Partial Veto Bargaining

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Abstract
This paper analyzes variations in legislative bargaining when the executive is endowed with the partial veto, as opposed to the package veto. Counter commonly held beliefs that the partial veto empowers the executive, we highlight its main effect to be exactly the opposite: the partial veto makes it more difficult for the executive to induce legislators to pass her preferred policy. Because the executive cannot credibly commit to refrain from using the partial veto, legislators adapt their behavior and alter contents of proposals --both in terms of private and public goods, moving them farther from the President’s ideal point. The package veto, in contrast, empowers the President by providing incentives to the legislature to seek a compromise. Additionally, while the package veto may bring congress and the executive closer over a sequential bargaining process, as suggested by Cameron, the partial veto causes bargaining to break down, discouraging consensus building.

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I. Introduction

In every State of the Union address during his second term, President Ronald Reagan pleaded Congress to grant him “the right to veto individual items in appropriations bills without having to veto the entire bill” (SOTU 1984). In his own words, with a partial veto the President would be able to “carve out the boondoggles and pork, those items that would never survive on their own” (SOTU, 1987). The Republican majority that took over the House in 1994 used the same argument to justify the actual adoption of the partial veto in 1996: it would allow the President to strike specific spending provisions in bills, and thus, eliminate unnecessary spending, without having to veto the entire bill.¹

The argument linking the partial veto with reduced spending is not unique to federal politics in the U.S. The same claim has been used to justify the adoption of partial vetoes in the US states, and is often behind justifications of the partial veto in countries around the world. The received wisdom is that the partial veto is an instrument that empowers the executive to control the budget and advance her agenda, as she has the capacity to delete parts, sections, or words from bills without having to impose a total veto that renders such bills null.

Contrary to this prevalent notion, we argue that the partial veto does not empower the executive. Instead, we claim that by granting the executive discretion over the final content of bills, the partial veto prevents the President from reaching favorable agreements with the legislature. Because Presidents are able to modify bills just before they become

¹ Throughout the text we use “partial veto” and item veto interchangeably. More strictly, the partial veto is a broader category that comprises the item veto, and it is our preferred terminology.
laws, they cannot bind themselves to deals made previously with the legislature. Anticipating the president’s behavior, legislators have no incentives to bargain extensively with the executive over the shape of bills. Thus, we claim that legal frameworks that allow governors or presidents to line item veto bills reduce the influence of the executive over the lawmaking process.

This rationale is key for explaining the conundrum in the literature on partial vetoes. On one hand, this literature predicts that executives who enjoy partial veto prerogatives are more powerful than those who can only veto bills in their totality. On the other hand, this literature finds that the partial veto has no effect in advancing the agenda of the executive or in reducing the government deficit. We find that this conundrum is predictable. The president cannot negotiate items in her agenda in exchange for not partially vetoing bills because her promises are not credible. Legislators prefer to choose their own ideal point rather than reaching a compromise with a non-credible executive.

Clarifying the effects of vetoes, total and partial, seems of utmost importance as countries around the globe, but particularly in regions analyzed here, where separation of powers arrangements have attracted most attention (the US and Latin America), are proposing reforms to the veto as this piece is being written. In the US, and as the Reagan quotes attest, the line item veto is thought of as the exemplar mechanism to end budget waste. In Chile, for example, broadly considered one of the highest quality democracies in Latin America (Heiss and Navia 2007, Londregan 2000, Navia 2004, Stein et al 2006) and where presidents enjoy the power to line-item veto legislation, is currently debating the need for a new constitutional reform (e.g., Couso and Caddou, 2009, Verdugo 2012).² In

² Chile’s current Constitution was drafted in 1980 by the military regime ousted in 1990. Since then, it has undergone several minor reforms to remove authoritarian remnants.
this context, a debate over the president’s line-item veto powers becomes of great
importance because it has significant implications over the lawmaking process and the
possibilities of consensus building.

The paper is organized as follows: In the next section we revise the existing
literature and its main results. In Section III we present our argument and, following
Indridason (2011), we show why the partial veto does not empower the executive. Section
IV draws implications, Section V presents illustrative examples from the US states, and
Section VI concludes.

II. Existing Literature: Partial Vetoes and the Empowerment of the Executive

What is the nature of the partial veto? The existing literature analyzes vetoes from
two different perspectives. We identify one as the “Cameronian” approach, which posits
that vetoes enable a process of bargaining on the location of policy (Cameron 2000). In this
approach, the position of the bill results from iterated bargaining between the President and
the legislature that takes place over several legislative periods during which actors learn
about each others’ preferences and act strategically to produce a bill as close as possible to
their own preferences.

A second approach, more closely connected to the analysis of partial vetoes, argues
that the partial veto empowers the executive through two mechanisms, the negative power
to cut spending, and the positive power to push forward the executive agenda. This
approach is concerned with government deficits and whether the partial veto contributes to
their reduction, as conventional wisdom has suggested. With a few exceptions, this
literature is blind to the strategic behavior of legislators and its consequences for the
bargaining between branches. It interprets the tradeoffs surrounding this prerogative as winner-takes-all type of deals. Here we build on these two approaches.

First, the literature claims that partial veto grants negative power by enabling the executive –be it a president or governor– to control spending and reduce the deficit (e.g.; Abrams and Dougan 1986; ACIR 1987; Nice 1988; Rowley, Shughart, and Tollison 1986). Theoretically, the partial veto has been proposed as the quintessential solution to budget-deficits, especially when the executive is “frugal” compared to the legislature (Kousser and Phillips 2012).

A second line of research emphasizes that the line item veto bestows positive power in the hands of the President, increasing her leverage to influence interbranch bargaining. In this account, the President can promise not to veto certain parts of a bill in exchange for legislators’ support of her policy priorities (e.g.; Kousser and Phillips 2012; Shugart and Carey 1992; Alemán and Schwartz 2006). As Kousser and Phillips put it, “Governors who poise item-veto powers can pay legislators larger side payments and thus are more likely to win support for their own proposals when playing the policy game” (2012: 199).

