Legislative Vetoes and Economic Reform*

Theory and Evidence from the History of American Labor Regulation

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Abstract

I analyze the role of legislative institutions in policy change, particularly the role of the veto power of political executives. I study situations characterized by two key features: First, there is a status quo in place that is considered undesirable by all major legislative players. Secondly, there is variation in the political institutions, in particular the strength of the veto power of the executive, and this matters for the ability of groups with different ideal outcomes to reach a compromise. I first show theoretically that having an additional political executive (here a governor) with veto power may facilitate policy change. I then use state-level variation in the enactment of workers’ compensation laws in the US to empirically examine the model’s predictions. The empirical results support the prediction that a strong executive veto, in this setting, should facilitate policy change.

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1 Introduction

In this paper I study situations where there is a need for political reform. I show theoretically that if the legislative process has multiple stages, and relative political powers vary across these stages, reforms might not happen even if they are efficiency-enhancing. I then show that having a political executive with veto power, such as a governor or president, facilitates reform efforts. I examine these results empirically using data on state-level reforms during the Progressive Era in the US, and find support for the proposition that a constitutionally stronger veto makes reform attempts more likely to succeed.

This paper may be situated in the context of a growing body of research devoted to explaining why economic policies may persist despite being inefficient. Much of this recent work has had a dynamic perspective that resembles the legislative setup with multiple stages analyzed in this paper. For instance, Besley and Coate (1998) show that efficiency-enhancing public investments may not be undertaken due to fears that these investments could change the identities of future political leaders. Using a similar logic, Acemoglu and Robinson (2001) show that when the political influence of a group depends on its size, inefficient redistribution may work as a tool to sustain political power, as the form of redistribution a government chooses may influence which sector of employment workers choose to enter. Focusing on the way that policies in place affect the lobbying choices of interest groups, Coate and Morris (1999) show that inefficiencies may arise because voters decide not to support policies with temporary positive effects, out of fear that these policies will persist after they have become counterproductive.¹ I build on these recent contributions but have a different focus. Rather than analyzing the sources of inefficiencies, I focus on a particular type of situation where inefficiencies may occur, fix the setup and then study the role of political institutions in

¹ Other influential and related papers include but are not limited to Fernandez and Rodrik (1991), Alesina and Drazen (1991), Dixit and Londregan (1995) and Coate and Morris (1995), as well as the literature on the sequencing of efficiency-enhancing reforms in transition economies, including among others Martinelli and Tommasi (1997) and Wei (1997). More generally, much of the early public choice literature, notably the work of Buchanan and Tullock (1962), held the view that “political failures” were common, implying that the possibility of efficiency-enhancements were not sufficient for reforms to happen.
facilitating (or hindering) reforms. Specifically, I analyze, both theoretically and empirically, the role played by the veto power of political executives.

In the section that follows I develop the theoretical argument. I work with a very simple two-period model of political decision-making set up to capture the idea that most reform attempts have to move through multiple legislative stages in order to result in a law. I show that if the relative powers between politically influential actors - interest groups or legislators - vary between the stages, reforms might not happen even when there is scope for efficiency-enhancing change in a strict (pareto) sense. The problem is a lack of commitment capacity inherent in most real-world political systems: at an early stage of the legislative process politicians have no way of credibly promising that they will not act in their own self-interest in later stages, which creates a “political hold-up.” I then show that having a governor with veto power at the end of the legislative process mitigates this problem; the threat of the veto does, in some cases, replace the commitment that is necessary for the reform attempt to pass through the first legislative stage.

In Section 3 I study empirically the introduction of workers’ compensation legislation, which happened through state-level reforms at the beginning of the 20th century. I first argue that the economic and political situation that lead to the workers’ compensation reforms look like the setup of the theoretical model; hence these reforms may be used to examine the validity of the theoretical results. The fact that the reforms were implemented at the state level, and that the constitutionally assigned role of the governor in the legislative process varied across the states, leads to variation in the data that can be exploited for empirical estimation. The results do lend support to the theory. In particular, states with a stronger veto power of the governor adopted workers’ compensation laws more rapidly. This result follows from looking at raw correlations, but it also holds after controlling for a number of variables that measure the political leanings of the states.

These theoretical and empirical results suggest a qualification of existing theories of separation of powers and legislative vetoes. Having a multiplicity of political powers or
a greater number of political actors with veto power is typically thought to slow down reforms and make policy changes more difficult in general. This argument has been used both in defenses and criticisms of the multiplicity of veto points built into the American political system. For instance, in a classic criticism of James Madison and the ideas put forth in The Federalist Papers, historian Garry Wills (1981, p.195) writes about the federal US government that “Minorities can make use of dispersed and staggered governmental machinery to clog, delay, slow down, hamper, and obstruct the majority.” In academia the “veto player” framework developed by Tsebelis (1995, 2002), which tells us that an increase in the number of legislative vetoes can only make political change less likely, has been very influential and applied to a number of different settings. While I recognize that the logic of these papers is often true, especially when it comes to purely redistributive politics, the results of this paper show that it is not always the case that more vetoes lead to less political change. In settings where there is broad agreement that the status quo is undesirable, and the political process involve multiple legislative stages, the opposite might in fact be the case.3

2 Theory

2.1 Baseline Model

The baseline model developed in this paper has the following structure: there is a game where the players are two political groups, B and U, and a governor, G, who may or may not have political power in the form of a veto. At the beginning of the game there is an existing status quo policy, q, in place. If a political reform takes place a new policy will replace q,

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2The veto player theory has been used to analyze, among other things, health policy, international tax competition, general legislative output, general government spending and welfare state reforms. Examples include Bawn (1997), Hallerberg and Basinger (1998) and Kreppel (1999).

3In this regard, the findings here are related to those of a recent study by Tommasi et al (2010). Although the context of their study - policy change in Latin America - is very different from the setting of this paper, they too find that having more veto players may make a polity more able to adjust its policies and adapt to changing economic conditions.
and this new policy may be one with high \((P_u)\), medium high \((P_m)\) or low \((P_b)\) benefits. 

\(B\) has the following preferences: \(P_u \prec q \prec P_m \prec P_b\). \(U\) has the following preferences: 
\(P_b \prec q \prec P_m \prec P_u\). The governor also prefers the policy with medium high benefits to the 
status quo \((q \prec P_m)\), but nothing else is imposed with respect to his preferences.

This simple setup captures the two key features of the settings analyzed in this paper. First, the status quo is inefficient: all players would prefer a reform with \(P_m\) as the outcome 
over the status quo. Second, there is disagreement about the optimal policy choice: the 
policy \(P_m\) that pareto dominates the status quo is not the ideal policy of any of the two 
groups, and the groups have different ideal policies. Furthermore, note that for each group 
there exist a feasible policy that is worse than the status quo. Hence, all groups would like 
to see a move away from the policy in place (a “reform”) but not at any cost.

