

# Budget & Finance

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## Presidential and Gubernatorial Line-Item Vetoes: Important Differences

The U. S. Supreme Court recently upheld the first presidential line-item veto, which went into effect January 1, 1997. The new law remains in force, and the earliest opportunities for learning about its effectiveness will come next fall after appropriations bills are enacted.

What can we expect? The typical reasons cited in favor of the presidential item veto were controlling pork-barrel spending and contributing to deficit reduction. Philip Joyce and Robert Reischauer already have provided a thorough assessment of what can be expected from the presidential line-item veto. They offer the view that it is likely to have little effect on overall spending and deficits, but could have a profound effect on the relationship between Congress and the president in the budget process. <sup>1</sup>

## Presidential and Gubernatorial Item Vetoes: A Comparison

Advocates of a presidential line-item veto typically have cited the experiences of state governors in support of their argument that the item veto should be a power of the president. However, Joyce and Reischauer, as well as others,<sup>2</sup> have pointed out that the new presidential item veto authority is not the constitutional line-item veto authority possessed by governors, but rather an enhancement of the power the president already possesses to rescind appropriated funds.

Within five days of signing an appropriations bill, the president can transmit to Congress a message listing items to be rescinded. Rescissions would  
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### Budget and Finance for the 21st Century: *Fast Forward Into the Future*

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The 1997 Conference Program Committee announces the following panels  
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- Saturday** - Browsing the Internet in Search of Budget & Finance  
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### Line-Item Vetoes - continued from page 1

take effect unless Congress passed a disapproval bill within a period of thirty days in which both houses are session. *Enhanced rescission* is a variation of the rescission authority found in the Congressional Budget and Impoundment Control Act of 1974.

However, in contrast to that act the new line-item veto law shifts the burden to Congress to disapprove rescissions in order to prevent them from taking effect. The president could veto a disapproval bill and Congress could override a presidential veto by a two-thirds vote.

In addition to the new presidential item veto authority being *enhanced rescission* granted through legislation, rather than the constitutional line-item veto authority possessed by governors, are there other important differences?

### Use of the Line-Item Veto in the States

Glenn Abney and I, relying upon information provided to us in 1994 by state executive and legislative budget directors,<sup>3</sup> have found that in the states the line-item veto is most successful in achieving some degree of fiscal restraint when three conditions are met: (1) governors have the power to reduce as well as delete appropriation items, (2) they can delete narratives accompanying dollar amounts as well as the dollar amounts themselves, and (3) legislatures have not structured appropriations bills or packaged appropriations items so as to make it difficult for governors to exercise the item veto, e.g., bundling items into what becomes a *de facto* lump-sum category.<sup>4</sup>

The reduction veto is a special form of the line-item veto possessed by governors in eleven states.<sup>5</sup> It emerged as an effort to remedy a shortcoming of the ordinary item veto. The reduction veto enables governors to reduce appropriation items rather than be faced only with the choice of accepting the legislature's funding level or negating the entire item.

In the states the line-item veto can be classified into four categories: (a) item vetoes which reduce or negate only a specific dollar amount, (b) item vetoes which negate a narrative passage containing a specific dollar amount, (c) item vetoes which negate a narrative passage related to appropriations, but not containing a dollar amount, and (d) item vetoes which negate a narrative passage which is unrelated to appropriations and

do not contain a dollar amount. From a sample of states during the 1993 and 1995 fiscal years, we found that approximately 80 percent of the item vetoes were ones which included narrative passages, and approximately 60 percent of the item vetoes negated narrative passages which did not contain specific dollar amounts. These data indicate that the line-item veto is used in the states not only as an instrument for fiscal restraint, but also as an instrument for protecting the *policy preferences* of the governor against those of the legislature.

Our research also found that while the legislative practice of grouping items of expenditure into broad categories tends to neutralize the line-item veto power, it is a less serious problem for governors who possess the reduction veto.<sup>6</sup>

In contrast, the Federal Line-Item Veto Act rules out the first two conditions associated with successful use of the line-item veto in the states. First, the president will not be able to reduce items. He is only permitted to cancel entire dollar amounts of budget authority

in the text (including charts and tables) of any statement accompanying a conference report.<sup>7</sup> Second, the president will not be able to delete narratives accompanying dollar amounts. He may not cancel any restrictions, conditions,

or limitations in the appropriation law or accompanying statement of bill managers.<sup>8</sup> Federal budgeting practice also deviates from the third condition associated with successful use of the line-item veto in the states. Federal appropriations bills usually are lump-sum, which makes use of the line-item veto difficult. The more inclusive a lump-sum the greater the likelihood that it will include spending favored by the president as well as spending he opposes. Under such circumstances it may be difficult to use the item veto.

### Conclusion

It is ironic that advocates of the presidential line-item veto so frequently pointed to the example of the states as a model for the federal government, yet the presidential version lacks the three most important conditions which research has found to be influential in effective gubernatorial use of the item veto.