The literature has focused on the U.S. states, where 44 states out of 50 have adopted partial veto prerogatives,³ and on Latin America, where fifteen out of the eighteen Presidents can issue partial vetoes (Alemán and Schwartz 2006: 101).

Scholars studying Latin America and interested in assessing the relative strength of

³ The exceptions are Indiana, Nevada, New Hampshire, North Carolina, Rhode Island, and Vermont.

⁴ The exceptions are the Dominican Republic, Guatemala and Honduras (Alemán and Schwartz 2006).
presidents in the region argue that presidents who are able to line-item veto bills have significantly more power to impose their preferences on policy outcomes than those who can only veto the whole bill (Shugart and Carey 1992). In a recent effort to score presidents’ legislative powers, Negretto (2008) uses principal components analysis to develop an index of presidential powers in which, not matter the variation in partial veto prerogatives, it always adds positively to executive powers (Negretto, 2008: 137).5 Perhaps the most expansive analysis of the veto prerogative in different settings is that by Alemán and Schwartz (2006), who classify the patterns observed in eighteen Latin American countries and argue that line-item vetoes expand presidential prerogatives by allowing the president to revise bills passed by Congress. This argument is also central in Tsebelis and Alemán (2005) who claim that item vetoes and the possibility to make amendatory observations empower presidents by enabling them to choose the final form of any bill.6

The Hunt for Partial Veto Effects

While the literature has stressed over and again that the partial veto renders a more influential executive, it has found that partial vetoes have no significant effect on executive power. Studies focusing on the US states have found little or no evidence linking the line item veto with a more powerful executive: states that have adopted the partial veto have not

5 Negretto reveals great nuance in his analysis of the vetoes, distinguishing aspects such as the override rule, the number of chambers intervening in the override, the amendment powers of the president, and whether partially vetoed bills need to be approved by Congress before they become law.

6 In this paper we do not develop the implications of amendatory vetoes.
been successful at reducing spending or at pushing the governor’s agenda.\textsuperscript{7}

For example, Abrams and Dougan (1986), who are interested in the effect of administrative constraints on budgetary spending, compare per capita spending in 49 states, and test for the effects of a host of factors, including income, federal aid, tax capacities, political competition, borrowing limits, limits on taxing or spending, reelection restrictions and item vetoes. They find that the partial veto does not lead to lower spending. Interestingly, Abrams and Dougan suggest that while the item veto does not affect the level of aggregate spending, it may have an effect on the mix of federal and state level spending, although their estimates reveal no such effect. Generated around the same time, the work of Nice (1988) takes a cross sectional look at veto provisions in the U.S. states. An interesting variation between his work and others is that Nice highlights that veto provisions vary “in terms of whether they apply to substantive provisions of appropriations bills (as well as expenditure amounts) and whether they include the power to reduce as well as delete items.” (Nice, 1988:491). He acknowledges these variations in his specification of the item veto \textsuperscript{8}, and interacts them with the presence of divided government and with the presence of a Republican Governor. Nice does not find any significant relationship between item veto powers and government spending, not even in the context of divided government.

\textsuperscript{7} It is important to mention that works focusing on Latin America do not test empirically whether line item veto powers render a more powerful executive. Thus, here we will focus on the US states literature.

\textsuperscript{8} He develops a veto scale that adds one point for each of the following: an item veto on appropriations amounts, an item veto on other provisions of appropriations bills, and the power to reduce appropriations.
Carter and Schapp (1990), motivated by the inconsistency between the effects anticipated in the literature and the negative empirical findings, conduct various tests employing alternative data, methods, and measures. They find that the partial veto is not important for the outcome of the budgetary process, and spell out a formal model to interpret the incongruity. The model introduces sophisticated behavior by legislators, an assumption absent in previous analyses. As we have pointed out, this change in assumptions is a key determinant of the divide between expectations and findings in large part of the literature. In adopting this assumption, Carter and Schapp provide a first glimpse into the rationale leading to increased (not decreased) spending under the item veto.

Perhaps the most well known study of partial vetoes in the US states is that of Holtz-Eakin (1988), which uses detailed data from budgeting laws from 1966 to 1983 for forty-eight states. He estimates different regression models for three spending categories (current, capital, and grants) and two revenue categories (tax and non-tax), and controls for the political setting. Although he finds that item vetoes can have short-run effects on the reduction of per capita spending under divided government, he finds no long-run effect. Indeed, he argues that only long-run effects would constitute “more convincing evidence that the line item veto affects either the level or the composition of the public sector budget” as it would provide evidence that changes are not caused by variations in politics or economic setting.

More recently, Besley and Case (2003) assembled a cross-state panel dataset for the 48 continental U.S. states for the period 1950-99 and analyzed the effect of a wealth of institutions, including the line veto, on spending. In line with Holtz-Eakin’s results, Besley and Case find that the effect of the line item veto on spending is conditional on divided government. The difference between their findings and Holtz-Eakin’s is that Besley and
Case find that the item veto reduces both spending and taxes. However, they acknowledge the limitations of their indicator for the item veto, as during this period only two states allowed their governor an item veto. Recall, also, that Nice (1988) does not find any significant relationship between item veto powers and government spending in the context of divided government when examining a variety of measurements of item veto provisions.

The emphasis placed on spending appears to leave questions about policy beyond spending unattended. Yet this is not entirely the case. A few scholars have looked into this aspect, analyzing the use of partial vetoes in specific states in great detail. They encounter different findings. For example, Gosling (1986) looks into the 542 partial vetoes exercised by the Wisconsin governor between 1975 and 1985. While finding that partial vetoes do reduce the cost of government, he discovers more significant evidence that points to the political and partisan use of the partial veto. For instance, he observes that the partial veto “has been directed disproportionately at shaping local assistance policy” (Gosling 1985:296), especially during divided government (i.e., when a Republican governor faced democratic majorities in the legislature).

