Exploring Explanations of State Agency Budgets: 
Institutional Budget Actors or Exogenous Environment?

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Budgetary incrementalism argues that three institutional actors—agencies, executive budget offices, and legislative committees—dominate budget outcomes. The complexity and interdependency of public programs expands this expectation to include the influence of exogenous budget factors. Findings from a survey of state agency heads reveal that budget environments do influence state agency budget outcomes. However, the institutional budgetary participants, especially governors and legislatures, envisioned in classical incrementalism retain their principal and primary influence on state agency budgets. A significant departure from classical incrementalism is that agencies are not as influential as previously depicted.

INTRODUCTION

In the 1960s, Wildavsky\(^1\) and Fenno\(^2\) published seminal works describing national budget processes, beginning explorations to understand how budgets are created. “Who” or “what” determines how much money can be allocated and who gets it? Despite the

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abundance of theories and empirical findings about the factors affecting public expenditures, research generally has created greater complexity than clarity.\(^3\) This article explores competing claims about the factors influencing the funding levels that agencies acquire. As Rubin\(^4\) suggests, an expanded budgetary theory, which builds on an accumulation of good descriptive theories, is highly needed. In particular, researchers are encouraged to "try to link changing environmental conditions, budget processes, and budget outcomes."\(^5\) While there might be a variety of ways to test the competing forces observed to affect budgetary outcomes, this paper attempts to clarify and improve the extant budget theories by empirically testing one specific question. Do budget actors in particular roles within fiscal institutions or broader exogenous (macro) budget environments contribute more to understanding how agency budgets change in a given year?\(^6\)

Wildavsky and his co-authors\(^6\) found that executive agencies, the Budget Bureau, and legislative appropriations committees were the most dominant decision makers in the national budgetary process. Rubin\(^7\) subsequently reframed budgetary incrementalism and institutionalism theories. Her revision accords more attention to influences on budgets from outside the fiscal institutions—the exogenous budget environment. Wildavsky's version of incrementalism required stability among participants' roles, relationships, and reactions. According to Rubin, however, the high interdependency among and complexity within public programs obstructs key budget participants from obtaining necessary decision cues from other actors. This inhibits budget actors' ability to calculate their "fair shares" of the budget and determine an appropriate increment to advocate for their agency. In addition to the difficulties budget actors have within the budget process, Rubin suggests that budget environments exert additional and noteworthy forces on budgetary decision-making. This might especially be true when one considers the impact of past budgetary decisions as a setting or environment for the current process.\(^8\)


\(^5\) Ibid., 187.


\(^8\) Rubin (2000).
Wildavsky and co-authors, and other scholars subsequently paid more attention to contextual variables. However, few studies have empirically tested whether agencies, chief executives with their central budget offices, and legislative appropriations committees exert a stronger influence on budgetary outcomes than the decision-making environments. The question has gained greater attention in recent years. For instance, supporters of the disproportionate information processing theory or the punctuated equilibrium theory assert that the main budget actors pay more attention to informational cues from exogenous budget environments.

Despite the current emphasis on the influence of exogenous budget environments, this study found that the main institutional actors, especially governors and legislatures, still play major roles in state budgetary processes that have recently been characterized by complexity and unpredictability. While this study is cross-sectional (for 1998) rather than temporal, it contributes to budget theory literature by examining and clarifying extant theories of agency-level budget outcomes. The rarity of empirical studies testing explanatory theories can be attributed to the difficulty obtaining data that connect the preferences and behaviors of budgetary participants with fiscal information at the agency level. We use survey data from the 1998 American State Administrator Project (ASAP) that elicited responses from state agency heads (over 1,000), as well as other state-level data. The analysis uses the 50 American states as a natural cross-section within which budgetary participants, their behaviors, and budget environments can differ while national political and economic factors remain similar or constant. The findings build on prior results identifying factors affecting agency budget requests and contribute to a further reduction in the disparity between descriptive and prescriptive theories of budgeting.
BUDGETARY POLITICS—HEIGHTENED EXOGENOUS EFFECTS?

Under extraordinarily complex budgetary decision-making settings, shared understanding of expected expenditure levels is a powerful means of securing budgetary stability and predictability. Shared understanding enables the main budget actors (agencies, executives/budget offices, and legislative committees) to participate in highly complex yet predictable interactions with each other. Recent decades have witnessed drastic changes in the composition of governmental budgets, however. There have been rapid increases in entitlement programs, largely beyond the discretion of budget actors. The changes raise questions about the relevance of early incrementalist insights. Rubin asserts that norms of moderation and fairness based on mutual consent throughout the budgetary process function smoothly only if every budget actor can obtain decision cues from other actors. The sheer size of governmental programs and their interdependency may make the norms of moderation and fair share budgeting inapplicable to current budgetary settings. This could cause the entire budgetary decision-making process to become more turbulent and uncertain.

Rubin further emphasized how the budget process and the budget environment can constrain decisions. Incremental theory described the environment of budgeting not as part of the budget process but as an exogenous variable. If the environment is viewed as an integral part of the budget process, however, greater influence on budget outcomes than envisioned in early budget theory may be expected. Overall, Rubin suggested an expanded model of the budgetary process that includes budget participants and environmental influences, a natural corollary of higher levels of predicted and perceived budgetary turbulence.

In addition to discussions of the national budget process, significant work has explored incrementalism and budget growth in the American states. However, Lauth also

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indicated that earlier budget studies “provided limited insights into the institutions, processes, or patterns of behavior that occur during the preparation and approval of the state budget.” 21,22

In addition to the states providing a natural comparative database for analyzing differences in impacts of budget actors and environments, the importance of state government in the American federal system has seldom been more prominent. Van Horn23 notes that “at the beginning of the twenty-first century, state governments are at the cutting edge of political and public policy reform . . . now that states have strengthened their political and economic houses, they occupy a much more important role in American politics. . . .” This emphasizes the need to understand what affects state budgeting and, more importantly, how well current budgeting literature describes the realities of state processes. The present study joins others in focusing on state budget features and outcomes. What factors, institutional budget actors or exogenous budget environments, influence the budget outcomes of state agencies?

