	(0.018)	(0.018)
Welfare	-0.070	-0.126	-0.021	-0.001
	(0.049)	(0.088)	(0.048)	(0.037)
Highway	-0.053	0.042	-0.053	0.062*
	(0.032)	(0.100)	(0.034)	(0.034)
Healthcare	-0.011	0.049	0.000	-0.046
	(0.064)	(0.054)	(0.055)	(0.040)

Note: The table presents several hypothesis tests, all refer to the results outlined in Table II. Every row in this table refers to a different column in Table II. Every box is the coefficient of a different test. Column 1 tests the difference in budgetary outcomes between a Republican minority governor with LIV and a Democratic minority governor with LIV. Column 2 tests the effect of a Republican minority governor with LIV when the legislature can override the veto, compared to a Republican minority governor with LIV when the legislature cannot override the veto. Column 3 tests the effect of a Republican minority governor with LIV compared to a Republican majority governor with LIV. Column 4 tests the effect of a Republican majority governor with LIV compared to a Democratic majority governor with LIV. In columns 1, 3 and 4 the legislature does not have the ability to override the veto. The significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects and the control variables described in equation 1 and in Table II. Standard errors are clustered at the state level and are presented in parentheses.

Table IV. The effect of line item veto on state revenues

	(1)	(2)	(3)	(4)	(5)	(6)
	Total Revenue	Total Taxes	Non-Taxes	Income Taxes	Corporate Taxes	Sales Taxes
liv	0.124***	0.117	0.136***	0.033	-0.071	0.007
	(0.045)	(0.077)	(0.047)	(0.060)	(0.078)	(0.059)
govR	-0.080	-0.049	-0.100	-0.106**	-0.301**	0.026
	(0.058)	(0.035)	(0.082)	(0.052)	(0.121)	(0.054)
legDem	0.002	0.025	-0.009	-0.053	-0.083	-0.004
	(0.022)	(0.037)	(0.036)	(0.050)	(0.051)	(0.027)
govRliv	0.075	0.038	0.094	0.139**	0.336***	-0.044
	(0.059)	(0.037)	(0.084)	(0.057)	(0.125)	(0.055)
govRlegDem	0.103*	0.131**	0.069	0.153**	0.341***	-0.009
	(0.052)	(0.062)	(0.074)	(0.059)	(0.126)	(0.076)
legDemliv	-0.020	-0.017	-0.032	0.089	0.197***	-0.003
	(0.027)	(0.040)	(0.042)	(0.057)	(0.066)	(0.033)
Ovrdliv	0.000	0.013	-0.004	-0.041*	-0.125*	0.096**
	(0.015)	(0.017)	(0.028)	(0.022)	(0.067)	(0.041)
govRlegDemliv	-0.092	-0.098	-0.071	-0.089	-0.445***	0.043
	(0.057)	(0.064)	(0.081)	(0.082)	(0.144)	(0.079)
govRovrdliv	-0.011	-0.039	-0.002	-0.011	0.135	-0.076
	(0.017)	(0.059)	(0.020)	(0.048)	(0.100)	(0.048)
legDemovrdliv	-0.017	0.021	-0.057	0.085	0.135	-0.103*
	(0.031)	(0.032)	(0.042)	(0.078)	(0.128)	(0.053)
govRlegDemovrdliv	-0.004	0.012	0.003	-0.092	-0.146	0.068
	(0.032)	(0.063)	(0.042)	(0.064)	(0.132)	(0.051)

Note: This table looks at the changes in log revenue per capita for 48 states from 1983 to 2008, leading to 1223 observations. Significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All tests include state and year fixed effects. Standard errors are corrected for heteroskedasticity.

Table V. The effect of line item veto on state fiscal balance

	(1)	(2)	(3)
	Total Assets	Total Debt	Surplus / Deficits
liv	0.285***	-0.167*	0.281
	(0.063)	(0.099)	(0.193)
govR	-0.071	-0.119	0.033
	(0.060)	(0.103)	(0.133)
legDem	-0.005	0.028	-0.289***
	(0.023)	(0.036)	(0.105)
govRliv	0.082	0.146	-0.053
	(0.070)	(0.116)	(0.173)
govRlegDem	0.038	-0.019	0.060
	(0.059)	(0.125)	(0.149)
legDemliv	-0.028	0.025	0.330**
	(0.052)	(0.069)	(0.147)
Ovrdliv	0.032	-0.163	-0.098
	(0.040)	(0.155)	(0.130)
govRlegDemliv	-0.071	-0.043	-0.047
	(0.070)	(0.141)	(0.204)
govRovrdliv	0.001	0.101	0.078
	(0.031)	(0.123)	(0.152)
legDemovrdliv	-0.039	0.315*	0.426
	(0.066)	(0.187)	(0.269)
govRlegDemovrdliv	0.037	-0.149	-0.069
	(0.053)	(0.143)	(0.242)

Note: This table looks at the changes in log revenue per capita for 48 states from 1983 to 2008, leading to 1223 observations. Significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All tests include state and year fixed effects. Standard errors are corrected for heteroskedasticity.