In what is arguably the most expansive work done on partial vetoes to date, Kousser and Philips (2012) take into account governors’ ideological standpoint with respect to the legislature. They use a matching procedure to compare sets of states with and without the

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9 During the six biennia analyzed, item vetoes collectively saved the state treasury between a low of .006 percent of the state general revenue budget in 1983-85 and a high of 2.5 percent in 1981-83.

10 This is important because at the end, the negative power of the partial veto depends on where the executive stands with respect to the legislature in terms of spending: If the
item veto prerogative, matching on the professionalization of legislatures – salary, session length, and staffing. Consistent with previous research, they “find no clear evidence that the item veto bestows a negative, budget-cutting power on chief executives (even those who are frugal)” (2012: 208). To test for the positive powers of the line item veto, they analyze the difference between the budget proposed by the government and the final budget approved by the legislature: The smaller this difference, the more successful the executive is in obtaining her preferred budget. Again, they find no strong correlation between the partial veto and legislative success: “Overall, we uncover little support for the hypothesis that the item veto can be used as a positive power to move the governor’s agenda” (Kousser and Philips, 2012: 210).

What we discover, across a variety of studies specifically designed to test for the effects of partial vetoes, is a collection of null findings. Why might this be? Kousser and Phillips suggest there may be more than one reason. They conjecture that (a) the effect of the item veto is conditional on circumstances, such as whether the executive is frugal or not, (b) the data analyzed it not enough to allow for effects to emerge, (c) the partial veto may be used only for pork, strictly speaking, and (d) both legislators and governors benefit from credit claiming, which muddles effects.

We argue that the reasons for the null findings are not related to data, but to theory.
Although the preceding works differ in their data, method, and focus, they all share an implicit assumption, i.e., that the legislature does not take into account the institutional environment within which it acts. The literature reviewed above assumes that when legislators propose and vote on bills, they are unaware that an executive with the prerogative to do so may veto parts of those bills.

Does it matter that this literature considers that legislatures pass bills and send them to the executive without further thought about the endgame? We believe that it does. By ignoring the possibility that Congress may adapt its behavior in response to different veto prerogatives, these scholars assume that the executive’s capacity to pick and choose which items to delete from the bill provides increased leverage over the legislature. In this paper we depart from that perspective, and posit that in order to understand the effects of the partial veto we must take into account that actors adjust their behavior to the rules of the game.

III. Partial Veto and the Empowerment of the Legislature

Are there good reasons to believe that when executives enjoy the partial veto prerogative, legislators adjust their behavior so that they obtain outcomes close to their preferences? We think there are. First, the legislative game involving vetoes is a clearly structured one: vetoes are either explicitly written into the Constitution or are enacted by a legislative act. All players know the rules and, in most cases, it is a game they have experience playing.\(^{11}\) Second, we expect strategic legislators to shape the bill that reaches

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\(^{11}\) A growing literature in comparative politics points to the futility of formal rules in institutional settings where informal rules render them null, such as in some countries of
the executive in light of the rules they face, i.e., in light of the fact that the president can pick and choose parts of the bill and veto them.

As a consequence of legislator’s strategy, the executive loses influence over the lawmaking process. This follows the logic underlying credible commitments, as described by Shepsle 1991 and others. We know that while the ability to commit often expands one’s opportunity set, the capacity to exercise discretion reduces it, as you can renege or behave opportunistically (Shepsle 1991). When presidents can only veto bills totally, they bind themselves by disabling whatever discretion they might have possessed (Schelling, 1956); this institutional arrangement allows agents to make credible commitments. One of the advantages of commitment stems from the effect on current behavior induced by future expectations.

Our argument emphasizes that when executives have the opportunity to partially veto bills, they have more discretion over final outcomes. Legislators adapt their behavior to that reality, and are less prone to bargaining with other branches. Under a partial veto framework, the legislature has no incentive to reach a compromise with the Executive in which both obtain some of their ideal points because it knows that the Executive has discretion to pick and choose the final form of the bill. For example, the legislature cannot agree to move the public good’s portion of a bill closer to the executive in exchange for earmarks or pork because the executive cannot credibly commit to abstain from vetoing such earmarks.

Latin America, and many third-wave democracies. While we share some of the insights of this literature, we claim that rules governing the legislative process are at the heart of power-sharing agreements, and their use is an indicator of the status of checks and balances.

Shepsle (1991) further develops the tradeoff between commitment and discretion.
In line with the theoretical findings in Indridason (2011) which we discuss next, we posit that the executive stands to lose under a partial veto setting compared to the policy compromises she can attain when only in possession of the package veto prerogative.

**A model of partial vetoes**

The purpose of this section is to examine how the presence of the partial veto affects actors’ incentives when facing negotiations with the Executive over policy, i.e., over the provision of public goods. Because the line item veto increases the executive’s level of discretion, the executive is expected to maximize at each point in time, and cannot commit to an inter-temporal plan.\(^{13}\) As a consequence, when a bill arrives for a signature, the executive has incentives to veto as many items he dislikes as possible. Paradoxically, such behavior may have perverse consequences: it poses a problem for the executive because she cannot deny that she will consistently optimize, even if she would be better off otherwise.

We rely on a model developed by Indridason (2011), and focus on aspects of the model that allow us to analyze the effect of the partial veto on legislative bargaining. The model draws attention to differences in the bargaining process that takes place between a legislature and an executive who has the prerogative to partially veto legislation *vis à vis* one that can only veto legislation in full. Among its findings, we highlight how the level of provision of public goods is affected by the presence of the partial veto versus the total veto.

We provide a general description of the model, reproducing some of its key

\(^{13}\) The executive optimizes at each time \(t\) (consistency, as in consistent maximizing behavior, Kydland and Prescott 1977), because she has discretionary authority and cannot be coerced or disabled.
components. The model has several notable attributes. First, it distinguishes between public and private goods. Second, it brings to the fore the gains attained through the mechanism of credit claiming for having tried to obtain a certain outcome, even if the effort was stifled by a veto.