STATE AGENCY BUDGET PROCESSES

Agency appropriations are the dependent variable for this study. This variable, Legislative Appropriations, is the agency head’s reported measure of the relative increase (or decrease) in legislative appropriations for his or her state agency. It is constructed from the responses of state agency heads to the 1998 ASAP survey. The survey encompassed 95 different types of state agencies. The questionnaire was mailed to 3,541 state agency heads. The initial mailing in September 1998 was followed by three subsequent mailing to nonrespondents through January 1999 and produced usable replies from 1,175 agency heads for a response rate of 33 percent.24,25 The final regression model dropped 215 cases

22. Of course, there are many earlier critiques of incrementalism as a general theory of budgetary decision making. The present paper does not cover those issues. Rather, as Berry (W. Berry, “The Confusing Case of Budgetary Incrementalism: Too Many Meanings for a Single Concept,” Journal of Politics 52, no. 1 (1990): 167–196) suggested, we focus on one of many conflicting dimensions of incrementalist approaches, consideration of budget environments, and contribute to the budgeting literature by clarifying what factors affect agency budgets.
24. A follow-up telephone survey of the nonrespondents verified the representativeness of the respondents. They were not statistically significantly different from those who chose not to respond.
due to list-wise deletion leaving 960 observations for statistical analyses. The actual survey item presented a scale with 13 values measuring change in the level of agency budget appropriation. It ranged from an 11 percent or more decrease to an 11 percent or more increase from the prior year’s legislative appropriation for the agency. (See Appendix A for actual question wording.) The 13-point scale was collapsed into a scale of six values to enhance the simplicity and the reliability of empirical analysis.  

Table 1 indicates that over one-third of state agencies received increased legislative appropriations in the range of 1–4 percent above the previous year. Twenty-nine percent of the respondents indicated no change in legislative appropriations. Noteworthy is the fact that 11 percent of the agencies experienced legislatively approved budget cuts. A substantial segment of agencies (17 percent) secured fund increases in the 5–10 percent bracket while an even smaller proportion obtained increases above 10 percent. 

<table>
<thead>
<tr>
<th>Category description</th>
<th>Agency budget request</th>
<th>Governor’s recommendations</th>
<th>Legislative appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease &gt;11%</td>
<td>*</td>
<td>*</td>
<td>1</td>
</tr>
<tr>
<td>Decrease &lt;10%</td>
<td>4</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>No change</td>
<td>21</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Increase 1–4%</td>
<td>32</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>Increase 5–10%</td>
<td>29</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Increase 11% &gt;</td>
<td>14</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*<1 percent. 


26. The self-reported legislative appropriations from the ASAP data match the appropriations to the particular agency or jurisdiction headed by the agency head. It is not possible to use more objective data from budget documents because of the inherent difficulty in matching the budget documents accurately with the ASAP survey respondents. Any error in self-reporting should be minimal due to the high salience of budgeting outcomes to administrative executives. Actual expenditure data for 118 agencies or commissions in Ohio for 1998, for instance, indicate that the average increase in actual spending for all funds was 4.425 percent (data were obtained from the Ohio Legislative Service Commission). The average of legislative appropriation increase for the 26 Ohio agencies or commissions in this study sample is 5.1 percent. To further minimize a possible bias from self-reported survey results within two percentage point intervals, the 13 scale values were collapsed into six categories: 11 percent or more decrease, 1–10 percent decrease, no change, 1–4 percent increase, 5–10 percent increase, and 11 percent or more increase.
Two sets of moderate to strong aggrandizing agencies asked for more than 5 percent increases. One set of agencies (29 percent) requested increases in the 5–10 percent range, but governors endorsed such increases for only 16 percent of the agencies. A slightly higher percentage (17 percent) obtained legislative appropriations in this range. Similarly, the most aggrandizing agencies (14 percent) sought budget increases above 10 percent. Half of those (7 percent) were successful and a few more (8 percent) gained legislative support for the highest expansion category. Overall, legislatures granted appropriations relatively close to gubernatorial recommendations. This result is consistent with similar findings that governors cut agency budget requests and legislatures conform to these recommendations.27

AN EXPLANATORY MODEL OF STATE AGENCY APPROPRIATIONS

Sharkansky,28 Thompson,29 and Rubin30 provide a framework for two sets of budget determinants for state agency budgets. First, as described above, three institutional budget actors directly responsible for decision-making—agencies, governors, and legislatures—request, recommend, and rule on budget allocations. We label the variables associated with these actors as internal, and define them according to the following criteria. First, an internal influence is directly related to the preferences of the main budget actors described above. Second, an institutional rule or procedure that directly impacts a main actor’s preferences for budgetary change is also an internal influence, as it is directly related to the individuals’ goals and behaviors. Third, a personal characteristic of an actor that influences his/her preferences is also internal to the budget process. Typically, these will be temporary or changing characteristics. For instance, the political party of the governor may change each election, and thus is internal to that particular actor.

Second, a set of exogenous factors—the economic, political, and institutional environments that surround state budgeting—may affect the budget process more than earlier incrementalism expected. Exogenous factors were categorized based on these criteria. First, characteristics or activities by actors other than the agency head, governor, or legislators are external to the budget process, typically impacting agency appropriations indirectly. Second, established institutions shaping the rules of the budget game are also exogenous—they are outside the immediate control of budget actors. The presence of veto powers is an unchanging institutional power of the governor that provides a rule under which budgeting occurs; the use of the veto is an internal variable as it is an

action of a central budget actor. Likewise, a state contextual variable, unable to be influenced (at least in the short term) by actors or institutions also provide an exogenous context in which the budget process takes place.

Several variables are used to explore each of these two sets of determinants. Table 2 presents a summary of independent variables with definitions, data sources, and hypothesized association with the dependent variable. All variables, unless specified otherwise, are for 1998.

