Is Policy Overly Responsive to Public Opinion? Fiscal Effects of Direct Democracy

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ABSTRACT

Using cross-sectional time series models estimated from a large data set, we illustrate that fiscal initiatives interact with state opinion to amplify the effects of opinion on fiscal policy. We find that conservative state opinion dilutes revenues and spending more in states where fiscal initiatives are used and passed than would be the case under pure representative government. Conversely, liberal opinions may also have a greater effect inflating spending and revenues under direct democracy than representative government. This suggests that if elected representatives hold policy priorities that differ from the median voter, representatives may be less able to act on those priorities where more initiatives are used.

Prepared for presentation at the 2008 State Politics and Policy Conference. Temple University. Philadelphia, PA.

Several studies have examined the effects of the initiative process on state fiscal outcomes. Although producing some contradictory results, this literature shares the assumption that the mere presence of the initiative process in a state is expected to affect policy (see Matsusaka 1995; 2004; Hagen et al 2001; Camobreco 1998; Lasher, et al 1996). This literature lacks consensus about how, and if, initiatives affect state spending. Matsusaka (1995; 2004) contends the existence of the state initiative process corresponds less state spending, greater use of charges and fees, and shifts in spending from states to localities. He suggest this reflects initiatives strengthen the link between conservative public opinion, and state fiscal policy. Other studies find no evidence that the initiative process strengthens the link between preferences and policy (Camobreco 1998; Lasher et al 1996).

We suggest previous studies have not fully appreciated the link between fiscal initiatives and state policy. This paper models the effects of actual fiscal initiative use and public opinion on state fiscal policy outcomes. Part of our motivation here is that there seems to be a conventional wisdom among journalists and some public officials that ballot initiatives have de-railed public spending in states such as California. Such claims suggest an important question: if initiatives strengthen the link between opinions and spending, why should fiscal initiatives depress state spending and revenues in liberal states such as California? We suggest there is no reason to expect that all initiatives reduce spending in all states. Some propose to cut taxes, others may increase spending. Our findings do not support claims about the uni-directional, depressive effects of fiscal measures on public spending. Our conclusion is that although ballot initiatives in general – and fiscal measures in particular – may be a convenient scapegoat for what 'ails

California' and other direct democracy states, the more likely relationship between direct democracy and policy outcomes lies closer to the workings of representative rather than direct democracy.

Problems with direct democracy: 'ungovernability' and fiscal stress

Matsusaka's (1995; 2004) logic explaining the fiscal effects of direct democracy depends on the assumptions that the *threat* of the initiative process makes representatives more savvy to the preferences of citizens (also see Gerber 1996), and that preferences of citizens may be more conservative than those of representatives. Other explanations of fiscal effects of direct democracy point to specific policies voters approve. For many commentators on California's politics, the defining example is property tax limits voters imposed by passing Proposition 13 of 1978.[1] From this perspective, the provision of public services went into a downward spiral. As Peter Schrag - one of the leading commentators on California – noted:

> A generation ago, California was the place in the world best prepared to minimize those gaps [between rich and poor, between haves and have-nots] though high-quality public services in every area imaginable: through huge investments in roads, water systems, parks, and other infrastructure….But it has ceased to be the model it once was (Schrag: 2004: 280).

Proposition 13 is the main villain in this piece, not just because of the direct consequences of the proposal itself in limiting the tax revenues available for public education, but because it may have propagated a series of similar "tax revolt" initiatives

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[1] Among accounts of Proposition 13 and its effects see http://www.igs.berkeley.edu/library/htTaxSpendLimits2003.html. Also see Shadbegian (1996); Galles and Sexton (1998); O'Sullivan, Sexton and Sheffrin (1995); Gerber et al 2001.

from citizens and groups that permanently tied the hands of other state governments. This idea that initiatives constrain government is heard from people sympathetic to an active public sector, but also from some fiscal conservatives who embraced direct democracy for the same reasons (e.g. Buchanan and Wagner 1977).

The anti-tax "revolt" begun by Proposition 13 precipitated a string of tax and spending limitation measures since then (e.g. Proposition 4 of 1979 that placed spending limits on the state). There may be a cumulative, deleterious effect of these: direct democracy allows voters approve tax cut initiatives *and* spending initiatives. California may be the 'poster child' for such effects. The independent California Legislative Analyst's office notes that ballot propositions have had a major impact on California's finances. Some of these are listed in Table 1. Concern over the effects of fiscal initiatives has produced reform proposals aimed at requiring super-majorities to pass such initiative, greater legislative power to amend such measures, or prohibitions on the use of fiscal measures (see Broder 2000: 21). It is worth noting here that not all of the measures listed in Table 1 cut taxes. Several raised taxes, mandated greater spending, or authorized huge amounts of borrowing.