The model depicts the interaction that takes place between the executive and legislators during the lawmaking process. Its focal actors are an executive $E$ and a legislature $N$ composed of $n$ legislators. One of the legislators is the agenda setter $A$, chosen exogenously from the set of legislators, who has control of the agenda and can propose amendments to the bill.

A bill is composed of public and private goods. Public goods are denoted $z \in \mathbb{R}$. Private goods are denoted $x_i \in \{0,1\}$, where the index of the private goods corresponds to that of the legislators, and $x_i$ indicates whether the private good is provided or not. Each private good has a fixed cost and is labeled $\alpha_i$. In Indridason 2011, private goods can be thought of as perks, pork, or any kind of distributive benefit that helps a specific legislator get reelected. We extend the notion of reelection to the broader one of career advancement for generalization purposes.\footnote{This is in line with the comparative politics literature that is sensitive to variations in politicians’ different types of ambition (static, progressive). See Schlesinger 1966, Rohde 1979, Samuels 2000.}

In our rendition of the model, legislators maximize career prospects, not reelection, to better represent political settings where reelection, for different reasons, is not sought.

\footnote{Superscripts are used to denote player’s ideal policy, such that legislator $i$’s ideal point is denoted $z^i$. Subscripts refer to items of a bill.}
Advancing their political career depends on whether they are able to include, in legislative bills, any private good that their constituencies (or party superiors) care about. Legislator $i$’s utility function is

$$U_i(x_i, x_{iL}) = w(z) + \alpha_i x_i + \beta \alpha_i x_{iL} - \varepsilon \sum_{j \in N} \alpha_j x_j$$

where $x_{iL}$ indicates whether the private good was included or not in the bill, $w(z)$ denotes legislators’ preference over the public good (legislators preferences are assumed to be identical, single peaked and quasi-linear), $\alpha_i$ is the cost of providing $x_{iL}$ (a legislator’s private good), while $\beta \alpha_i$ is the utility a legislator gets from having his own private good included in the bill passed, and $-\varepsilon \sum_{j \in N} \alpha_j x_j$ is the disutility for the legislator of providing other legislators’ private goods – as legislators prefer to have their own private good provided, but would rather provide none of the other legislators’ private goods. It is assumed that actors value their own private good more than the cost of providing private goods to other legislators and getting the public good provided at their own preferred level.\footnote{That is, $\alpha_i - \varepsilon \sum_{j \in N} \alpha_j > w(z^A) - w(z^0)$}

The executive is assumed to value the public good more than the private good. This assumption reflects the notion that the executive represents the population of the whole country/state instead of a limited constituency from a single district. The executive’s utility function is given by

$$U_E(x) = w_E(z) - \gamma \sum_{j \in N} \alpha_j x_j$$

where $w_E(z)$ represents the executive’s preference over the provision of the public good.

\[\alpha_i - \varepsilon \sum_{j \in N} \alpha_j > w(z^A) - w(z^0)\]
The executive is assumed to dislike all private goods and her disutility is linear in the cost of the private goods.

**The Game.** The game has five stages, as depicted in Figure 1. First is a *proposal stage*, in which the executive submits a bill to Congress. As mentioned above, the bill is composed of a public good and a series of private goods that the executive may decide to veto or fund. The Executive chooses the level of public good it desires, although Indridason assumes that the executive prefers a higher level of spending than the status quo and also more of the public good than the legislators. The level of provision of the public good can be any point, \( z \), on the real line whereas the costs of private goods \( x_i \) are fixed, such that they either get funded or they do not.\(^{17}\) Therefore, the proposal consists of a number on the real line, \( z \), and an \( n \times 1 \) vector of zeros and ones, \( x_i, i \in N \), indicating whether a project gets funded or not. We find this setup to be most apt to analyze bill proposal in most separation of powers settings, where executives often have the prerogative to formally propose bills in congress (with variation in terms of how much legislators can amend in later stages). Additionally, this stage provides crucial information regarding the executive’s preferences, which is important in testing the empirical implications of the model, as our empirical analysis below suggests.

[Figure 1 about here]

The second stage is the *amendment stage*, in which the agenda setter, \( A \), chooses whether to amend the executive’s proposal. If he chooses to do so, he can pick any alternative from the same choice space as the executive \( x_A \in X \). The agenda setter is not

\(^{17}\) The executive’s strategy at the proposal stage is a choice of an alternative from the policy space \( x \in \mathbb{R} \times \{0,1\}^n \).
restricted by the executive’s choices.

Third, the voting stage, in which legislators vote on the final bill. In this third stage, a vote is taken on A’s bill against the status quo \( x^0 \). If a majority votes for A’s amendment, the outcome is \( x_L = x_A \). Otherwise, the game ends, and the status quo remains. This stage provides legislators the opportunity to take a stand on issues of interest to their constituencies.

The fourth stage is the veto stage. Once the legislature has accepted the bill, it goes to the executive. The executive can choose to sign the bill into law as is, to veto the entire bill or to veto it partially. It is the veto rule in place, which defines the executive’s set of actions \( V(x_0, x_L) \). If the executive can only impose total (package) vetoes, the veto set is \( V_T(x^0, x_L) = \{ x^0, x_L \} \), that is, the executive can choose between the status quo \( x^0 \) and the bill passed by the legislature \( x_L \). The veto set under the partial veto is more complex, \( V_P(x^0, x_L) = \{ x \in X \mid z \in \{ z^0, z_L \} \text{ and } x_j \in \{ 0, x_{il}, \forall i \in N \} \} \), such that under the partial veto the executive has a choice between the values specified by the status quo \( x^0 \) and the legislature’s proposal \( x_L \) on each dimension of the policy space.\(^{18}\) In the case of the partial veto, if in a two person legislature \( x_0 = (0,0,0) \) and \( x_L = (1,1,1) \), then the partial veto choice set is \( V_P(x_L) = \{ (0,0,0), (0,0,1), (0,1,0), (1,0,0), (0,1,1), (1,0,1), (1,1,0), (1,1,1) \} \). The veto is denoted \( x_V \) and if the executive chooses not to veto \( x_V = x_L \), the game ends and the policy outcome is \( x_L \).