Table VI. Hypotheses Tests for Table IV and V

	(1)	(2)	(3)	(4)
Hypothesis:	Minority gov. with LIV: Rep. vs. Dem.	Rep. min. gov. with LIV: with OVRD vs. without OVRD	Republican Governor with LIV in minority vs. majority	Maj. Gov. with LIV: Rep. vs. Dem.
Panel a. Revenues				
Total Revenue	-0.013	-0.031	-0.007	0.013
	(0.018)	(0.028)	(0.016)	(0.014)
Tax Revenue	0.030*	0.007	0.041**	-0.019
	(0.017)	(0.027)	(0.017)	(0.018)
Non-Tax Revenue	-0.050*	-0.060*	-0.044	0.036
	(0.026)	(0.033)	(0.027)	(0.025)
Income Tax	0.132**	-0.059	0.099**	-0.003
	(0.051)	(0.045)	(0.044)	(0.036)
Corporate Tax	0.045	-0.001	0.010	-0.080
	(0.081)	(0.076)	(0.081)	(0.056)
Sales Tax	0.008	-0.015	0.027	-0.011
	(0.019)	(0.037)	(0.018)	(0.019)
Panel b. Fiscal Balances				
Assets	-0.055	0.031	-0.067	0.045
	(0.053)	(0.051)	(0.041)	(0.040)
Debt	0.017	0.104	-0.010	-0.026
	(0.073)	(0.115)	(0.062)	(0.050)
Surplus/Deficit	0.034	0.336	0.054	-0.061
	(0.130)	(0.257)	(0.141)	(0.122)

Note: The table presents several hypothesis tests, all refer to the results outlined in Tables IV and V. Every row in this table refers to a different column in Tables IV and V. Every box is the coefficient of a different test. Column 1 tests the difference in budgetary outcomes between a Republican minority governor with LIV and a Democratic minority governor with LIV. Column 2 tests the effect of a Republican minority governor with LIV when the legislature can override the veto, compared to a Republican minority governor with LIV when the legislature cannot override the veto. Column 3 tests the effect of a Republican minority governor with LIV compared to a Republican majority governor with LIV. Column 4 tests the effect of a Republican majority governor with LIV compared to a Democratic majority governor with LIV. In columns 1, 3 and 4 the legislature does not have the ability to override the veto. The significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects and the control variables described in equation 1. Standard errors are clustered at the state level and are presented in parentheses.

Appendix Table I.a Robustness check
Expenses: omitting non-LIV states

	(1)	(2)	(3)	(4)
Hypothesis:	Minority Governor with LIV: Comparison of Republican versus Democratic Governor	Republican Minority Governor with LIV: Comparison of override versus no override threat	Republican Governor with LIV and no override threat: Comparison of minority versus majority Governor	Majority Governor with LIV and no override threat: Comparison of Republican versus Democratic Governor
Panel. Expenses				
Total Expenditure	-0.032** (0.014)	-0.033 (0.027)	-0.012 (0.014)	0.015 (0.010)
Capital Expenses	-0.049 (0.041)	-0.017 (0.083)	-0.017 (0.045)	0.025 (0.045)
Current Expenses	-0.029** (0.014)	-0.034 (0.028)	-0.011 (0.013)	0.015 (0.009)
Education	0.000 (0.019)	0.012 (0.025)	0.026* (0.015)	-0.008 (0.014)
Welfare	-0.085** (0.035)	-0.075 (0.074)	-0.038 (0.034)	0.002 (0.030)
Highway	-0.058 (0.037)	0.040 (0.083)	-0.053 (0.040)	0.068 (0.041)
Healthcare	-0.001 (0.062)	0.077 (0.054)	0.016 (0.055)	-0.061 (0.040)

Note: The table presents several hypothesis tests, all refer to the results of estimating equation 1 for a sample of 42 states (states with LIV power). The results are presented similarly to Table III. Every box is the coefficient of a different test. Column 1 tests the difference in budgetary outcomes between a Republican minority governor with LIV and a Democratic minority governor with LIV. Column 2 tests the effect of a Republican minority governor with LIV when the legislature can override the veto, compared to a Republican minority governor with LIV when the legislature cannot override the veto. Column 3 tests the effect of a Republican minority governor with LIV compared to a Republican majority governor with LIV. Column 4 tests the effect of a Republican majority governor with LIV compared to a Democratic majority governor with LIV. In columns 1, 3 and 4 the legislature does not have the ability to override the veto. The significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects and the control variables described in equation 1 and in Table II. Standard errors are clustered at the state level and are presented in parentheses.