Table 1 about here

Proposition 13 may have marked the victory of the interests who paid the taxes (home-owners, landlords) against those who received the benefits of income re-distribution. But for writers such as Schrag and others such as Smith (1998) this is not simply a 'distributional politics' sort of fight: the damage is to the social contract and even the social fabric of the state of California, and to the potential for the public sector to supply what it should, or what it once did.

This critique of direct democracy in California has much in common with an earlier political science literature on the crises of ‘governability’ or more accurately ‘ungovernability’ in the 1970’s. In that literature the modern (1970’s era) state was seen to be made ungovernable by the demands of too many interest groups (e.g. Olson 1982; King 1975). For California in the current period the critique seems to be very similar, except that direct democracy gives groups a tool that they do not have elsewhere and some of the consequences will be plain to see in public budgets.

This perspective of how the initiative has damaged California is less prone to the kinds of internal inconsistencies found in more general criticisms of the initiative outlined in the first section. Yet, there is still room for some inconsistency even in these arguments. For example, although anti-tax activists have been influential in California, so too have interest groups representing prison guards, nurses, HMOs and teachers. We might expect a ‘special interest dominated’ process to maintain state spending in areas of interest to such groups. Put differently, not all special interest dominance works against state spending.

Nevertheless, one major problem with this fiscal policy-centred perspective of the initiative is that it relies more on example and anecdote than systematic, long-term analysis of policy outcomes. Few, if anyone, would argue that Prop. 13 did not effect public policy in California. It further changed the state's post-Serrano system of funding K-12 education. It "gutted" (Fischell 1989) the state's property tax system, changed how property would be assessed, and led, initially to huge reductions in revenues and, eventually, to shifts in education funding sources used in the state (Galles and Sexton 1998; see also O'Sullivan, Sexton and Sheffrin 1995). Yet as we note in the next section, Prop. 13, like Massachusetts' Prop. 2 ½ and anti-tax measures from other states, were not self-implementing. There is evidence that such voter-approved measures have had little independent, long-term effects on spending (Galles and Sexton 1998; Gerber et al 2001).

In the next section we provide more systematic analysis of the kinds of fiscal policy outcomes we should see *if* this perspective on direct democracy and its importance is correct.

Empirical analysis of the effects of fiscal initiatives on public policy

The watershed events of modern initiative politics were anti-tax propositions in states such as California, Massachusetts and Oregon. Thus, we should expect to see substantially lower tax revenue in initiative states either because voters want lower taxes and direct democracy can give it to them or because anti-tax interests face fewer collective action problems or other barriers to participation than those who receive the re-distribution. Matsusaka's study (2004) is, perhaps, the most data-rich study on this matter. Matsusaka finds that direct democracy leads to fiscal restraint. He concludes that:

> over the last three decades, the initiative had a significant impact on state and local governments. States with the initiative spent and taxed less than states without the initiative, they decentralized spending from state to local government, and they raised more money from user fees and less from taxes (Matsusaka: 2004: 3)

For Matsusaka, the point is not simply that direct democracy breeds fiscal conservativism, but that at the end of the 20th century direct democracy pushed state fiscal policies in a more conservative direction, a direction that public opinion generally favored. The effect of direct democracy on state policy need not flow from a particular initiative that voters approved, such as Proposition 13 or those listed in Table 1. One influential theory of direct democracy's influence on policy (Matsusaka 2004; Gerber 1996) holds that it does not really matter whether the measure is constitutional or not, or approved by voters or not. Rather, the institution of direct democracy provides citizens and interest groups a credible threat to qualify a measure. Legislators may judge the threat of an initiative and respond by passing measures similar in response.