If the executive imposes a veto on the bill, then it goes back to Congress, entering

\(^{18}\) We do not consider situations where the President can make an amendatory veto, in which case the executive’s choices are not constrained to two options per dimension.
the override stage, where legislators may override or sustain the veto.\(^\text{19}\) Legislator \(i\)’s action at this stage is a choice between the legislative outcome, \(x_L\) and the president’s veto alternative, \(x_V\). If a veto majority\(^\text{20}\) \(m\), as specified by the veto rule, votes for \(x_L\) the veto is overridden and the outcome is \(x_L\). Otherwise, \(x_V\) is the outcome.

If a bill is not adopted, the status quo remains in place, that is, the current level of spending on public goods, \(z^0\), is maintained, and no private goods are funded under the status quo, such that \(x^0 = (z^0, 0, 0, \ldots, 0)\).

**Subgame Perfect Equilibrium.** In the partial veto game, the optimal veto strategy is a decision that the executive makes over the level of public and private goods. The model distinguishes two optimal veto strategies depending on the level of public good provision in the legislative proposal. Note that the veto sets the public good either back to the status quo or at the level preferred by the legislature. Next, we present Indridason’s (2011) Proposition 1.

(i) \(z^*_V = z^0\) and \(x^*_V = \begin{cases} 0 & \text{if } i \in K^* (z^0) \cup H \\ x_L & \text{else} \end{cases}\) if the following three conditions hold:

(a) \(z_L < z^0\)

(b) \(w_E (z_L) - \gamma \sum_{i \notin K^* (z^0) \cup H} \alpha_i x_{iv} > w_E (z^0) - \gamma \sum_{i \notin K^* (z^0) \cup H} \alpha_i x^*_{iv}\)

(c) \(\exists B^* \subseteq B = \{i \in N \mid x_{il} = 1\}, such that \mid N \setminus (B \cup B^*) \mid \geq n - m + 1 and \sum_{j \notin B \cup B^*} \alpha_j \geq w(z_L) - w(z^0)\)

(ii) and \(z^*_V = z_L\) and \(x^*_V = \begin{cases} 0 & \text{if } i \in K(z_L) \cup H \\ x_L & \text{else} \end{cases}\).

In words, the president’s first strategy is to veto the public good and leave enough

\(^{19}\) Although override rules vary across countries and states, the requirement for an override is most commonly a super majority of two thirds.

\(^{20}\) This may or may not be a qualified majority, although here we assume that it is.
private goods to sustain her veto. More specifically, she vetoes (1) the private goods of up to \( m - 1 \) legislators, where \( m \) is the number needed to override the presidential veto, and (2) the private goods of the set of legislators \( K^* \) for whom the cost of the private goods vetoed by the president (including their own) is greater than the utility they would receive from the provision of their individual private good. Thus, if there is less than \( m - 1 \) private goods in the bill, the executive vetoes all the private goods, and if there is more than \( m - 1 \) private goods in the bill, the executive vetoes at least \( m - 1 \) private goods.

It is important to point out that the president vetoes the public good proposed by the legislature only if three conditions hold: (a) the executive prefers the status quo level of the public good to the legislative proposal, (b) she prefers the status quo to the public good, and also prefers leaving a greater number of private goods in the bill (because, to effectively veto the public good, she needs to buy off more legislators with private goods), than to get the public good proposed by the legislature and a smaller number of private goods, and (c) there are \( (n - m + 1) \) legislators that prefer the reduced overall cost of the bill to their preferred level of public good.

The executive’s second veto strategy is to not veto the legislature’s proposed public good and leave enough private goods that the veto is sustained. As in the previous strategy, the executive vetoes (i) the private goods of \( m - 1 \) legislators, where \( m \) is the number needed to override the presidential veto, and (ii) the private goods of the set of legislators \( K^* \) for whom the cost of the private goods vetoed (including their own) is greater than the utility they would receive from the provision of their individual private good.

The amount of private goods included in the bill depends on how much legislators value the legislative proposal with respect to the status quo. The greater the difference
between the proposed public good and the status quo \((w(z^A) - w(z^0))\), the less private goods the agenda setter needs to offer legislators. Credit claiming is also important: if the benefits are large, the agenda setter never includes more than \(m\) private goods in the bill (the president vetoes \(m – 1\)).

Indridason’s model yields a wealth of results and his article highlights a number of issues. Yet the purpose of this paper is to focus on the effect of the partial veto \(\text{vis à vis}\) the total veto. We wish to draw attention to what we identify as a key element of all the equilibrium: when executives possess the prerogative to impose partial vetoes on bills, the public good is \textit{never} produced at the level preferred by the executive (unless the executive’s preferred level of public good happens to be exactly at the level of the status quo or of the legislature).

The equilibrium outcomes under the partial veto show that the public good is produced at the level preferred by the legislature in all cases. This is so because the legislature cannot bargain with the executive due to the executive’s commitment constraint under the partial veto. If the legislature were to offer the executive her preferred level of public good in exchange for her abstention from vetoing the private goods, the executive would have no incentive to comply. The executive faces the incentive to always veto \(m – 1\) private goods, and displays consistent behavior maximizing at each time \(t\). In this fashion, the model shows that when the public good is produced, it is produced at the level of the legislature (or the status quo).

In contrast, the only equilibrium in which the public good is provided at the executive’s preferred level occurs when the president can only veto the whole bill (Indridason 2011: 388). In the third equilibrium under the package veto, the public good is produced at the level of the legislature or higher (i.e., closer to the level desired by the
executive) and a bare majority of legislators obtain private goods. In this equilibrium the legislature and the executive can reach a compromise by which the executive accepts not to veto the private goods in exchange for a higher level of the public goods.