Internal Budget Actors and Their Resources/Preferences: Agencies, Governors, and Legislatures

Bureaucrats are often portrayed as maximizing their own self-interests. Other studies at the state and national levels indicate that bureaucrats are not single-minded in trying to maximize their bureau budgets. Therefore, the minimizing or maximizing preference of the agency head might be one factor influencing an agency’s budget appropriation. These preferences are manifested in the agency budget requests to the governor or budget office. While agency budget requests are often cut in the short term, acquisitive agencies are more likely to enjoy a substantial budget increase from one year to the next.

A variable constituting an agency’s actual budget request (Agency Budget Requests) is used as a measure comparable to those used by Sharkansky and Thompson. It is constructed from two ASAP survey questions (see Appendix A) and is collapsed into a six-point scale. The agency’s budget request is hypothesized to correlate positively with the dependent variable, Legislative Appropriations.

Across the twentieth century state legislatures increasingly have chosen to begin budget deliberations with the executive budget, “concentrating responsibility for budget preparation and execution in the office of the governor.” Agency budget requests are submitted to legislatures after coordination and review by governors or central budget offices. The governor’s budget reflects agency budget requests and the governor’s policy

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34. Sharkansky (1968).
<table>
<thead>
<tr>
<th>Variable</th>
<th>Category</th>
<th>Hypothesized association</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal institutional budget actors</strong></td>
<td>Agency budget requests: five-scale measure constructed from the 1998 ASAP survey</td>
<td>+</td>
</tr>
<tr>
<td><strong>Governor’s budget recommendations</strong></td>
<td>Governor’s budget recommendation: five-scale measure constructed from the 1998 ASAP survey</td>
<td>+</td>
</tr>
<tr>
<td><strong>Professionalized state legislators</strong></td>
<td>Factor score for the professionalized state legislators: four-point scale measuring staff assistance for individual House members and individual Senators (respectively), salaries for legislators, and total legislative staff during 1996 (CSG; Hamm and Moncrief 1999)</td>
<td>+/−</td>
</tr>
<tr>
<td><strong>Professionalized state legislatures</strong></td>
<td>Factor score for the professionalized state legislatures: four-point scale measuring professional and/or clerical staff assistance for legislative standing committees in the Senate and the House (respectively), terms of House members, and membership turnover rates of Senators (CSG)</td>
<td>+/−</td>
</tr>
<tr>
<td><strong>Per capita House members</strong></td>
<td>Per capita House members (CSG)</td>
<td>+</td>
</tr>
<tr>
<td><strong>Per capita Senate members</strong></td>
<td>Per capita Senate members (CSG)</td>
<td>+</td>
</tr>
<tr>
<td><strong>Legislative partisanship</strong></td>
<td>Average ratio of Republicans to Democrats in both Houses (SAOUS)</td>
<td>−</td>
</tr>
<tr>
<td><strong>Exogenous environmental variables</strong></td>
<td>Per capita state personal income (SAOUS)</td>
<td>+</td>
</tr>
<tr>
<td><strong>Per capita total federal aid</strong></td>
<td>Per capita total federal aid (BOC)</td>
<td>−</td>
</tr>
<tr>
<td><strong>Clientele groups</strong></td>
<td>Four-point scale measuring influence on budgets for specific programs from clientele groups: the 1998 ASAP survey</td>
<td>+</td>
</tr>
<tr>
<td>Variable</td>
<td>Category</td>
<td>Hypothesized association</td>
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<td>-------------------------------</td>
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<tr>
<td>State litigations in education</td>
<td>State litigations in education finance based on fiscal neutrality or adequacy of education (ACIR; Rebell 2002)</td>
<td>+</td>
</tr>
<tr>
<td>Balanced budget requirement</td>
<td>Sum of requirements that governors submit, legislatures pass, and governors sign a balanced budget (CSG)</td>
<td>–</td>
</tr>
<tr>
<td>No carryover deficit</td>
<td>Requirement not to carryover deficit in 1997 (NASBO)</td>
<td>–</td>
</tr>
<tr>
<td>State performance funding</td>
<td>Implementation of state performance funding in 1997 (Jordan and Hackbart 1999)</td>
<td>–</td>
</tr>
<tr>
<td>Governor’s veto power</td>
<td>Governor’s item veto, deletion veto, and reduction veto powers (CSG)</td>
<td>–</td>
</tr>
<tr>
<td>Budget target</td>
<td>Gubernatorial authority to give agencies funding level request target in 1997 (NASBO)</td>
<td>–</td>
</tr>
<tr>
<td>Legislative macro-budgeting</td>
<td>Factor score for macro-budgeting in state legislative structures: central joint legislative fiscal offices, membership turnover rates of House members, and joint legislative fiscal committees (CSG; Grooter and Eckl 1998)</td>
<td>–</td>
</tr>
</tbody>
</table>

preferences. In the complexity surrounding the budget process, state legislators rely on gubernatorial recommendations for budget cues. This may be more likely in states with less professionalized legislatures.

Previous studies suggest a typical process for state budgeting: (1) state agencies request more funding for the next fiscal year, (2) the governor cuts agency budget requests, and (3) legislative appropriations approximate the governor’s budget recommendation. As evidenced in Table 1, the governor’s recommendation acts as a strong driving force in the budgetary process. The variable for governor’s budget recommendation (Governor’s Budget Recommendations) derives from an ASAP question (see Appendix A) and is collapsed into a six-point scale ranging from recommendations for a decrease of 11 percent or more to an increase of 11 percent or more. As mentioned above, the pattern of legislative appropriations is close to that of governor’s budget recommendations for state agencies, and the recommendations are expected to correlate positively with legislative appropriations for state agencies.

In the national budgeting literature the two houses of Congress played varied roles in the budget process. The House Appropriations Committees were originally depicted as guardians of the public purse while the Senate Appropriations Committees protected essential agency programs. Recently, legislators have been depicted more as protectors of pork-barrel projects for their local constituency interests. This inclination has been noted especially at the state level. Thus, the legislatures are also major players in the budget process—the final decisions rest in the houses.