The timing of the model includes three stages. In the first stage, one or both of the 
groups determine whether a given issue should be raised and introduced into the legislature. 
It may be the case that one group has the power to determine this by itself, or both groups 
may be required for the issue to move beyond the first stage. If the issue is not raised, the 
status quo remains in place. Otherwise, in the second stage, one of the groups is chosen to 
determine the policy from the set \(\{q, P_u, P_m, P_b\}\). Finally, if the governor has veto power, 
there is a third stage where the governor decides whether to veto the policy chosen. A veto 
implies that the status quo remains in place. If the governor does not have veto power, the 
policy chosen in the second stage will be implemented.

This timing reflects the basic idea that real-world legislative processes move through 
different stages. There is typically an initial “pre-legislative” period during which an issue 
is raised and debated, and during which legislative “gatekeepers” decide whether it should 
be formally introduced to consideration by the entire legislature. These gatekeepers may 
be leaders and/or committee members within the legislature as well as members of specially 
appointed committees and councils outside the legislature. If the issue reaches the legislature 
there is then a formal process of law-making, where the group(s) that control the legislature
work out the details of the new legislation. In the real world these different stages may or
may not be controlled by the same group, and the theoretical model imposes no restriction
in this regard.

Under this setup, we can show the following:

**Proposition 1** Despite being pareto dominated, the status quo might prevail.

**Proof.** Suppose that $B$ controls the legislature, i.e. the second stage, but that the support
of both $U$ and $B$ is necessary for the issue to be raised in the first stage and introduced
into the legislature. Suppose furthermore that the governor has no veto power. If the policy
reaches the second stage $B$ will choose $P_b$. Knowing this, $U$ will not support the policy in
the first stage and the issue will die before it reaches the legislature. ■

The intuition behind this proposition is straight-forward: even though a pareto im-
provement is possible, the groups cannot necessarily agree on where to move away from
the inefficient status quo. The lack of political commitment is key. Whoever controls the
decision-making over the details in the legislature will, if the issue reaches the second stage,
implement its preferred policy rather than the policy $P_m$ that dominates the status quo.
The other group will thus prefer to shut down the issue in stage one. Hence, unless the
group that controls the legislature is also in complete control of the pre-legislative process,
we might have a “political failure” in the form of a lack of a reform that everyone would like
to see happen.

As the primary theoretical focus of this paper is on the effect of having additional veto
players, let us explicitly compare the outcome with and without a governor with veto power.
We can show the following two results:

**Proposition 2** (a) If a reform happens without a governor with veto power, there will also
be a reform with the governor. (b) For some configurations of power, efficiency-enhancing
reform will happen with but not without a governor with legislative veto power.
Proof. Proposition 3.1 shows that if there is no governor with veto power, a reform will happen if and only if the same group controls both legislative stages. Suppose that group $U$ controls both stages. In the absence of a governor, $U$ will raise the issue in stage one and implement policy $P_u$ in the second stage. Now suppose instead that there is a governor with veto power. Then two different outcomes are possible. If the governor prefers $P_u$ to $q$, the outcome will be the same: $U$ will raise the issue in stage one, implement policy $P_u$ in the second stage and the governor will choose not to use the veto. If, on the other hand, the governor prefers $q$ to $P_u$, $U$ will choose to raise the issue in the first stage, implement $P_m$ in the second stage, and the governor will not use the veto. Hence if a reform happens without a governor with veto power it will also happen with the governor, though potentially with a more moderate outcome.

For part (b), suppose that $U$ controls the legislature but that $B$ is necessary for introducing the issue in the first stage. Suppose further that the governor prefers $q$ to $P_u$. If the governor has no veto power, $B$ will shut down the issue in the first stage. However, if there is governor with veto, $U$ will have to settle for $P_m$ in the second stage and $B$ will not resist the introduction of the issue. Hence there will be a reform with the policy outcome $P_m$. This concludes the proof. ■

This proposition shows that having a governor with veto power can only tilt the balance in one direction: in favor of reform. If the groups controls the second stage could commit to a policy at, the beginning of the game, a failure of reform would never occur and both groups would be better off. Under some circumstances, a governor with veto power replaces that kind of commitment capacity. Specifically, if the governor favors $q$ over $P_i$, where $i \in U, B$ is the group the controls the second stage of the legislative process, there is no way for this group to pass a more extreme policy than $P_m$. Knowing this, the other group is willing to pass on the issue on the first stage.
2.2 Extension: Two-Period Model

The setup of the baseline model illustrates a type of political failure that can follow from a political system with multiple legislative stages. A related and potentially interesting setting is one where there are repeated legislative sessions, with the relative powers and the control of the legislature (possibly) changing between the sessions. However, an appropriately designed model of two legislative sessions, rather than one session with multiple stages, should be set up slightly differently from the baseline model above. Specifically, the executive should have the ability to use its veto after each session. Furthermore, both stages should include a decision on the details of the policy.

With this in mind, let us change the setup slightly so that we can analyze the simplest possible game with two legislative sessions. The game now has four stages. First, one of the two groups, $U$ or $B$, determines both whether the status quo should be altered, and, in the case it decides to alter, what the new policy should be. Second, if the governor has the power to veto, he makes a decision about using the veto. These first two stages together form the first legislative period (or “session”), and the policy that comes out of this period is denoted $p^1$. In the third stage of the game one of the groups, $U$ or $B$, determines whether to keep $p^1$ or change this policy. In the fourth and final stage, the governor decides whether to veto this new policy, again if the governor has veto power. The third and fourth stages form the second session/period, and the policy that comes out of the fourth stage is denoted $p^2$. If the governor has used his veto in the fourth stage, $p^1$ equals $p^2$. If the governor has used his veto in both the second and the fourth stage, $p^2$ equal $p^1$ which equals $q$.

The within-period preferences and policy space are the same as in the baseline model, but we need to specify preferences over both periods. To work with the most basic two-period model possible, let the total utility of each player simply be the sum of the within-period utilities. Formally, let $u^k : \{q, P_u, P_m, P_b\} \rightarrow \mathbb{R}$ be a within-period utility function representing the preferences of player $k \in \{U, B, G\}$ in the baseline model, and let the total utility of a player be simply the sum of its two within-period utilities. For instance, the total
utility of the governor is $u^G(p^1) + u^G(p^2)$.