The recent Supreme Court decision is prologue. The interesting drama will be the way in which the line-

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item veto effects the relationship between Congress and the president in the budget process. The drama will begin later this year. We will be watching a line-item veto which is considerably different from what we have come to know in the states.

~ Thomas Lauth ~

## Notes

1. Joyce, Philip G., and Robert D. Reischauer, "The Federal Line-Item veto: What Is It and What Will It Do?" *Public Administration Review*, Vol.57 (March/April 1997): 95-104.
2. Lauth, Thomas P., "The Line-Item Veto in Government Budgeting," *Public Budgeting and Finance*, Vol. 16 (Summer 1996): 97-111.
3. Forty-nine executive budget directors and 50 legislative budget directors provided information. Only the Massachusetts executive budget office declined to participate in our study.
4. Abney, Glenn, and Thomas P. Lauth, "The Item Veto and Fiscal Responsibility," *The Journal of Politics*, Vol. 59 (May 1997):882-892 .
5. Ten state constitutions provide for the power of item reduction: Alaska, California, Hawaii, Illinois, Massachusetts, Missouri, Nebraska, New Jersey, Tennessee, and West Virginia. The Pennsylvania Supreme Court interpreted the line-item veto provision so as to include a reduction feature.
6. Lauth, op. cit., p. 105.
7. House Committee on Rules, "The Use and Application of the Line Item veto," Washington, DC: U.S. Government Printing Office, January 2, 1997, p.2.
8. Ibid., p.3.

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## Follow Budget Issues with the GAO

"How do you capture the complexity and breadth of an entity that spends over \$1.5 trillion and employs over 4.5 million people?" That was the question posed by **Paul Posner**, Director of Budget Issues for the U.S. General Accounting Office (GAO) and a longtime member of our section, to lead off an article in the May/June 1997 issue of the *Public Administration Review* (PAR). The article, which summarized recent GAO products examining a variety of structural and policy aspects of the federal budget, helped to inaugurate a new PAR section, "Reports and Documents," which is designed to help PAR readers stay abreast of current literature.

Posner highlights a variety of his group's recent work, which is often heavily graphical to aid understanding. The article briefly summarizes GAO work on such diverse subjects as the federal debt, federal fiscal trends, government restructuring, and capital budgeting. For example, if you want to know,

- how (*and how much*) the government borrows, or
- how many deficits have occurred in the last 200 years (*exactly 100*), or
- whether federal operating costs are increasing (*no*) or decreasing (*yes*) as a percent of total spending, or
- which federal agencies are associated with which federal missions, or
- whether budget accounts are standardized across executive agencies and appropriations subcommittees (*they aren't*), or
- whether a separate capital budget is needed for the federal government (*not necessarily*),

then you might want to follow-up with some of reports cited in the article.

In addition to the reports cited in the article, more recent products from GAO's Budget Issues Group have discussed the fiscal impact of federal grant redesign; federal investment outlay trends; the nature and implications of federal biennial budgeting proposals; and the historical context of federal performance budgeting and lessons learned for the implementation of the Government Performance and Results Act.

All of the products discussed by Posner can be valuable resources to students of federal fiscal affairs -- and they are free!

Virtually all GAO products are available through an attractive and very friendly Internet Web site ([www.gao.gov](http://www.gao.gov)), or can be ordered by calling 202-512-6000. Questions concerning the work of GAO's Budget Issues Group can be directed to Posner or to **Susan Irving**, Associate Director, at 202-512-9573.

~ Mike Curro ~

**Visit the ABFM Home Page! <http://www.pubadm.fsu.edu/abfm>**

**Dwight V. Denison** recently graduated with a Ph. D. in Public Administration from the James Martin School of Public Policy and Administration at the University of Kentucky in Lexington, Kentucky. He will begin this fall in a tenure-track position as assistant professor in the Robert F. Wagner Graduate School of Public Service at New York University, New York City. He will teach financial management for public and health administrators.

His dissertation committee was chaired by **Merl Hackbart**, Professor of Finance and Public Administration. The dissertation, "An Empirical Examination of Municipal Bond Insurance: Three Essays," explores the changing nature of the municipal bond market that has increased the demand for municipal bond insurance. One essay provides evidence that municipal bond characteristics, rather than market con-

ditions at the time of issue, are more important predictors of insured bond issues. Another essay examines the widely accepted premise that average market spreads between yields on low and high risk bonds motivate the use of bond insurance. The final essay explores the role of bond insurance in the secondary market by investigating market efficiency and market flight to security in the context of the Orange County, California bankruptcy.

In addition to his research of municipal bond insurance, Dwight has also worked with the Council of State Governments and the Kentucky Transportation Center in identifying and developing strategies to reduce the evasion of road fund revenues. His current research continues to investigate the municipal bond market, tax evasion, and municipal disclosure.

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