One feature of legislatures with the ability to influence legislative preferences and behavior in the budget process is professionalism. With few exceptions, state legislatures have had more resources available for legislative operations in recent years. These resources have encouraged and enabled state legislatures to have some degree of independence from the executive branch in budgetary decision-making. The legislatures have gained increased and improved staffing, sessions, salaries, space, and structures. They have joint legislative fiscal committees or a central legislative budget office. For example, California has a legislative budget committee in addition to House and Senate Appropriations Committees, and Ohio has the Legislative Budget Office.

38. Sharkansky (1968); Lauth (1989).
To tap these various characteristics of state legislatures, a factor analysis was conducted using multiple legislative variables including measures of staff assistance for individual legislators and committees, total legislative staff persons, presence of legislative budget offices and joint fiscal committees, terms of House members, turnover rates, and total numbers of House and Senate members. Four factors with eigenvalues > 1 were obtained and three-factor scores were employed in the analysis. (See Appendix B for more details.)

The first factor score, labeled *Professionalized State Legislators*, is constructed from staff assistance for House and Senate members, salaries of legislators, and total legislative staff variables. The second factor score, labeled *Professionalized State Legislatures*, is constructed from staff assistance for House and Senate standing committee members, terms of House members, and membership turnover rates of Senators. Bourdeaux indicates that professional legislators tend to receive higher salaries, work more days in session, and be less subject to term limits. In contrast, professional legislatures are likely to have high levels of staff and support services. However, the variable (*Professionalized State Legislators*) is constructed mostly from the features of individual legislators, including enhanced staff supports. In contrast, *Professionalized State Legislatures* reflect mainly features of the legislative bodies.

Professionalism should enhance the legislature’s ability to increase (or decrease) the budgets of their favored (or disfavored) agencies despite the initial presentations from governors. It may enable the recently depicted legislative assertiveness in the pursuit of constituent benefits. If so, the two-factor scores may be positively correlated with legislative appropriations. Alternatively, professional legislators and legislatures might be negatively correlated with legislative appropriations. Ryu et al. provide evidence that additional information on agency programs available to state legislatures exerts some curbing power on original agency budget requests. We label these variables internal because, although they are institutional, long-term features, the presence of professionalism can change legislators’ preferences and the likelihood of legislative actions during the budget process.

We also create another variable to reflect impacts of representation or constituency service. As noted above, state-level observations have indicated that representatives may tend to protect projects to provide benefits directly to their constituencies. This variable is created from the total numbers of House and Senate members in the states’ legislative chambers. To explore the potential difference in the predispositions of House and Senate members, two variables are included: *Per Capita House Members* and *Per Capita Senate Members*. These two variables might be positively correlated with increases in agency benefits.

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47. Ryu et al. (2007).
appropriations if state legislators, as recently claimed, are advocates for constituents’ benefits. We label this variable internal because although the numbers of legislative members in each state is constant, making the pressure of constituencies relatively stable in each year, the pressure to serve their constituency changes the preferences of the legislators.

In addition, one measure of the general budgeting tendencies of the legislatures is political partisanship. At the national level, Democrats tend to support larger governmental spending, particularly for nondefense spending programs. A similar tendency may exist at the state level. To test the impact of partisan legislatures on state budget outcomes, the average ratio of Republicans to Democrats in both houses in state legislatures, Legislative Partisanship, is included in the model.

Exogenous Budget Environments: Economic, Political, Fiscal, and Legal Contexts

Budget actors and their institutional resources clearly impact state budget processes and agency appropriations. To what extent, however, are these processes and results also subject to the resources, influences, contexts and constraints of the economic, political, fiscal, and legal arenas in which decisions are made? These contextual, exogenous influences are important in securing a more complete understanding of budgeting. This section discusses prior research and proposes hypotheses about the impact of exogenous environments on budget outcomes. It also describes the operationalization of these variables.

Aggregate public budgets are subject to the overall availability and certainty of resources. This often means that the executive will set a broad budget ceiling for overall spending and revenues based on expected resources. Two fiscal variables are included in the model to capture the effects of available resources on legislative appropriations. First, Per Capita Personal Income is expected to correlate positively with state agency appropriations as the state resource “pie” is expanded. Second, Per Capita Total Federal Aid is expected to be negatively correlated with the dependent variable. Thompson found that agencies with supplementary funding sources might be subjected to greater budget cuts by governors and legislators in the negotiation process.

Interest groups also function as policy activists in state government. They participate in virtually all issues before state legislatures. Often, a primary objective of interest groups is to increase state budget allocations favoring their own groups’ interests. A group influence measure is taken from the 1998 ASAP survey (Clientele Group). This variable measures the perceived level of influence that clientele groups have on specific

program budgets as reported by agency administrators. Clientele groups might urge increased spending for particular agencies resulting in an expected positive association. The literature on public budgeting describes theories of the judicial power of the purse. Court mandates sometimes affect budgetary decision making. Selected studies indicate that court-mandated reforms have led to increased total education revenues in some localities. To explore the influence of courts on budgetary outcomes, a dummy variable (State Litigations in Education) is included to measure the impact of state litigation involving education finance disparities. This litigation might relate primarily to increased appropriations for education agencies, but it also might impact other agencies if they are constrained by a limited “state pie” as education expenses increase.

Many states have created legal constraints and institutions to promote fiscal austerity. These include constitutional or statutory balanced budget requirements limiting agencies’ legislative appropriations. Requirements that governors submit, legislatures pass, and governors sign a balanced budget (Balanced Budget Requirement) and a variable prohibiting carryover deficits (No Carry Over Deficit) are tested in the explanatory model. These requirements could have conflicting impacts. They could act as another restriction on state agency budgets and thus limit appropriations. Alternatively, they could demonstrate need for additional funding as a buffer against future revenue short-age and influence increases in legislative appropriations.

In the 1990s, a wide variety of administrative reform efforts were initiated to achieve more effective and efficient delivery of public programs. The reforms, such as rein-

venting government, managing for results, performance measurement, and performance funding, are all initiatives of the “reform decade” with a potential impact on state budgeting processes. The regression model includes a dummy variable (State Performance Funding) identifying states utilizing performance data in resource allocation decisions. Strategies to deliver more with less through performance-based funding or performance management\footnote{59} are expected to be negatively correlated with agency appropriation changes.