This latter equilibrium illustrates the advantage granted the executive by the package veto vis à vis the partial veto. The compromise that enables the executive to attain her preferred level of public goods cannot occur when the executive can partially veto bills. In contrast, the possibility of a compromise between the executive and the legislature does emerge when the institution of the partial veto is absent.

**IV. Implications**

In this vein, we find that the single most important implication of the model analyzed above is that when executives are granted the prerogative to partially veto legislation, their ability to influence the content of bills in terms of public goods decreases. Legislators adjust their behavior to the partial veto rule and shape bills so that a majority is willing to pass them. In sum, under the partial veto rule the executive is not able to induce her ideal point in terms of public goods.\(^{21}\) Consider a scenario in which legislators grant the executive her ideal point regarding any part of the bill, in exchange for a number of private goods. The nature of the partial veto is such that the executive cannot credibly commit not to veto those private goods. In fact, once the legislature has passed a bill, the

\(^{21}\) The implication is valid even where executives are able to propose bills directly in the legislature: once their proposal reaches the legislature, legislators (\(A\), the agenda setter, in the model) have incentives to alter its content to please legislators.
executive faces an incentive to veto as many private goods as possible whilst not endangering the override blocking coalition. Total vetoes, on the other hand, package up components of bills such that the executive is forced to assess bills as a whole, and decide whether that combination of components is satisfactory or not. This forces legislators, in turn, to compromise so as to avoid a veto.

This insight contradicts all of the literature on the partial veto, which assumes that granted the capacity to pick and choose parts of bills the president or governor is empowered and uses the partial veto as a bargaining chip to approve her agenda. While it is an implication of the model that the executive will try to veto as many private goods as possible, we emphasize that this is not necessarily something that empowers the president, nor is it something that can ensure reduced spending overall.

Closely related, a second implication of the model is that under certain circumstances, the executive may have to grant private goods simply to ensure that her veto of a public good she dislikes is sustained. This reveals that the partial veto not only debilitates the executive (counter everything the established literature has posited), it also endows the agenda setter with a great deal of influence over the outcome.

A final implication stems from comparing the findings presented here with what we know about veto bargaining from Cameron (2000). Cameron’s sequential veto bargaining model shows that one of the main features of the bargaining process set forth by vetoes occurs over a number of legislative periods: a veto reveals new information about the executive’s preferences, which legislators take into account in the next round when presenting a new bill on the same issue. Over the course of this bargaining, both executive and legislators improve what they know about the true location of each other’s ideal points,
and they will try to accommodate each other whenever possible in order to pass legislation that is acceptable to both parties.

The partial veto prevents any such compromise from emerging, as it entails the enactment of all parts of the bill that were not vetoed. Bargaining is in this way deterred because a set of actors attains at least part of what it sought, changing the location of the status quo to a new location. Furthermore, the rules do not suggest that a new trial within the same context (same executive, same composition of the legislature) will result in a better outcome.

V. Analyzing the Evidence

As we reviewed above, a prominent literature dedicated to uncovering the effects of the partial veto has found no significant effect. Studies focusing on the U.S. states have found that states that allow partial vetoes do not seem to have been very successful at reducing spending or at pushing the governor’s agenda (Abney and Lauth, 1985, 1997; Abrams and Dougan, 1986; Nice, 1988; Carter and Schapp, 1990; Holtz-Eakin, 1988; Besley and Case, 2003; Gosling, 1986; Kousser and Philips, 2012). Although this literature never questioned whether the executive was better or worse equipped to attain his preferred policy under one setting or the other, its findings indirectly reveal that executives are ill equipped to attain their goals under the partial veto. By thoroughly illustrating that the partial veto does not significantly reduce spending levels, the literature cited above suggests, through a wide array of tests, that executives do not affect outcomes systematically.

From our theoretical perspective, those results show that that the executive cannot attain her ideal point in the presence of the partial veto prerogative. Yet, the three implications highlighted in the previous section pose a challenge in terms of their
verification, as systematic testing would require considering counterfactuals, i.e., it would require asking: what would the outcome have been had the executive been in possession of the partial veto as opposed to the total (package) veto? And alternatively, what would the outcome have been had the executive possessed the capacity to only package veto the bill, as opposed to being able to veto parts?

While we acknowledge this challenge, we believe that there are alternative ways to approach evidence and gain leverage over the explanation we propose. A test of our theory requires analyzing spending outcomes vis à vis policy outcomes. That is, analyzing cases to capture the policy goals of both executive and congress, and the bargaining process that takes place around bill approval and veto.

We have suggested that it is much harder for the executive to attain her preferred policy outcome under the partial veto, as his commitments are not credible. Meanwhile, under the total veto, the president can commit to a bargaining outcome with the legislature and thus, can bring policy closer to her preferences. Applying this logic, any restriction on the partial veto, that is, any provision that decreases the executive’s discretion should affect outcomes and bring public policy closer to the executive’s ideal point.

In what follows, we analyze in depth the case of the line-item veto in Iowa, which illustrates (a) how the legislature adapts to the line item veto and writes bills such that the Executive cannot veto them, and (b) how the legislature adopts bills that reflect its own preferences, instead of negotiating with the executive. More specifically, in Iowa the legislative majority strategically manipulated the content of bills to avoid a line item veto, and when the Supreme Court decision (Rants v. Vilsack, 2004) reduced the governor’s partial veto powers (i.e., reduced Executive’s discretionality) the number of public goods that reflected the preferences of the executive increased.
US States: Iowa and the Line Item Veto

At the beginning of the 2003 legislative session, then Democratic Iowa Governor Tom Vilsack proposed the creation of the Iowa Values Fund (IVF) to the Republican dominated legislature with the aim of strengthening the state’s economy. The fund’s goal was to provide assistance to companies planning to expand in or relocate to Iowa, and, according to the governor, it would transform Iowa’s economy by promoting economic growth. His proposal called for $500 million over five years (Condition of the State Address to the Iowa Legislature, January 2003).²²