To complete this model we need to specify who controls the legislature. Let group $B$ be the one that initially controls the legislature and suppose that a reform in the first period may, but does not have to, change the power structure between the groups. That is, a reform in the first period could imply that group $B$ loses control of the legislature in the second period to group $U$. In every other way the model is the same as the baseline. Under this setup we can show the following:

**Proposition 3** The status quo might prevail in the first period.

**Proof.** Focus on the case without governor veto power. Suppose that any implementation of a new policy different from $q$ leads to a shift in the control of the legislature. Then group $B$ can choose to reform the system in the first period and receive at most utility $u^B(P_b) + u^B(P_u)$, compared to $u^B(q) + u^B(P_b)$ if it does not reform the system and remains in power. As it prefers $q$ to $P_u$, $B$ will choose not to reform the system in the first period, and the status quo will prevail. ■

In this model we will never see the status quo prevail also at the end of the game. However, the proposition shows that we might see a stalled reform in the form of a prevailing of the status quo in the first period. The reason is that a political reform can change the balance of power and lead to a change in the control of the legislature. The group that controls the legislature in the first period might therefore prefer to keep the status quo in place, even though both groups again could do better, this time if they agreed to a policy *pair* specifying the first and second round choices. Put differently, while a reform will eventually happen the speed of legislative action might be inefficiently slow. The problem is again the lack of political commitment capacity.

As in the baseline analysis, we are interested in what happens as the governor gains a legislative role. We can show the following results:

**Proposition 4** (a) If a reform happens in period one without a governor with veto power,
there will also be a reform in this period when the governor has veto power. (b) For some configurations of preferences and power, a reform will happen in period one with but not without a governor with veto power.

Proof. Suppose the group in charge remains in power after a reform; from the previous result we know that a reform will happen without a governor if and only if this is the case. Now focus on the case with the governor. B can always propose $P_m$ in the first stage as well as in the second stage; the governor will not use its veto and $B$ receives utility $u^B(P_m) + u^B(P_m)$. Alternatively, $B$ can keep $q$ in the first stage, and possibly receive a higher utility by proposing $P_b$ in the second stage. However, it can only receive $P_B$ in the second stage if the governor prefers $P_b$ to $q$. But if the governor prefers $P_b$ to $q$ it will also vote in favor of $P_b$ in the first period, as it then has to choose between policy sequences $\{P_b, P_b\}$ and $\{q, P_b\}$. So $B$ will propose $P_b$ in the first period and the governor will not use the veto. Hence if there is a first-period reform without a governor, $B$ will always propose a policy that is not vetoed when there is a governor. This proves part (a).

Now suppose instead that any implementation of a new policy different from $q$ leads to a shift in the control of the legislature. Suppose further that the governor has the following preferences: $P_u \prec P_b \prec q \prec P_m$. We know already that the status quo will remain in the first period if there is no governor with veto power. However, if the governor has veto power, note that if the status quo is in place at the beginning of the second period, the second-period outcome will be $P_m$. Hence the governor would use its veto to block any of the extreme policies $P_u$ and $P_b$ in the first period. $B$ then effectively has a choice between proposing the only policy that passes in the first round ($P_m$) or keeping the status quo in place. In both cases the second-period outcome will be $P_m$. Hence $B$ will choose to propose $P_m$ in the first period, and the governor will not use its veto. $P_m$ will be the policy outcome in both periods. This shows part (b). ■

This result is very similar to Proposition 3.2: it is again the case that a governor with veto power can function as the necessary commitment mechanism. This time the governor
can, in some circumstances, ensure the group that initially controls the legislature that a reform will not lead to a future policy change, and the group will then have no reason to stall reform.

So far we have only looked at the two extreme cases with respect to the governor’s veto power: either there is no veto or there is perfect veto power (meaning that the governor always has the strength to veto any proposal). In reality the veto power of the executive sometimes falls in between these cases: the executive has the power to veto legislative decisions, but the group that controls the legislature may sometimes be strong enough to override the veto with a qualified majority. To study these in-between cases, let us alter the two-period model in the following way: even if the governor has veto power it may be the case that the group that controls the legislature has the strength to pass its preferred policy. Let it still be the case that the strength of the groups may change between the two sessions. With this modification of the model we can show the following:

**Proposition 5** In the extended two-period model with the possibility of veto power being non-effective, we have that (a) for some configurations of preferences and power, a reform will happen in period one with but not without a governor with veto power, but (b) for some configurations of preferences and power, having a governor with veto power will have the opposite effect.

**Proof.** Suppose first that any implementation of a new policy different from q leads to a shift in the control of the legislature. Suppose further that the governor always has effective veto power, and that it has the following preference order: \( P_u \prec P_h \prec q \prec P_m \). In this case the proof of part (b) of Proposition 3.4 is still valid. This shows part (a).

For part (b), continue to suppose the governor has the following preferences: \( P_u \prec P_h \prec q \prec P_m \). Suppose further that the governor has effective veto power in the first period, but that implementation of a new policy different from q leads to an increase in the strength of the group controlling the legislature so that it would be able to override a veto in the second period. In this case, if \( B \) chooses policy \( P_m \) in the first period, the governor can choose to
use its veto, maintain the status quo and have policy $P_m$ implemented in the second stage. Alternatively, it can choose not to use its veto, have policy $P_m$ implemented in the first stage but loose its effective veto power and see $P_b$ be implemented in the second stage. As the governor prefers the former it will use its veto, and the status quo will prevail in the first period. Compare this to the case without any governor veto power at all: in that case $B$ would simply implement $P_b$ in both periods. This concludes the proof. ■

This proposition shows two things. First, we see again that a governor with veto power may function as the commitment mechanism necessary for a reform to happen immediately. However, secondly, it is no longer the case that a governor with veto power can change the outcome in only one direction. Now it may be the case that the veto power actually slows down the reform process. Specifically, if the governor has effective veto power in the first period (meaning it cannot be overridden), but a reform will change the relative power of the groups, the governor might prefer to live with the (pareto) inferior status quo in the first period in order to prevent the interest group that controls the legislature to gain enough strength that it can override the veto in the second period.

2.3 Comments

To sum up the theoretical part, the baseline model and two-period extension together show three things. First, due to a lack of legislative commitment capacity, policy reform might not happen even though efficiency-enhancing change is possible. Secondly, the existence of a governor with veto power may provide exactly the commitment mechanism necessary for a reform to happen. Third, the second point is true in general if we have one legislative session with multiple stages, or if we have two sessions and the veto power is absolute. But if we have repeated legislative sessions and the veto is not absolute, the result may be different; in that case the existence of a governor with veto might slow down the reform process. This, however, will only happen if one group is strong enough, specifically if after a reform in the first period the group controlling the legislature will be sufficiently strong in the second.
period to override a veto. In all other settings the existence of a veto can only sway the outcome in favor of a reform. Furthermore, in the case where the governor veto slows down the reform process it still has a moderating effect on the outcome; the proof of part (b) of Proposition 3.5 shows that with a governor we get no reform in the first period and then reform with the intermediate policy \((P_m)\) in the second stage, compared to an extreme policy \((P_b)\) in both periods as the outcome when there is no governor. Hence, even when the veto of the governor has a stalling effect on the reform process it might be the case that the existence of veto power has normative appeal.