Appendix Table I.b Robustness check
Revenues: omitting non-LIV states

	(1)	(2)	(3)	(4)
Hypothesis:	Minority Governor with LIV: Comparison of Republican versus Democratic Governor	Republican Minority Governor with LIV: Comparison of override versus no override threat	Republican Governor with LIV and no override threat: Comparison of minority versus majority Governor	Majority Governor with LIV and no override threat: Comparison of Republican versus Democratic Governor
Panel a. Revenues				
Total Revenue	-0.017 (0.016)	-0.020 (0.020)	-0.007 (0.011)	0.011 (0.010)
Tax Revenue	0.015 (0.015)	0.012 (0.025)	0.032* (0.016)	-0.016 (0.018)
Non-Tax Revenue	-0.045* (0.024)	-0.046* (0.023)	-0.033 (0.020)	0.027 (0.018)
Income Tax	0.115** (0.043)	-0.043 (0.042)	0.087** (0.039)	0.006 (0.036)
Corporate Tax	0.034 (0.076)	0.029 (0.084)	0.000 (0.078)	-0.080 (0.049)
Sales Tax	-0.003 (0.020)	-0.004 (0.033)	0.019 (0.018)	-0.008 (0.017)
Panel b. Fiscal Balances				
Surplus/Deficit	0.002 (0.002)	0.002 (0.003)	0.000 (0.002)	0.001 (0.001)

Note: The table presents several hypothesis tests, all refer to the results of estimating equation 1 for a sample of 42 states (states with LIV power). The results are presented similarly to Table VI. Every box is the coefficient of a different test. Column 1 tests the difference in budgetary outcomes between a Republican minority governor with LIV and a Democratic minority governor with LIV. Column 2 tests the effect of a Republican minority governor with LIV when the legislature can override the veto, compared to a Republican minority governor with LIV when the legislature cannot override the veto. Column 3 tests the effect of a Republican minority governor with LIV compared to a Republican majority governor with LIV. Column 4 tests the effect of a Republican majority governor with LIV compared to a Democratic majority governor with LIV. In columns 1, 3 and 4 the legislature does not have the ability to override the veto. The significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects and the control variables described in equation 1 and in Table II. Standard errors are clustered at the state level and are presented in parentheses.

Appendix Table II.a Robustness check
Expenses: Log Differences

	(1)	(2)	(3)	(4)
Hypothesis:	Minority Governor with LIV: Comparison of Republican versus Democratic Governor	Republican Minority Governor with LIV: Comparison of override versus no override threat	Republican Governor with LIV and no override threat: Comparison of minority versus majority Governor	Majority Governor with LIV and no override threat: Comparison of Republican versus Democratic Governor
Panel. Expenses				
Total Expenditure	-0.005 (0.005)	0.003 (0.006)	0.000 (0.005)	-0.008 (0.005)
Capital Expenses	-0.010 (0.014)	-0.024 (0.016)	0.013 (0.015)	-0.011 (0.015)
Current Expenses	-0.005 (0.005)	0.005 (0.006)	-0.002 (0.004)	-0.007 (0.005)
Education	0.000 (0.006)	0.010 (0.007)	-0.001 (0.006)	-0.007 (0.006)
Welfare	-0.013 (0.012)	0.009 (0.019)	0.008 (0.013)	-0.026*** (0.009)
Highway	0.001 (0.011)	-0.006 (0.020)	0.006 (0.011)	0.000 (0.013)
Healthcare	0.020 (0.014)	0.012 (0.016)	-0.026** (0.013)	0.027 (0.016)

Note: The table presents several hypothesis tests, all refer to the results of estimating equation 1, the only difference being that the dependent variable is now in first differences. The results are presented similarly to Table III. Every box is the coefficient of a different test. Column 1 tests the difference in budgetary outcomes between a Republican minority governor with LIV and a Democratic minority governor with LIV. Column 2 tests the effect of a Republican minority governor with LIV when the legislature can override the veto, compared to a Republican minority governor with LIV when the legislature cannot override the veto. Column 3 tests the effect of a Republican minority governor with LIV compared to a Republican majority governor with LIV. Column 4 tests the effect of a Republican majority governor with LIV compared to a Democratic majority governor with LIV. In columns 1, 3 and 4 the legislature does not have the ability to override the veto. The significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects and the control variables described in equation 1 and in Table II. Standard errors are clustered at the state level and are presented in parentheses.