Although the Republican legislature supported the IVF, the major issue of contention between the Democratic governor and the Republican legislature was the financing of the IVF. While Governor Vilsack supported a plan to borrow the funds needed, the Republican legislative majority supported an IVF funded on a pay-as-you-go basis. Furthermore, Republicans argued that in order to strengthen the economy, the state also needed to reform the income tax and business-regulation laws. The Republican dominated legislature supported an income tax reform that consisted of about 14% rate reductions for

²² In his Condition of the State Address to the Iowa legislature, Governor Vilsack stated that “…the Iowa Values Fund, should be created and dedicated to partnering with private investment to transform our economy. Administered and managed as a public/private partnership, the fund's investments should promote regional economic development so no part of Iowa is left behind...Over the next five years we should commit $ 500 million to this fund.” Thomas J. Vilsack, Governor, Condition of the State Address to the Iowa Legislature's 80th General Assembly, Jan. 14, 2003.
all personal income tax brackets, and a regulatory reform package that focused on changes to the employees compensation package for injuries and illnesses. Governor Vilsack opposed both reforms, arguing that the tax cuts would cost the state more than $300 million, and that the business regulation changes would hurt existing protections for state workers on compensation claims.

Thus, if Republicans wanted to pass their version of the IVF, plus the income tax and regulation reform, how could they avoid the governor’s veto? For one, Republicans knew that although they could approve such measures in the legislature, they did not have enough members to override the governor’s veto. So what did the legislature do? They anticipated the governor’s actions and acted accordingly. First, they chose their ideal point: the creation of an IVF funded on a pay-as-you-go basis coupled with an income tax and regulatory reform. How did they do it? The general assembly passed two different bills (June 3rd 2003).23 In one bill (HF 683), Republicans appropriated funds for the IVF, and specified the sources of such funds: $503 million starting in SFY 2004 and running through SFY 2010 coming from two sources, $403 million from a streamlined sales and use tax and $100 million in anticipated federal aid, appropriated through the Jobs and Growth Tax Relief Reconciliation Act of 2003.

In the other bill (HF 692), Republicans created and established the structure of the IVF. Most important, this bill also reduced the Iowa income-tax rates across the board, reformed many tort laws, and made changes in Iowa's workers' compensation laws.

23 It is important to mention that the Iowa State Constitution only allows the governor to line item veto appropriation bills.
Indeed, by separating the appropriations from the other economic policies, Republicans wanted to curtail the governor’s ability to veto the items he disliked from the bill. Given that the Iowa Constitution allows the governor to item veto appropriations items only, their strategy was to separate appropriations from other components of the proposal.\(^\text{24}\) Because he was not allowed by the Constitution to item veto bills beyond appropriations, if the governor wanted to create the IVF, he would be forced to either accept the tax reform and the alterations to the tort and compensations scheme included in the same bill, or give up creation of the IVF altogether. Had they proposed everything in a single bill, the governor would have been able to veto the tax reform and other components he disliked. The legislature anticipated the veto, and planned its strategy accordingly by passing two separate measures, a “policy” bill and an “appropriations” bill.\(^\text{25}\)

What happened after the passing of these two bills also concerns our theory. Although Governor Vilsack signed HF 683 (appropriations bill), he lined item veto the

\(^{24}\) The constitutional amendment approved by Iowa’s voters in 1968 states that "the Governor may approve appropriation bills in whole or in part, and may disapprove any item of an appropriation bill; and the part approved shall become a law" (Iowa Constitution, Article III, section 16).

\(^{25}\) It is especially telling of the partisan conflict surrounding the splitting of the IVF creation and funding into two bills that, even though Democrats supported the creation of the IVF fund, they still voted against both bills. Indeed, HF 683 and HF 692 were approved on strict party lines in both the Senate and the House. For instance, HF 683, was passed by 53-42 in the House and 28-19 in the Senate, with Republicans voting in favor and Democrats voting against.
provisions pertaining to workers' compensation reform, tort reform, and tax-rate reductions in HF 692, the policy bill (Governor's Veto Message, June 30, 2003). For example, the governor contended that the tax cuts provisions and the relationship with HF 683 turned HF 692 into an appropriations bill.

In response to these line-item vetoes, Republican legislative leaders took the Governor to court, alleging he had violated the Constitution, overstepping his authority in using this veto. Speaker Christopher Rants argued that HF 692 was a policy bill, not an appropriations bill: “It contained policy objectives that we wanted and policy objectives the governor wanted. The only way to compromise was to meld the two together, but the governor tried to have it his way and leave the legislature out all together.” (Jones and Erickson, 2004)

In June of 2004, the Iowa Supreme Court overturned a lower Court and ruled unanimously that the Governor had indeed exceeded his authority by vetoing items in HF 692. The Court agreed with Republicans that “the governor attempted to veto items that were not part of an appropriations bill and these were not subject to his item veto power.” (Scudder 2005). For example, with respect to the veto of the income tax reform, the Supreme Court hold that tax cuts did not constitute appropriations: "taxation and appropriation are more nearly antonyms than synonyms.” (cited in Scudder 2005). In ruling this way, the Iowa Supreme Court defined the use of the veto more strictly. As Scudder explains “Previous item-veto cases had not presented the question of whether two companion bills could be viewed together for purposes of bringing them within reach of the item-veto power” (2005). Now the line item veto could be used only for strictly appropriations measures.
What should we expect after the Court ruling? Given that the power of the governor was curtailed, should we expect a weaker governor? Existing theories would argue that by constraining the use of item vetoes, the governor would have less power to push his initiatives through the legislature. As Kousser and Philips argue: “Rants v. Vilsack eliminated some of the leverage that Iowa governors formerly possessed to promise to let legislative policy language stand in return for support of executive priorities…the decision may have weakened the governor’s ability to use the item veto as a positive power” (p. 212)

In contrast, we would expect that after effectively limiting the discretion of the executive, the governor would be credible when negotiating policy, and thus be more successful at obtaining his preferred policies.