I view the second of these three results - that giving veto power to the executive may favor policy change - as the most interesting insight of the theory. As mentioned in the introduction, this suggests a qualification of the dominant view of separation of powers and the effect of legislative vetoes. Having a multiplicity of political powers, or a greater number of political actors with veto power, is typically thought to make policy changes more difficult and slow down reform processes. The theory developed here shows that this is not always the case. Rather, the opposite might be true: in settings where there is broad agreement that the status quo is undesirable, and the political process involve multiple legislative stages, the theory suggests that veto power of the executive favors policy change.

There are several features of the model that are crucial for this result. First, it is important that the last player is just a veto player who lacks the possibility of changing the details of the proposal. One can easily show that adding a veto player to the baseline model before the legislature makes its policy decision can favor the status quo. Second, it is crucial that there exists a policy that pareto dominates the status quo. If all players did not prefer a reform with the moderate policy \((P_m)\) to the status quo \((q)\), there would not necessarily exist preferences such that a reform would happen with but not without the governor. In fact, in the first chapter of this dissertation I show theoretically (in Propositions 1.5-1.7) that adding a veto player should lead to less political action. One key difference is the type of issue/policy considered: in the first chapter the policy I analyze is a redistributive one,
and implementation there leads to losers as well as winners. Hence, in order to know when we might expect to see veto power having a positive effect on reform attempts in the real world, it is important to keep in mind the details of the setting that is being considered.

3 Workers’ Compensation

3.1 Background

Workers’ compensation is the name of the insurance system that regulates the way workers are compensated for medical expenses and lost income following injuries during employment. In the US, this system is regulated and administered at the state level. It entered the political discussion during the Progressive Era, at the beginning of the 20th Century. Although the programs vary in coverage and generosity among the states, all states today have some form of workers’ compensation program in place.

Workers’ compensation was part of a broader reform agenda; a wide range of social programs were proposed by reformers during the Progressive Era, but workers’ compensation was the only program that ended up being implemented at a large scale; New York passed a law in 1910 (though had to wait until a constitutional amendment in 1913 to implement it) and then the majority of states passed workers’ compensation laws between 1911 and 1920. The other social programs proposed during the Progressive Era had to wait until the 1930s and the New Deal. For this reason workers’ compensation is often thought of as a path-breaker in the development of the American welfare state.\(^4\)

While a topic of interest in its own right, and the subject of much previous research, the reason for studying workers’ compensation here is more specific: it fits the setup of the theoretical model. That is, while this section delivers some insights specifically regarding workers’ compensation, the empirical analysis is primarily motivated by the fact that work-

\(^4\)In this section I rely primarily on the work of Fishback and Kantor (1994, 1998, 2000). However, the introduction of workers’ compensation has also been studied by, among others, Epstein (1982), Pavalko (1989), Tripp (1976) and Weinstein (1967).
ers’ compensation offers a way to empirically examine the theoretical results. The type of situation analyzed in the theoretical part, the reader will recall, is the following: on the issue considered there is a status quo in place that is disliked by all important legislative players, hence there is agreement on the need for a reform. At the same time, however, there is disagreement about the details of the reform. Furthermore, the legislative process involves multiple stages, with the relative political powers of key legislative actors being different at different stages.

The struggle over the adoption of workers’ compensation fits this description; this is one of the insights of Fishback and Kantor (1998, 2000) and the reason I believe the workers’ compensation reforms give us a way to empirically examine the theoretical results. To be more specific about why workers’ compensation fits the underlying setup of the theory, let us go through some of the insights of Fishback and Kantor. First and foremost, among their main conclusions are that both workers and employers expected and received gains from the reforms:

While workers certainly benefited from the legislation - but for more complex reasons than social reformers presumed - employers and insurance companies also anticipated gains from the introduction of workers’ compensation. Employers experienced a reduction in the uncertainty of their accident costs and were able to pass a substantial portion of the increased costs associated with workers’ compensation on to most workers through wage offsets. Risk-averse workers, despite “buying” the higher average benefits, gained because they faced problems in purchasing their desired levels of private accident insurance in the early twentieth century. [...] Thus, workers’ compensation succeeded, while many other relatively radical proposals of the Progressive Era failed, because it received the support of a broad range of economic interest groups. (Fishback and Kantor, 1998, p. 307)

Behind this insight - that all major interest groups as well as most unorganized workers
anticipated gains from the reforms - is the observation that courts did not recognize ex-ante contracts in which workers, after accidents, received a pre-specified benefit in return for giving up the right to take the employer to court. Hence, as the rapid industrial development around the break of the century lead to significant increases in workplace accidents, there was no way for workers and employers to decrease labor conflict and reduce the increasing number of law-suits by private contracting. The workers’ compensation laws therefore filled a gap by recreating a contractual solution that was desired by both workers and employers but that common-law decisions would not enforce. Fishback and Kantor’s combination of qualitative and quantitative data shows that the median members and the leadership of the major interest groups, as well as most legislators (who often acted on behalf of interest groups), expected gains and were in favor of some kind of workers’ compensation reform.

The fact that all of these key actors were in favor of some reform, and typically were happy with the reforms after they had passed, did not imply that there were no divisions or fights. Although agreeing on the need for reform, employers and labor unions, as well as the legislators, had different ideal structures for the reforms they wanted to see enacted. For instance, the labor unions typically preferred higher benefit levels than the employers, and the unions wanted to see more state control and provision of the insurance than did the insurance companies.