Most governors are vested with line-item veto power that is often intended to discourage pork-barrel actions and logrolling in appropriation bills.\footnote{60} Previous empirical observations indicate that the item veto power is more likely to be used as partisan tool instead of a tool for fiscal restraint.\footnote{61} A more recent study suggests a greater potential for the item veto power as a fiscal instrument to enhance a governor’s budget responsibility.\footnote{62} Often, although, just the presence of the veto will influence the budgeting process—the “threat” of the veto may be as mighty as the veto itself. Again, veto power presents a contextual institution or “rule” under which the budget game is played. We expect that gubernatorial item veto powers, including the item veto, deletion veto, and reduction veto (Governor’s Veto Power) will be negatively correlated with the dependent variable.

In a similar vein, the normative and descriptive features of the executive budget are centered on guarding against padded agency budgets through central coordination. Some gubernatorial and procedural resources might enhance a governor’s ability to shape the executive budget. Specifically, top-down budgeting mechanisms were instituted to help the governor control agency and total state spending.\footnote{63} One control mechanism is the use of a budget cap set by central budget offices. A dummy variable (Budget Target) denotes whether a governor has the authority to set budget targets. This is an exogenous variable that taps top-down executive branch budgeting and creates a particular context under which the budget process proceeds. It should be negatively correlated with the agency’s legislative appropriation.

\textit{(footnote Continued)}


The 1974 Congressional Budget and Impoundment Control Act established *macro-budgeting* in Congress. Congressional budget resolutions allowed budget committees to control federal spending by setting budget totals, a congressional equivalent to the macro-budgetary power exercised by presidents. More extensive research is needed to determine whether state legislatures have a mechanism similar to national budget resolutions or budget reconciliations. At the state level, the factor analysis reported in Appendix B creates a factor score that is intended to measure a top-down or macro-budgeting feature in state legislatures. *Legislative Macro-Budgeting* is derived from central or joint legislative fiscal offices, joint legislative fiscal committees, and membership turnover rates of House members. Therefore, *Legislative Macro-Budgeting* measures more an institutional setting over legislative budget review processes rather than the frequency of actual, short-term legislative budget control similar to Congressional budget resolution. Macro-budgeting in legislatures could constrain pork barrel activities and reduce some agency budgets. If this logic holds, *Legislative Macro-Budgeting* should be negatively correlated with legislative appropriations. Finally, various measures of state political environment were included in preliminary analyses but they were mostly insignificant. Instead, *Legislative Partisanship* was included in the final model to tap political environments surrounding state budget processes. However, this variable also identifies short-term aspects of state legislatures, which directly influence the budget processes. For this reason, this political variable was categorized as an internal factor as mentioned above.

**METHODOLOGY**

There is some concern for endogeneity that might be caused by *Agency Budget Request* and *Governor's Budget Recommendation*. Davis, Dempster, and Wildavsky identified six equations to test their assumptions of budgetary incrementalism. Two of the equations analyzed agency budget requests as a function of previous year’s legislative appropriations or previous year’s appropriations adjusted by the difference in previous year’s appropriations and budget requests. This two-way causality might be the first source of endogeneity. Second, under a typical executive budgeting system, governors


65. It should also be noted that *Legislative Macro-Budgeting* serves as constraints to appropriation committees that are prone to pork barrel politics. In this case this variable might be categorized as budget environmental factors. This might also be the case for *Budget Target*. Even when we treated the two variables as exogenous factors, however, the final findings and conclusions were virtually unchanged. Details are available upon request to the authors.

circulate their guidelines for agency budget requests. Gubernatorial budget guidelines reflect state fiscal conditions, policy and political preferences, and various legal and institutional budget constraints. For this reason, gubernatorial budget recommendations might also be influenced by other independent variables. This aspect may be a second source of endogeneity.

To counteract the effects of endogeneity, a Two Stage Least Square (2SLS) regression model was run. When the two variables described above were identified as endogenous variables, however, estimation of coefficients was biased because the predicted value of Governor’s Budget Recommendations obtained from the first stage regression and the intercept were observed to be perfect linear combinations of other independent variables in the second stage regression. For this reason, Agency Budget Requests were identified as an endogenous variable with all other variables in the second stage regression used as instruments. For a comparison with 2SLS estimation, Ordinary Least Square (OLS) estimation is also included in final results.

One other caveat should be made. Legislative Appropriations are slightly positively skewed for the six categories (see Table 1) and an ordered logistic regression (OLR) model is used in addition to the OLS estimation. The model further includes twelve dummy variables to capture unobservable fixed effects associated with the 13 functional types of state agencies.

RESULTS

Table 3 reports the 2SLS regression results. Half of the exogenous variables significantly impact agency appropriation outcomes. However, the main budget actors envisioned by

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68. PROC SYSLIN in SAS was used for estimation of 2SLS. The two endogenous variables were not used as instruments.
69. Instead of using the problematic variable, Governor’s Budget Recommendations in the current model, the original 13-point scale measuring governor’s budget recommendation introduced above was used as an instrument. Inclusion of governor’s recommendation as an instrument is also reasonable because agency budget requests are significantly influenced and adjusted by gubernatorial clearance of budget requests. We further treated only Governor’s Budget Recommendations as endogenous but found that this variable was statistically significant in the 2SLS estimation.
70. The agency categories are: elected officials, staff (fiscal), staff (nonfiscal), income security and social services, education, health, natural resources, environment and energy, economic development, criminal justice, regulatory functions, transportation, and other. One caveat is that there could be clustering across states that might share similar political, legal, fiscal, and institutional features. This condition typically inflates statistical significance (S. W. Raudenbush and A. S. Bryk, Tierarchical Linear Models: Applications and Data Analysis Methods, 2nd ed. (Thousand Oaks, CA: Sage Publications, 2002)). To address this issue, a multilevel ordered logit model was also run but the result was virtually the same as the result reported in this paper.
### TABLE 3
Explaining Agency Budget Results Internal and Exogenous Variables Associated with State Agency Appropriation Levels, 1998