Empirically, Kousser and Philips compare the rate of success of the Governor the year before and after the court ruling in 2004; this comparison holds constant the governor (democrat), as well as the composition of the legislature (majority Republican). Contrary to their expectations, they find that the governor was more successful in terms of legislation during the year after the Supreme Court decision than during the year preceding it:

“In 2003, Vilsack manage to convince the Republican-controlled legislature to pass only 22.5% of the legislative proposal in the 2003 State of the State…Governor Vilsack’s agenda (surprisingly) met with more success in 2005, with three of his six policy proposals passing…We also observe a similar pattern in budget negotiations. In 2003, Gov. Vilsack did quite well, passing 75% of the fiscal proposals…In 2005, though, he did even better.” (212)

Kousser and Philips also look at the difference between the budget proposed by the governor and the budget finally approved by the legislature, so the smaller this number, the

\footnote{26 It is important to mention that they control for changes in the nature/size of the governor’s agenda.}
closer the outcome to the governor’s preferences. Again they find that the average per capita distance between the budget proposed by the governor and that approved by the legislature averaged $42.57, while after the court decision it fell to $28.03. In both cases, they notice that the results are “damaging to the theory that the item veto confers positive leverage…works against our hypothesis…the item veto does not significantly increase gubernatorial power, either negative or positive” (p.213).

As they explain, they expected that the governor would be less successful pushing his own initiatives after this event. This finding, which the literature in general sees as an anomaly it is the predicted outcome we have developed in this paper.

Latin America: Argentina and the Line-Item veto (preliminary work)

We built an original dataset that comprises every law enacted in Argentina between 1983-2012; we identified the bills that have been vetoed, the types of vetoes, and whether the vetoes were overridden. Of the 362 vetoes handed out by the President during that period, almost exactly half are partial and half total vetoes. We focus on these bills to learn about the continuities and changes that these bills underwent during the legislative process, including the veto and override stage.

As part of our stepwise approach to the analysis of the effect of the partial veto prerogative on the lawmaking process, we drew a random sample of vetoed bills: 15 laws that received partial vetoes (out of a total of 180), and 15 laws that received a total (package) veto (out of a total of 182). Our initial assessment, while providing a wealth of qualitative information, posed measurement difficulties that called for a more careful, in-depth analysis of each case. We are currently in the initial steps of that process. However, it is important to mention that in the bills randomly drawn we found at least one constant
the legislature modifies bills substantially, against the preferences of the executive.

We have also started to gather analyze data on presidential legislative success before and after change in the presidential veto prerogatives. Drawing from Negretto (2013), we have a list of constitutional reforms to the presidents’ veto powers. We would expect that presidential success before and after such changes would be significantly different.

In what follows, we present one simple illustration that shows how the legislature in Argentina adapts to the institutional environment, *passing bills at its preferred level of public good.*

**Law 25500 – Amendment to the 2001 National Budget Affecting Pensions**

On October 2001, two months before President Fernando De la Rúa resigned the Argentine presidency in the midst of public unrest, Congress enacted a law that modified the 2001 National Budget and granted each Senator and Representative the right to grant fifty pensions (*pensiones graciabes*) per year without restrictions placed on who qualified as recipients. The bill was very simple, stating that each legislator, regardless of political party affiliation, would be able to give away the same number of pensions every year for the next ten years. Although originally this type of benefit had been instituted for individuals that had served the country in extraordinary circumstances, with time the use of the ‘*pensiones graciailes*’ by legislators had become highly arbitrary. The President, who argued that the pensions were used with clientelistic purposes, vetoed the law in full. However, a month later, legislators unanimously overrode the presidential veto in both chambers.
This Law amends the 2001 Budget by adding a paragraph at the end of it. The president vetoed the bill (package veto), and congress overrode. Does the fact that the Argentina president can partially veto bills have anything to do with this? We argue that it does. Had the executive not had the prerogative to partially veto the (budget) bill, this content (of pure private goods) may have ended up in that bill as a part of a compromise between the legislature and the President to obtain approval for the annual budget.

In the context of the partial veto, if the clause had been added to the original budget bill, it may have been vetoed (depending on calculations regarding the supposed mix), but an override may not have been possible in the broader context of negotiation. By presenting this bill to Congress separately, the setter automatically has a veto proof bill –certainly as long as $n - m + 1$ legislators want the benefit to distribute fifty pensions per year. Note that there is no provision of public goods in this case.

Indeed, this example shows how Congress adapts to the executive not only regarding the public goods, but also with respect to the private goods. In this case it introduced a separate bill that, because of the way it was written was not susceptible of being partially vetoed.

Examples like this abound among the cases we have analyzed. In opposition to the literature that argues that the partial veto confers the President power to pick and choose what he wants from the bill, so as to move it closer to her ideal point, we find that because of the existence of the partial veto, the President is not able to obtain his ideal point.

VI. Conclusions
Our claim is that by expanding discretionality, the executive broadens the options before her. Once this happens, legislators are free to vote for options that are not aligned with executive preferences, especially if they know that the executive will be consistent, i.e., will play her best response every time, regardless of the effects of this behavior on the social optimum.

While much work remains ahead in terms of empirically testing the implications derived from the model, the main contribution of this paper is to highlight a set of theoretical findings that shed light on the nature of the partial veto.

Most importantly, we highlight that under the partial veto rule the executive is not able to induce her ideal point in terms of public goods. This is not the case under the package veto, where congress does face incentives to compromise under certain circumstances.

It also suggests that the empirical problems faced by studies that have tried to test the effect of the partial veto on spending reduction are more theoretical than empirical, as the implicit assumptions and expectations of that literature are not theoretically sound, leading the entire exercise to result in null findings that are difficult to interpret without adopting an entirely different perspective, as the one taken here.
References


Figure 1

$E \in N$  $A \in N$  $i \in N$