There might have been a consensus that no-fault accident compensation would be superior to the erstwhile liability system, but the actual process of enacting workers’ compensation involved a complex set of political negotiations both across and within interest groups and within state legislatures. Because the specifics of the legislation [...] determined how income would be distributed under the new law, reaching compromises on these details were sometimes acrimonious events. (Fishback and Kantor, 2000, p. 120)

This describes a situation like the one analyzed in the theoretical part, with all major actors agreeing on the desirability of a reform but disagreeing on the details. Continuing
the comparison with the theory, case studies of the enactment of workers’ compensation in different states indicate a long process with multiple legislative stages. Most states first established commissions, which included representatives of both employers and organized labor, to study the issue and give recommendations to the legislature. In the legislatures the reform proposals had to pass through committees in two chambers and eventually the governor. In addition, if a state passed a workers’ compensation law, the details of the legislation could change later on if the political climate shifted. For the purpose of this study it is also of crucial importance that institutional features, such as the governor’s veto, seem to have mattered for the speed and structure of the reforms. Fishback and Kantor do not perform any quantitative analysis of the role of political institutions (nor am I aware of any other such study), but they go through a number of cases that suggest the importance of institutions. Summarizing a number of case studies, they note that both the multi-stage nature of the legislative process, and the political institutions, appear to have been important in shaping the legislation:

The interest groups tried to frame the debates over their proposals, but the debates were often reframed as the proposals moved from the employer’ liability commissions through the house, the Senate, the governor’s office, and even voter referenda. Since at each stage the relative political strength of labor and employers varied, proposals that carried the day in the House might face severe problems in passing the Senate, while the compromises struck in the legislature might not satisfy the electorate. The case studies, therefore, show the importance of veto power at each stage of the political process in shaping the ultimate form of workers’ compensation laws. (Fishback and Kantor, 2000, p. 190)

Summing up this background, the previous work of Fishback and Kantor (and others) indicate that workers’ compensation fit the general setup of the theoretical model, and they suggest that political institutions such as the governor’s veto may have played an important role in the reforms. They do not, however, theorize on how institutions mattered, nor do they
attempt to quantitatively assess their importance. Hence, to assess the effects of political institutions we need to move beyond these previous studies and add measures that capture the institutional characteristics of the states. I do this for one type of institutional feature: the governor’s veto.

3.2 Data

The data used in the empirical analysis comes from two sources. First, I use information on the timing of adoption of workers’ compensation (in each state) and the values of several variables that could potentially explain the timing. For this I use the data from the aforementioned studies by Fishback and Kantor (1998, 2000). Second, for the variable of key interest in this paper - the veto power of the governor - I develop an index of veto strength based on the writings of political scientists studying American political institutions at the state level in the early 1900s. Starting with the first of these two data sources, Table 1 illustrates what is to be explained by showing when the different states adopted workers’ compensation legislation.

The variable to be explained in the empirical analysis follows from this table: it is either the time until adoption (in linear regressions), or a year-specific dummy indicating for each year whether a state adopted workers’ compensation in that year (in discrete-time hazard analyses). In addition, a number of control variables are included from the same data set. The control variables are selected based on two criteria. First, these are variables that in the work of Fishback and Kantor seem to matter for the speed of adoption of workers’ compensation. Secondly, they are variables that could impact the estimated effect of the variables of primary interest (the veto variables and interactions between the veto and other variables). Specifically, the empirical analysis includes the following control variables: Union Strength, Large Firm Share, South, Republican Presidential Vote, and Employers Liability Law.

The first two of these variables function as control variables but are also of interest in
<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>New York</td>
</tr>
<tr>
<td>1911</td>
<td>California, Illinois, Kansas, Massachusetts, Nevada, New Hampshire, New Jersey, Ohio, Washington, Wisconsin</td>
</tr>
<tr>
<td>1912</td>
<td>Maryland, Michigan, Rhode Island</td>
</tr>
<tr>
<td>1913</td>
<td>Arizona, Connecticut, Iowa, Minnesota, Nebraska, Oregon, Texas, West Virginia</td>
</tr>
<tr>
<td>1914</td>
<td>Louisiana, Kentucky</td>
</tr>
<tr>
<td>1915</td>
<td>Colorado, Indiana, Maine, Montana, Oklahoma, Pennsylvania, Vermont, Wyoming</td>
</tr>
<tr>
<td>1917</td>
<td>Delaware, Idaho, New Mexico, South Dakota, Utah</td>
</tr>
<tr>
<td>1918</td>
<td>Virginia</td>
</tr>
<tr>
<td>1919</td>
<td>Alabama, Missouri, North Dakota, Tennessee</td>
</tr>
<tr>
<td>1920</td>
<td>Georgia</td>
</tr>
<tr>
<td>1929</td>
<td>North Carolina</td>
</tr>
<tr>
<td>1935</td>
<td>Florida, South Carolina</td>
</tr>
<tr>
<td>1939</td>
<td>Arkansas</td>
</tr>
<tr>
<td>1948</td>
<td>Mississippi</td>
</tr>
</tbody>
</table>

*Source: Fishback and Kantor (1998)*

Table 1: Time of Adoption of Workers’ Compensation Law

their own right, as they measure the strength of the key interest groups involved in the passing of the workers’ compensation reforms. The Union Strength variable is a proxy for the union membership in each state, measured as a percentage of the manufacturing sector workforce. It is calculated based on a weighted average of the national unionization rates across the manufacturing industries in each state, using the implicit assumption that the rates across industries were the same in the states as at the national level. The Large Firm Share variable measures the percentage of manufacturing establishments employing more than 500 workers, hence it speaks to the relative importance of large firms in the industry. The primary reason we can expect this variable to matter is that it might have been easier for the employers to organize politically in states with a smaller number of large firms (but also because large firms might, for whatever reason, have had different objectives than smaller ones).

The other variables are of less interest in their own right (for the purpose of this study). They are included to control for whatever political leaning a state might have had that would
have lead it to pass workers’ compensation more quickly, and that could have interacted with the strength of the gubernatorial veto power in such a way that estimates of the effect of the veto on the speed of adoption would be biased. The first of these variables indicates whether the state was located in the South.\(^5\) The second one, the Republican Presidential Vote gives the share of the population voting for the Republican candidate in the presidential elections, with straight-line interpolations between the elections years. Finally, the Employers Liability Law variable is a dummy that indicates whether a state had passed a liability law that limited the minimal common-law defenses that originally were available to the employers in all states.

Turning to the second data source and the variable of key interest, Veto Strength: this is an index that measures the formal (constitutional) strength of the governor’s veto power in each state. It takes on one of three values: Weak, Medium, or Strong. The index is based on the studies of Fairlie (1917, 1935) and Prescott (1950) of state-level legislative politics in the beginning of the 20th Century. Fairlie and Prescott developed a theoretical framework for measuring the strength of the veto that was based primarily on the share of the legislature required to override a governor’s veto, but also on constitutional features such as the time given to the governor for consideration of bills, the procedure for using the veto at the end of legislative sessions and the ability to use the veto for individual items in appropriations bills. Adjusting their approach to include only features that (constitutionally) could matter for the veto procedure following workers’ compensation bills, I classify the states/vetoes in 1910 in the following way:

- **Strong Veto:** At least two-thirds of the *elected* members of the legislature must be required for an override of a veto. In addition, the governor has to have the right to at least two of the following three things: 10 days of consideration during a session; at least 15 days of consideration after adjournment; a “pocket veto,” meaning that bills die after adjournment unless signed.\(^6\)

\(^5\)The South dummy takes the value one for the following states: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Texas, Virginia.