<table>
<thead>
<tr>
<th>Variable description</th>
<th>2SLS</th>
<th>OLS</th>
<th>OLR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Pr. &gt;</td>
<td>t</td>
</tr>
<tr>
<td>Internal budget actors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency budget requests</td>
<td>-0.11</td>
<td>0.506</td>
<td>0.22***</td>
</tr>
<tr>
<td>Governor’s budget recommendations</td>
<td>0.77***</td>
<td>&lt;0.0001</td>
<td>0.61***</td>
</tr>
<tr>
<td>Professionalized state legislators</td>
<td>0.06</td>
<td>0.191</td>
<td>0.097***</td>
</tr>
<tr>
<td>Professionalized state legislatures</td>
<td>0.06*</td>
<td>0.054</td>
<td>0.04*</td>
</tr>
<tr>
<td>Per capita House members</td>
<td>1,448.9*</td>
<td>0.069</td>
<td>1,616.8**</td>
</tr>
<tr>
<td>Per capita Senate members</td>
<td>2,301.5</td>
<td>0.478</td>
<td>3,408.6</td>
</tr>
<tr>
<td>Legislative partisanship</td>
<td>-0.08**</td>
<td>0.011</td>
<td>-0.07**</td>
</tr>
<tr>
<td>Budget environmental factors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita personal income</td>
<td>-0.000**</td>
<td>0.018</td>
<td>-0.000***</td>
</tr>
<tr>
<td>Per capita total federal aid</td>
<td>-0.75***</td>
<td>&lt;0.0001</td>
<td>-0.72***</td>
</tr>
<tr>
<td>Clientele groups</td>
<td>0.07**</td>
<td>0.023</td>
<td>0.06**</td>
</tr>
<tr>
<td>State litigations in education</td>
<td>0.06</td>
<td>0.318</td>
<td>0.08</td>
</tr>
<tr>
<td>Balanced budget requirement</td>
<td>0.04</td>
<td>0.286</td>
<td>0.04</td>
</tr>
<tr>
<td>No carryover deficit</td>
<td>-0.15*</td>
<td>0.063</td>
<td>-0.18**</td>
</tr>
<tr>
<td>State performance funding</td>
<td>-0.16**</td>
<td>0.015</td>
<td>-0.20***</td>
</tr>
<tr>
<td>Governor’s veto power</td>
<td>0.06</td>
<td>0.137</td>
<td>0.03</td>
</tr>
<tr>
<td>Budget targets</td>
<td>-0.02</td>
<td>0.722</td>
<td>0.01</td>
</tr>
<tr>
<td>Legislative macro-budgeting</td>
<td>-0.01</td>
<td>0.727</td>
<td>0.002</td>
</tr>
<tr>
<td>Observations used (total)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-2 Res Log Likelihood</td>
<td>960 (1,175)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.54</td>
<td>0.59</td>
<td>1,871.8</td>
</tr>
</tbody>
</table>

*Significant with $P<0.10$.
**Significant with $P<0.05$.
***Significant with $P<0.01$.

Source: Five intercepts for OLR and coefficients of agency dummies for all models are not reported.
incrementalism and their institutional tools exert strong influence on state agency appropriation levels as well.

**Internal Budget Actors**

The expected influence of contextual factors or forces on budget outcomes is confirmed. Simultaneously, however, institutional budget actors also clearly serve as influential forces on budget outcomes. Slightly different from classical incrementalist predictions, the governor’s recommendation is a pivotal influence on the level of legislative appropriations for state agencies; the initial agency budget requests are not significant when endogeneity is specified with the 2SLS estimation. Sharkansky\(^\text{71}\) found that gubernatorial support is critical in agency budget expansion. In contrast, Thompson’s more recent study\(^\text{72}\) shows that agencies exert relatively stronger influences on state budget outcomes. Our findings imply that the governor’s budget recommendations dominate agency budget requests.

Legislative characteristics also exert noteworthy effects on agency appropriations. State legislators and legislatures have recently been depicted as assertive advocates of pork-barrel projects. One finding from the regression supports this observation. State house membership (per capita) is positively correlated with legislative appropriations for state agencies.

Prior research suggested that increasing professionalism of legislatures might offset gubernatorial dominance in the budgetary process.\(^\text{73}\) The regression results indicate that the enhanced capacity, integrity, and autonomy of state legislatures, *Professionalized State Legislatures*, strengthens legislative assertiveness instead of controlling spending. In other words, professional support and attendant additional information on agency programs might have augmented legislative capacity to increase agency budgets rather than constraining governors’ recommendations.

One measure of partisan political preferences in states, the average ratio of Republicans to Democrats in the legislatures, is negatively and significantly correlated with legislative appropriations. There is a need to investigate further how partisanship and other political variables exert different impacts on various programs.\(^\text{74}\) Here it appears that partisan preference of state legislatures exerts an identifiable influence on agency budget outcomes. Greater Republican representation lowers the level(s) of appropriations.

We now turn to exogenous characteristics of the state and agency budget environments.

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71. Sharkansky (1968).
Exogenous Factors

The presence and relevance of external forces affecting budget decisions has been the subject of long-standing speculation and interpretation. Per capita state personal income appears to influence state agency budget outcomes but in an unexpected negative direction. The magnitude of its impact, however, is virtually zero. By contrast, per capita federal aid to each state agency is negatively correlated with increased legislative appropriations. Agencies with substantial external revenue sources tend to have their acquisitiveness restricted as legislatures lower levels of state appropriations. This finding is consistent with Thompson’s\textsuperscript{75} results based on budget documents from 13 states.

Clientele groups do not simply receive agency services. They also provide strong support for agency programs and resources.\textsuperscript{76} In agencies where top administrators perceive stronger influence from clientele groups, legislative appropriations are significantly larger. Further research should clarify the particular interest group environment(s) that foster higher agency budgets.