Appendix Table II.b Robustness check
Revenues & Fiscal Balance: Log Differences

	(1)	(2)	(3)	(4)
Hypothesis:	Minority Governor with LIV: Comparison of Republican versus Democratic Governor	Republican Minority Governor with LIV: Comparison of override versus no override threat	Republican Governor with LIV and no override threat: Comparison of minority versus majority Governor	Majority Governor with LIV and no override threat: Comparison of Republican versus Democratic Governor
Panel a. Revenues				
Total Revenue	-0.003 (0.008)	-0.003 (0.009)	0.003 (0.007)	-0.004 (0.007)
Tax Revenue	0.008 (0.006)	0.008 (0.010)	0.008 (0.006)	-0.007 (0.005)
Non-Tax Revenue	-0.010 (0.011)	-0.018 (0.011)	0.002 (0.010)	-0.002 (0.012)
Income Tax	-0.008 (0.011)	0.005 (0.012)	0.004 (0.009)	-0.005 (0.012)
Corporate Tax	0.003 (0.021)	0.001 (0.023)	-0.007 (0.020)	-0.010 (0.020)
Sales Tax	0.005 (0.007)	0.012 (0.010)	0.006 (0.007)	-0.010** (0.005)
Panel b. Fiscal Balances				
Surplus/Deficit	0.118** (0.055)	-0.021 (0.121)	0.043 (0.086)	0.100 (0.068)

Note: The table presents several hypothesis tests, all refer to the results of estimating equation 1, the only difference being that the dependent variable is now in first differences. The results are presented similarly to Table VI. Every box is the coefficient of a different test. Column 1 tests the difference in budgetary outcomes between a Republican minority governor with LIV and a Democratic minority governor with LIV. Column 2 tests the effect of a Republican minority governor with LIV when the legislature can override the veto, compared to a Republican minority governor with LIV when the legislature cannot override the veto. Column 3 tests the effect of a Republican minority governor with LIV compared to a Republican majority governor with LIV. Column 4 tests the effect of a Republican majority governor with LIV compared to a Democratic majority governor with LIV. In columns 1, 3 and 4 the legislature does not have the ability to override the veto. The significance of each coefficient is marked in the following way: *** is significant at or below 1%, ** is significant at or below 5%, and * is significant at the 10% level. All specifications include state and year fixed effects and the control variables described in equation 1 and in Table II. Standard errors are clustered at the state level and are presented in parentheses.

DATA APPENDIX

Table A.1. The Prevalence of the Line Item Veto

Allows Line Item Veto		Does Not Allow LIV
Alabama	Mississippi	Indiana
Alaska	Missouri	Maine (Pre-1997)
Arizona	Montana	Nevada
Arkansas	Nebraska	New Hampshire
California	New Jersey	North Carolina
Colorado	New Mexico	Rhode Island
Connecticut	New York	Vermont
Delaware	North Dakota	
Florida	Ohio	
Georgia	Oklahoma	
Hawaii	Oregon	
Idaho	Pennsylvania	
Illinois	South Carolina	
Iowa	South Dakota	
Kansas	Tennessee	
Kentucky	Texas	
Louisiana	Utah	
Maine (Post-1997)	Virginia	
Maryland	Washington	
Massachusetts	West Virginia	
Michigan	Wisconsin	
Minnesota	Wyoming	

Note: The data was gathered from a variety of sources, cited above, that include; National Association of State Budgetary Offices (NASBO), Advisory Commission on Intergovernmental Regulation (ACIR), Holtz-Eakin, and Figueirado. Figueirado's paper shows no LIV changes between 1983 and 1994, when our sample begins. This combined with the data from NASBO and ACIR allows us to fill in the areas of question. Maine voted in 1996 to grant the governor power of LIV starting in 1997, shown through the data in NASBO. Maryland is unique because the legislature cannot raise spending amounts above the governor's recommendations, limiting legislative earmarks; however, the governor can use LIV on capital budget items. This analysis aligns to Holtz-Eakin's previous work on which states do and do not provide for line item veto.