\(^6\)The states classified as Strong are: California, Colorado, Georgia, Kansas, Louisiana, Massachusetts,
• Medium Veto: At least three-thirds of the elected members of the legislature, or two-thirds of the present members, must be required for an override of a veto. In addition, the governor has to have the right to at least one of the following three things: 10 days of consideration during a session; at least 15 days of consideration after adjournment; a “pocket veto,” meaning that bills die after adjournment unless signed.7

• Weak veto: any state that does not fulfill the above criteria.8

With a few exceptions this classification follows from the share of the legislature required to override a veto. In most of the empirical analysis I use a dummy variable indicating whether the veto is “strong.” However, in some regressions I use all three levels by separating also the Medium and Weak categories.

3.3 Empirical Analysis

The theoretical results suggest that a stronger veto for the governor should facilitate the adoption of workers’ compensation. I examine this by looking at the speed of adoption as a function of the veto and the control variables. To get first sense of whether the theoretical insight might carry over to real world let us look at Table 2, which shows the average time from 1909 that it took states with different levels of veto power to adopt a workers’ compensation law. This table shows two things. First, the states with stronger veto power did in fact adopt workers’ compensation more rapidly. Second, the difference between states with weak and medium levels of veto power is small, whereas the difference between these two groups and the states with the strongest level of the veto is greater.

These averages suggest that the theory might be relevant, and that the real-world effect comes from the difference between the states with the strongest veto power and the rest.

7 The states classified as Medium are: Arizona, Illinois, Maine, Michigan, Minnesota, Mississippi, Nevada, North Dakota, South Carolina, Utah, Wyoming, Florida, Idaho, Iowa, Montana, New Mexico, Oregon, South Dakota, Texas, Vermont, Virginia, Washington, Wisconsin, Delaware, Maryland and Ohio.

8 The states classified as Weak are: Nebraska, Rhode Island, Alabama, Arkansas, Connecticut, Indiana, Kentucky, New Jersey, Tennessee, West Virginia, and North Carolina.
However, it might of course be the case that the strong-veto states were different from the rest also in other ways that affected their political leanings in general, and their propensity to adopt workers’ compensation in particular. Hence we need to see what happens as we include the control variables described above, which are all chosen to pick up such correlations in political leanings. Table 3 displays a series of linear regressions where the units of observation are individual states, and the outcome variable is the time to adopt workers’ compensation legislation. The first four columns show regressions with the Strong Veto and the primary control variables, included one at a time, and the fifth column displays the regression including all of them. The standard errors are shown in parenthesis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Veto Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weak</td>
</tr>
<tr>
<td>Average Time to Adoption</td>
<td>7.9</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>11</td>
</tr>
</tbody>
</table>

Table 2: Veto Strength and Speed of Adoption

<table>
<thead>
<tr>
<th>Variable</th>
<th>Veto Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-.963</td>
</tr>
<tr>
<td></td>
<td>(.291)</td>
</tr>
<tr>
<td></td>
<td>(2.40)</td>
</tr>
<tr>
<td>Union Strength</td>
<td>-.178</td>
</tr>
<tr>
<td></td>
<td>(.097)</td>
</tr>
<tr>
<td>Large Firm Share</td>
<td>10.7</td>
</tr>
<tr>
<td></td>
<td>(2.06)</td>
</tr>
<tr>
<td>South</td>
<td>-.348</td>
</tr>
<tr>
<td></td>
<td>(.059)</td>
</tr>
<tr>
<td>Republican Vote</td>
<td>-.052</td>
</tr>
<tr>
<td></td>
<td>(.362)</td>
</tr>
<tr>
<td>Socialist Vote</td>
<td></td>
</tr>
<tr>
<td>Liability Law</td>
<td>-.824</td>
</tr>
<tr>
<td></td>
<td>(2.08)</td>
</tr>
</tbody>
</table>

R²

Adjusted-R²

Number of Obs.

<table>
<thead>
<tr>
<th>R²</th>
<th>.23</th>
<th>.12</th>
<th>.41</th>
<th>.47</th>
<th>.54</th>
<th>.31</th>
<th>.54</th>
<th>.55</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted-R²</td>
<td>.21</td>
<td>.08</td>
<td>.39</td>
<td>.46</td>
<td>.48</td>
<td>.27</td>
<td>.47</td>
<td>.46</td>
</tr>
<tr>
<td>Number of Obs.</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
</tr>
</tbody>
</table>

Notes: The dependent variable is the time from 1909 it took for states to adopt workers’ compensation laws. Values in parenthesis are standard errors.

Table 3: Linear Regressions: Time to Adopt Workers’ Compensation
The variable of main interest, Strong Veto, is consistently negative, and it is significant at the 95-percent level in several (though not all) of the linear regressions. Furthermore, at least from a casual inspection the veto coefficient appears robust; it changes less (in percentage terms) than the other variables as we move across the bivariate and multivariate regressions. And the estimated effect of the veto is by no means trivial: the regressions suggest that changing to a strong governor’s veto cuts the time of adoption by about four years. The effect suggested by the raw averages given in Table 2 thus remains when we control for a number of variables that proxy for the political climate in the states.

It is not obvious whether it is appropriate to include the Liability Law variable. On the one hand, it might say something about the political climate of the states that should appropriately be controlled for. On the other hand, these laws are not unrelated to workers’ compensation, and should perhaps be explained by similar features as workers’ compensation rather than included here as an explanatory variable. Leaving this an open question I simply run the regressions both with and without the Liability Law variable. In the linear regressions this variable turns out to have little impact on the Strong Veto or any other variable, and its own coefficient is insignificant. In addition, I try a different presidential political variable by replacing the Republican Presidential Vote with the Socialist Presidential Vote (measuring the share of the state population voting for the socialist candidate). This too has little impact on the Strong Veto coefficient. Furthermore, while the Presidential Vote is significant the Socialist Vote is not, and including it instead of the Presidential Vote leads to a drop in the explanatory power. With that in mind I continue to use the Republican Vote rather than the Socialist Vote as a control in the remaining analysis.

The regressions in Table 3 are easy to interpret, but they assume a specific (linear) relationship between the explaining and explained variables. As the outcome of focus here is in the form of a duration, with no evidence to suggest any particular functional form regarding the time to adoption, a survival analysis is probably a more appropriate empirical approach. Hence I complement the linear regressions with a hazard model. As the events of interest,
i.e. the moments of workers’ compensation adoption, could only occur at pre-specified times (when the legislatures were in session, normally every other year) it is appropriate to treat time as discrete. With this in mind, I estimate a number of discrete-time hazard models, using the *log-odds* transformation recommended by Cox (1972).