Another dimension of the exogenous budget environment is rights-based budgeting. Court mandates have been identified as a crisis technique agencies use when advocating for budget expansion.\textsuperscript{77} The results show that one facet of rights-based budgeting, state litigation in education finance, does not influence agency budget outcomes. State litigation based on the adequacy and fiscal neutrality of state school finances policy might influence the appropriations of education-related agencies, but it does not affect all state agency budgets. Further research exploring how court decisions affect budget outcomes in specific functional areas, such as education, prison systems, or mental health services, is needed to further assess the now common occurrence of court litigation.

Legal requirements imposing a balanced budget are prominent in state budgeting. State constitutional and statutory requirements for balanced budgets, however, do not attain statistical significance in this study. In contrast, specific provisions prohibiting carryover deficits do appear to be effective fiscal constraints.

Since the early 1990s national and subnational governments have engaged in several administrative and budgetary reforms “reengineering” or reinventing government. Frank\textsuperscript{78} suggests that budget systems and formats be studied as an independent variable rather than dependent variables reflecting politics or organizational culture. This research examined the effects of performance-oriented budgeting on agency budget outcomes. Results reported in Table 3 offer some support for the prospect of rational approaches to governmental budgeting through improved efficiency-oriented procedures. State use of performance funding is significantly and negatively correlated with state agency budgets. Rarely has administrative reform (or performance) prescriptions

\textsuperscript{75} Thompson (1987).
\textsuperscript{77} Straussman (1986).
\textsuperscript{78} Frank (2007).
produced expenditure reductions. Here, however, is evidence that selective reforms may inhibit agency expansion.

Surprisingly, macro-budgeting in state legislatures does not appear to affect agency budget outcomes. Schick highlighted why macro-budgeting in the national legislature failed to constrain the national budget. Successful influence was possible only “when other participants (such as the President or the appropriations committees) saw the budget resolution as an opportunity to advance their own budgetary interests.” At the state level, these interests may be equally or more parochial. Macro-budgetary mechanism in the states appears less institutionalized than at the national level. In addition, the indicators used to measure state macro-budgeting may be problematic. Whatever the case, legislative tools for macro—or collective purposes may be bypassed in favor of legislators’ particularistic interests. In addition, the institution of gubernatorial veto power and budget target does not exert significant influence on legislative appropriations for state agencies.

**Internal Budget Actors or Exogenous Factors?**

Table 3 indicates that five environmental factors are statistically significant while four variables of internal actors are significant, thus confirming the scholarly emphasis on the influence of exogenous factors on budget outcomes. The statistical significance of the external factors is slightly greater than that of the internal actors. In terms of explanatory power, however, internal institutional actors still exert substantial influence on legislative appropriations for state agencies. Table 4 provides a summary comparison of the explanatory power of internal budget actors and exogenous variables. Starting from the first model only with budget environments, relevant variables were added in the 2SLS estimation in a stepwise fashion. The changes in \( R^2 \) were calculated to measure how the inclusion of new variables contributed to explaining variation in the dependent variable.

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When all exogenous factors were added to the first model, $R^2$ was about 4.6 percent. When only internal budget actors were in the model, $R^2$ increased to about 56.4 percent. When all variables including agency dummies were included, $R^2$ slightly decreased to 54.0 percent. State budget outcomes seem to reflect the influence and actions of internal institutional budget actors to a much larger extent than exogenous budget environments. There is still one caveat, however, in this observation. The dominating impact of internal budget actors is substantially attributable to one powerful budget actor. When only governor’s budget recommendation was included in our model, $R^2$ was as high as 53.9 percent. This finding is significantly consistent with earlier incrementalist insights.

**CONCLUDING OBSERVATIONS AND INTERPRETATIONS**

This research relies on original and actor-based data (for 1998) involving respondents from all 50 states. The diversity of respondents, the scope and content of the data, and the methods of analysis lend credence to the substantive results. The findings provide greater clarity, transparency, and confirmation regarding long-standing suppositions about state budgeting.

It should come as little surprise to find that exogenous budget environments selectively influence state agency budget outcomes. Fiscal, political, legal, and administrative reform factors, as well as support from clientele groups, affect agency appropriations. Rubin’s extension of Wildavsky’s argument has some explanatory leverage. The interdependent and complex character of public programs increases the likelihood that exogenous factors will have identifiable influences on budgetary actions and choices. Clientele groups exert pressure on the budget process for favored agencies and achieve at least modest success in increasing legislative appropriations. This research also shows that budget decisions are subject to contextual, legal, and institutional circumstances that tend to suppress agency successes. In sum, agency budget outcomes are influenced by the budget environment or context.

Despite the influence of exogenous and environmental contexts, the present study finds that institutional budget actors play the unquestioned predominant role in explaining state agency budget outcomes. Governors and legislators/legislatures are the driving forces behind agency budget appropriations. In relative terms, these two institutional actors overwhelmingly shape state agency budgets. The findings firmly fit the Abney and Lauth statement,82 “that state budgeting will inevitably be as much about interbranch politics as it is about administrative process.” One departure from classical incrementalism is that agencies are not directly as influential in forming agency budget outcomes as they were depicted to be. Instead, a closer match was found between gubernatorial recommendations and legislative appropriations. This lends another

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perspective to the Goodman and Clynch finding that “both executive and legislative analysts follow similar decision-making patterns.” The political cues given and received by these actors are convergent. More broadly, however, the findings reveal both the central and the crucial role of the governor in translating and framing agency requests into final fiscal outcomes. Nearly 70 years ago, Lipson argued that the American governor had evolved “From Figurehead to Leader.” Later, Sabato called governors “truly the masters” of state government. Beyle confirmed descriptively, based on multiyear measures (1960–1994), that the gubernatorial power of budget making authority outranked appointment, veto, and tenure potential as the primary formal power of the governor.

A second noteworthy finding with implications for agency executives and budget practitioners is that legislators/legislatures are assertive, especially in light of the lower than predicted description of agency acquisitiveness found in the literature. Legislative resources that enhance professionalism support expansionist goals. It should be noted, however, that while agencies do seek to increase their budgets, a majority of agency heads seek (and governors and legislators support) increases of less than 5 percent. This is a far more modest level of expansion than other scholars had reported in previous studies and is more compatible with early incrementalist insights and the national experience. Typical U.S. national government programs increased by about 4 percent between 1947 and 2003.