Estimation of the hazard model requires specifying a baseline effect of time. With no a priori knowledge of how the change in likelihood of adoption over time should be specified, I follow the recommendations of Singer and Willett (2003) and use three different specifications for the baseline effect of time: logarithmic, polynomial (cubic), and non-parametric with a time dummy for each year. As some of the control variables changed during the period of consideration I also allow the model’s predictors to vary over time.

Table 4 displays the result of the hazard model including the same variables as in Table 3. The observations are now state-years (including only the years for each state when its legislature was in session), and the outcome variable takes on the value one if a law has been adopted in a state-year. The displayed values are the estimated logit coefficients, with standard errors in parenthesis. While the magnitudes of the coefficients are difficult to directly interpret, we can note that all of the variables have the same estimated *direction* of impact as in the linear regressions. For the control variables, having stronger unions and a greater share of firms being large, being a non-southern state, having a greater support for Republican presidential candidates and having passed liability laws all increase the estimated likelihood that a state would adopt workers compensation in any given year, conditional upon not yet having adopted. The coefficient on the Strong Veto variable is positive, indicating a positive effect on the likelihood of adoption. It is again significant at the 95-percent level under some (though again not all) specifications. Furthermore, the coefficient on the Strong Veto does not change much as we move across the different specifications; most of the other variables appear more sensitive to changes in the specification of the model.

To interpret the coefficients in Table 4 it is easier to work with odds ratios rather than the logit scale. As the Strong Veto is a dichotomous variable, we get the odds ratio - the ratio of
<table>
<thead>
<tr>
<th>Variable</th>
<th>1.04</th>
<th>1.06</th>
<th>.943</th>
<th>.906</th>
<th>.942</th>
<th>.823</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Veto</td>
<td>(.505)</td>
<td>(.525)</td>
<td>(.530)</td>
<td>(.521)</td>
<td>(.540)</td>
<td>(.541)</td>
</tr>
<tr>
<td>Union Strength</td>
<td>.102</td>
<td>.070</td>
<td>.047</td>
<td>.123</td>
<td>.093</td>
<td>.077</td>
</tr>
<tr>
<td>Large Firm Share</td>
<td>.045</td>
<td>.049</td>
<td>.043</td>
<td>.048</td>
<td>.053</td>
<td>.047</td>
</tr>
<tr>
<td>South</td>
<td>-.183</td>
<td>-.853</td>
<td>-1.53</td>
<td>-1.50</td>
<td>-.414</td>
<td>-.105</td>
</tr>
<tr>
<td>Republican Vote</td>
<td>.035</td>
<td>.047</td>
<td>.043</td>
<td>.037</td>
<td>.050</td>
<td>.046</td>
</tr>
<tr>
<td>Liability Law</td>
<td>.578</td>
<td>.715</td>
<td>.826</td>
<td></td>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Time Control</th>
<th>log</th>
<th>cubic</th>
<th>dum</th>
<th>log</th>
<th>cubic</th>
<th>dum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of obs.</td>
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<td>242</td>
<td>242</td>
<td>242</td>
<td>242</td>
<td>242</td>
</tr>
<tr>
<td>Log-likelihood</td>
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<td>-79</td>
<td>-77</td>
<td>-83</td>
<td>-79</td>
<td>-76</td>
</tr>
<tr>
<td>Pseudo-R²</td>
<td>.27</td>
<td>.30</td>
<td>.33</td>
<td>.27</td>
<td>.31</td>
<td>.34</td>
</tr>
<tr>
<td>$\chi^2$</td>
<td>61</td>
<td>70</td>
<td>75</td>
<td>63</td>
<td>72</td>
<td>78</td>
</tr>
</tbody>
</table>

Notes: Displayed values are logit coefficients. Standard errors in parenthesis. Each observation is a state-year for the years that a state’s legislature was in session until the year that a state adopts a workers’ compensation law.

Table 4: Discrete Hazard Model

the odds of workers’ compensation being adopted by a state with and without a strong veto - from antilogging the coefficient. To illustrate, look at the coefficient on the Strong Veto variable in the first column of Table 4. Taking the antilog gives us an odds ratio of $e^{1.04} = 2.8$. This tells us that, in every year, the estimated odds of adopting a workers’ compensation law is nearly three times higher if a state has a governor with strong veto power. Moving across the six specifications in Table 4, we find that all of these estimations deliver odds ratios for the Strong Veto variable between two and three. In substantive terms, even the smallest of these values represents a substantial effect.

The key results of the theoretical part concerns the main (direct) effect of having a political executive with veto power. However, if the legislative process unfolds over repeated sessions, and changes may be expected to the structure of a program after it has been enacted, Proposition 3.5 suggests that the effect of the veto might not be constant. For instance, if
the unions are strong and expect that a workers' compensation reform would boost their membership and make them even stronger, such that they reach the amount of influence in the legislature that is necessary to override a future veto on benefit increases, the governor might choose to veto a reform proposal only out of dynamic considerations. That is, the governor could decide to use the veto out of a fear of future changes that cannot be vetoed.

The exact way that these kinds of dynamic considerations in the theoretical model should translate into real-world outcomes is not obvious, but the theory at least suggests that there could exist interaction effects between the veto power of the governor and the strength of the interest groups. (The union example suggests that we might see governors use their veto more when the unions are strong.) To see if any such effects exist I add interaction terms between the Strong Veto variable and the interest group variables Union Strength and Large Firm Share to the hazard model. Table 5 displays the results such estimations, again using six different specifications differentiated (as in Table 4) by the assumed effect of time and whether Liability Law is included.

Looking at the coefficients in Table 5 we can first note that all of the non-interaction variables still have the same estimated direction of impact. In particular, across all of the six specifications the Strong Veto coefficient is positive. Furthermore, Union Strength is positive, Large Firm Share positive, South negative, Republican Vote positive and Liability Law positive. For most (though not all) of the specifications the Strong Veto coefficient has a lower p-value than its Table 4 counterpart, but the coefficient is statistically significant at the 95-percent level in one of the estimations (and at the 90-percent level in most of the other estimations). Furthermore, the Strong Veto coefficient is substantially greater in magnitude in the estimations that include the interaction terms.

As hypothesized above, the interaction terms in Table 5 are negative. The estimated coefficients are not statistically significant, and due to this lack of precision we should not make too much out of the results. Still, if we assume that the estimated coefficients do tell us something about the real causal links, we can use them to investigate how the effect of
<table>
<thead>
<tr>
<th>Variable</th>
<th>log</th>
<th>cubic</th>
<th>dum</th>
<th>log</th>
<th>cubic</th>
<th>dum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Veto</td>
<td>4.09</td>
<td>3.21</td>
<td>3.01</td>
<td>4.71</td>
<td>3.72</td>
<td>3.53</td>
</tr>
<tr>
<td>Union Strength</td>
<td>0.129</td>
<td>0.086</td>
<td>0.063</td>
<td>0.166</td>
<td>0.122</td>
<td>0.104</td>
</tr>
<tr>
<td>Union x Veto</td>
<td>-0.175</td>
<td>-0.114</td>
<td>-0.116</td>
<td>-0.241</td>
<td>-0.178</td>
<td>-0.180</td>
</tr>
<tr>
<td>Large Firm Share</td>
<td>0.056</td>
<td>0.058</td>
<td>0.050</td>
<td>0.062</td>
<td>0.062</td>
<td>0.055</td>
</tr>
<tr>
<td>Large Firm x Veto</td>
<td>-0.041</td>
<td>-0.033</td>
<td>-0.030</td>
<td>-0.042</td>
<td>-0.032</td>
<td>-0.029</td>
</tr>
<tr>
<td>South</td>
<td>-1.82</td>
<td>-0.849</td>
<td>-1.55</td>
<td>-1.41</td>
<td>-0.368</td>
<td>-1.05</td>
</tr>
<tr>
<td>Republican Vote</td>
<td>0.041</td>
<td>0.053</td>
<td>0.048</td>
<td>0.043</td>
<td>0.057</td>
<td>0.052</td>
</tr>
<tr>
<td>Liability Law</td>
<td>0.771</td>
<td>0.057</td>
<td>0.946</td>
<td>0.461</td>
<td>0.024</td>
<td>0.486</td>
</tr>
</tbody>
</table>

<table>
<thead>
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<th>Time Control</th>
<th>log</th>
<th>cubic</th>
<th>dum</th>
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<tbody>
<tr>
<td>Number of obs.</td>
<td>242</td>
<td>242</td>
<td>242</td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>-83</td>
<td>-79</td>
<td>-76</td>
</tr>
<tr>
<td>Pseudo-R²</td>
<td>0.27</td>
<td>0.31</td>
<td>0.33</td>
</tr>
<tr>
<td>χ²</td>
<td>63</td>
<td>70</td>
<td>76</td>
</tr>
</tbody>
</table>

Notes: Displayed values are logit coefficients. Standard errors in parenthesis. Each observation is a state-year, for the years that a state’s legislature was in session until the year that a state adopts a workers’ compensation law.

Table 5: Discrete Hazard Model with Interactions

the veto changes with the strength of the interest groups. To illustrate, let us fix the Union Strength and Large Firm Share variables at their mean values (9.5 and 23.6 respectively) and calculate the odds ratio using the estimates in the first column in Table 5. The estimated odds ratio, again measuring the ratio of the odds of workers’ compensation being adopted with and without a strong veto for any given state, is now $e^{4.09+9.5*(-0.175)+23.6*(-0.041)} = 4.3$. If we then hold everything else constant while increasing one of the interest group variables at a time, the odds ratio gradually declines. For the Union Strength variable, the ratio becomes exactly one at the value of 18, which means that the effect of a strong veto on the adoption of workers compensation is estimated to be positive until the point where the unions are about
twice as strong as their mean value. For the Large Firm Share variable the ratio becomes one at the value 60, i.e. when the large firm share is almost three times that of its mean value. Decreasing the values of the interest group variables of course has the opposite effect; the odds ratio becomes even greater than at the mean levels.

Similar results hold for the other five specifications. Fixing the interest group variables at their means, the odds ratio varies between 3.1 (for the estimation show in column six, with time dummies and the Liability Law variable included) and the 4.3 value given above, and this ratio decreases as we increase the strength of the interest groups. As mentioned it would, however, be a mistake to make too much out of these estimates, as the interaction terms are imprecisely estimated.

Table 6 gives a final check of the empirical analysis, showing the results from estimates with three levels of the veto index. Rather than just grouping the states by their veto into Strong and Non-Strong we now have categories Weak, Medium and Strong. Weak is the baseline case, so the coefficients in Table 5 display the estimated effect of Medium and Strong vetoes compared to a Weak veto. These results by and large confirm the estimated effects from the previous tables. The estimates of the effect of the veto are similar to those displayed in Table 5. We can also see that all of the effects increase with the strength of the veto: the estimated direct effect of moving from a Weak to a Strong veto is greater than the effect of moving from a Weak to a Medium veto. In addition, the coefficient on Strong Veto is statistically significant (at the 95 percent level) in the majority of the specifications, and the coefficient on the interaction between the Strong veto and the Union Strength variable is now also significant in two of the specifications. Furthermore, all of the variables that are specified in the same way as before have the same signs on their coefficients as in Table 5. Hence the general picture remains (qualitatively) the same whether we estimate the effects of the governor veto using classifications with two or three levels.
4 Conclusion

In this paper I study situations where there is a need for political reform. More specifically I study policy issues where there is a status quo in place that no one likes, and there exist policies that all politically influential players prefer to the status quo, but there is still disagreement among these key players over what the optimal policy is. I first show theoretically that if the legislative process has multiple stages, and the relative political powers vary across these stages, reforms might not happen despite being efficiency-enhancing. I then show that having a political executive, such as a governor, with veto power facilities the reform efforts. In the empirical section I first argue that the workers’ compensation reforms that took place at the state level during the Progressive Era can be used to empirically examine the theory. Combining existing data on the adoption of workers compensation in the states with a measure of the veto power of the governor in each state, I find support for the proposition that a constitutionally stronger veto makes the reform efforts more likely to succeed. The results also suggest that the effect of the veto varies with the strength of the interest groups that have a stake in the policy outcome, but more research is necessary to draw any firm conclusions regarding interaction effects between the executive veto and interest group structures.

Other issues left unexplored in this paper suggest some potentially interesting extensions or related work. In particular, I believe there exists a need for more research on the role of political institutions, as well as interest group structures, in facilitating (or hindering) efficiency-enhancing policy changes. It is by now relatively well established that efficiency-enhancing reforms might not happen, for a variety of reasons including the lack of political commitment capacity. However, there has been less work focused on understanding which institutional features that will prevent these kinds of political failures. More theory and (in particular) more empirical work, on other policy areas and other periods of reform, would be of value as a background for institutional reform efforts such as the ongoing development of the rules governing of the European Union.
References


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Notes: Displayed values are logit coefficients. Standard errors in parenthesis. Each observation is a state-year for the years that a state’s legislature was in session, until the year that a state adopted a workers’ compensation law.

Table 6: Discrete Hazard Model with Three Veto Levels