The framework envisioned in earlier incrementalism has recently been criticized in various aspects. Despite the repeated critiques of incrementalism, however, this study finds that state budget processes are substantially explained by the incrementalist observations. Robinson et al., with empirical analysis of local educational expenditures in Texas, attempted to test the assumptions in the punctuated equilibrium theory against incrementalist assumptions. Their study implies that incrementalism explains the expenditure patterns still fairly well. Likewise, the stabilized budget patterns in earlier incrementalism are also evidenced even under more complicated budget environments and augmented/complex features of internal budget actors in the 50 American states.

For practitioners a third finding is noteworthy. Despite repeated criticisms of executive-driven budget reforms such as PPBS and ZBB, performance-funding systems seem
to depress agency appropriations. A limit on carryover funds also lowers appropriations. Whether these are positive or negative outcomes for agencies is a subjective question. If austerity is dictated by particular fiscal situations, then performance criteria systems may be helpful and legal limits necessary.

If practitioners are agency executives attempting to attain preferred or adequate resources, or fiscal analysts attempting to reconcile spending with revenue resources, the above findings should improve navigation strategies through the increasingly complex state budget environments. Future research may help understand and explain these findings more fully. They hold hope for increasing the information and improving the process for all participants. Further, additional research also might focus on how state agency budget outcomes vary between institutional budget actors, exogenous environments, and budget practices within different political and fiscal contingencies. Budget theory and budget practices may converge to identify more clearly the varying roles of the major actors and the larger atmosphere surrounding them.

NOTES

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APPENDIX A

The 1998 ASAP Survey Questions on Agency Budget Requests, Governor’s Budget Recommendation, and Legislative Appropriations

B. Questions about Programs and Priorities

4. Your agency requires adequate funding to carry out its mission(s). Please reflect on your agency’s last budget process, that is, the sequence by which your current year’s agency budget was decided.

Agency budget request

4a. Considering your initial request to the governor (or relevant budget authority) did you propose a: ___Decrease, ___Increase, or ___No change from the previous year?

If an Increase or Decrease, what percentage change did you propose from the previous year? ___1–2%; ___3–4%; ___5–6%; ___7–8%; ___9–10%; ___11% or more

Governor’s budget recommendation

4b. Did the governor (or relevant budget authority) recommend a: ___Decrease, ___Increase, or ___No change from the previous year?

If an Increase or Decrease, what percentage change was recommended from the previous year? ___1–2%; ___3–4%; ___5–6%; ___7–8%; ___9–10%; ___11% or more
Legislative appropriations

4c. Did the legislature appropriate a:
___Decrease, ___Increase, or ___No change from the previous year?
If an Increase or Decrease, what percentage change was appropriated from the previous year? ___1–2%; ___3–4%; ___5–6%; ___7–8%; ___9–10%; ___11% or more

APPENDIX B
Factor Analysis of Legislator and Legislature Characteristics

Rotation method: varimax

Rotated factor pattern

<table>
<thead>
<tr>
<th>Variable</th>
<th>Factor1</th>
<th>Factor2</th>
<th>Factor3</th>
<th>Factor4</th>
</tr>
</thead>
<tbody>
<tr>
<td>STLEGHOUSE</td>
<td>0.92566</td>
<td>0.03199</td>
<td>-0.04034</td>
<td>-0.16180</td>
</tr>
<tr>
<td>SFLEGISEN</td>
<td>0.86973</td>
<td>0.11081</td>
<td>-0.03753</td>
<td>0.12503</td>
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<td>LEGSALARY</td>
<td>0.83794</td>
<td>0.08806</td>
<td>-0.05986</td>
<td>0.05077</td>
</tr>
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<td>TOTLEGSTAF</td>
<td>0.82651</td>
<td>0.10181</td>
<td>0.09141</td>
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<tr>
<td>STCOMSEN</td>
<td>0.18081</td>
<td>0.87577</td>
<td>-0.15530</td>
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<td>STCOMHOUSE</td>
<td>0.15817</td>
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<td>-0.10800</td>
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<td>HOUSERTERM_</td>
<td>-0.12184</td>
<td>-0.41881</td>
<td>0.37347</td>
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<td>SENTURN_</td>
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<td>-0.28557</td>
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<td>JOINTCOM_</td>
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<td>0.02909</td>
<td>0.85143</td>
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<td>HOUSERTURN_</td>
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<td>LEGBUOFFICE_</td>
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<td>SENATETOT_</td>
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<tr>
<td>HOUSERTOT_</td>
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<td>0.06476</td>
<td>0.26641</td>
<td>0.71177</td>
</tr>
</tbody>
</table>

Four factors with eigenvalue > 1 were retained. Rotated factor pattern indicates that the variance explained by each factor is as follows; Factor1 (3.361), Factor2 (2.058), Factor3 (1.686), and Factor4 (1.492). The first three factors are used to create the three factor scores, Professionalized State Legislators, Professionalized State Legislatures, and Legislative Macro-Budgeting. All the above variables are in the order described in Table 2. One interesting point with professional legislatures is that terms of House members and Senate membership turnover rates are negatively loaded. Bourdeaux (2006) offers insights into the negative loading. Term-limited legislators might be less sensitive to interest group pressures and may tend to deliberate about the state as a whole. Senate Appropriations Committees, as indicated above, protect essential agency programs but also tend to protect the public purse from their irresponsible House counterparts. Wildavsky and Caiden (2004). At the state level, the Senate is usually smaller and less formal, yet more stable in membership than the House. Rosenthal (2004). Presumably responsible Senators with longer membership might use more information from professionalized supports, which explains the negative loading of Senate turnover rates to this factor score. Another point is that higher membership turnover rates in the state lower chambers might reflect a focus on statewide policy issues rather than parochial or constituency interests. With turnover, either through term limits or choosing not to run for reelection, legislators may be less subject to interest group pressures and more likely to deliberate on the statewide priorities. Bourdeaux (2006). This might explain the positive loading of the House membership turnover rates on Legislative Macro-Budgeting.