We can get leverage on this question by estimating pooled cross-sectional time series models that predict state expenditure and revenues as a function the frequency that fiscal measures appeared on a state's ballot. We do this using state fiscal and demographic data collected in five year increments (1977 - 1981, 1982 - 1986, 1987-1991, 1992- 1996, and 1997-2002). Given that fiscal ballot initiatives likely take some time to affect state fiscal policy, we estimate 1982 revenues and expenditures as a function of the number of fiscal measures appearing on a state's ballots from 1977 - 1981, 1987 spending and revenues are estimated with the number of fiscal ballot measures appearing between 1982 to 1986, and so on. [2]

The appendix of this paper reports estimates of state expenditure per capita on education, capital outlays, parks and recreation spending, spending on hospitals, and the number of state employees per capita. It also includes estimates of spending on current operations, on debt interest, and estimates of total revenues per capital, per capita use of charges and fees, and per capita revenue from property tax, Since larger, wealthier, and more liberal states are expected to spend more, our models control for state personal income and the size of the state's population. We control for federal transfers to states

[2] Data from the state of Alaska are omitted due to the unusual nature of fiscal policy in that state. Expenditure and revenue data estimated at t1 are the average for a state from the previous five years.

since transfers act to increase state expenditures. We also include a dummy term representing southern states. Following Matsusaka (2005) state ideology is represented by the average of the state's US Senate delegation's DW-NOMINATE floor voting scores. Given the relative competitiveness of US Senate races, we assume a state's Senate delegation's floor votes provide a reasonable proxy for the policy preferences of a state's voters. These scores range from -1.0 (liberal) to +1.0 (conservative). Scores are derived from the 100th Congress elected in 1986 (to estimate 1987 spending), the 102nd Congress elected in 1990 (to estimate 1992 spending), the 105th Congress elected in 1996 (to estimate 1997 spending), and the 108th Congress elected in 2002 (to estimate 2002 spending).

Models also include controls for important institutional features of state budgeting process: biennial budgeting and supermajority requirements (see e.g. Glazer and McCann, forthcoming). Eight states have some sort of rules that require legislative supermajorities to approve some or all appropriations. Like California, legislatures in Arkansas and Rhode Island face supermajority requirements for all appropriations bills. Five other states (Connecticut, Hawaii, Illinois, Maine, and Nebraska) have similar requirements if legislators fail to pass a budget by a certain date, or if they pass a budget over a ceiling limit. Although super-majority requirements have been touted as a means of imposing fiscal restraint (Buchanan and Tullock 1962), other theories suggests that such requirements might encourage logrolls - thereby increasing expenditures. Super-majority rules eliminate the option of producing minimum winning legislative coalitions (MWCs), and thus may encourage universalism - or coalitions larger than MWCs albeit smaller than universalism (Carrrubba and Volden 2000)

Ballot initiatives are coded as "fiscal" if they clearly affect state spending and revenues. For California, this includes initiatives listed in Table 1, and similar initiatives that reached the ballot. For other states a similar coding scheme was used. Measures that required trivial appropriations for implementation are omitted. We include fiscal measures that pass, as well as those that failed, because research on direct democracy suggests that legislators are not only constrained by initiatives that pass, but that they also respond to the threat of initiatives. If the sum effect of these fiscal initiatives is a direct conservative bias that limits the scope of the public sector, we would expect an inverse relationship between the frequency of fiscal ballot initiatives, and our measures of state expenditure and state revenues.

Modelling the Interaction between Opinion and Initiatives

Previous studies (e.g. Matsusaka 2004) have examined the direct relationship between the mere existence of a state-wide initiative process and total state revenues and expenditures (but see Matsusaka 2001; Bowler and Donovan 2004a). Others have estimated the effects of initiatives on policy as an interaction between the existence of the initiative process, and public opinion; with the assumption being that initiatives, or the threat of initiatives, work to move policy close to the state's median voter's preferences (Gerber 1996, 1998; Burden 2005; Arceneuax 2002, Lasher, Hagen and Rochin 1996; Camobreco 1998). There is a lack of consensus about whether the initiative leads to a stronger or weaker link between public opinion and policy. Part this stems from the fact that nearly every statistical study (if not all studies) modelling the interactive effects of initiatives and opinion on policy mis-interpret the substantive meaning of the interaction terms (see Brambor et al 2006).

Our purpose here is testing how the use of fiscal initiatives may affect how public opinions are translated into state fiscal policy. We estimate the effects of fiscal ballot initiatives on specific categories of spending and revenue with models that assume the effects are conditional. That is, we test if the effect of opinions on policy interact with the presence of initiatives to affect policy. Put differently, we test if the effect of conservative state public opinion on fiscal policy is conditioned (or amplified) by the presence of fiscal initiatives. The models are specified as Y = b0 + b1X + b2Z + b3 XZ + controls; where Y is a measure of fiscal outcomes, X is state opinion, and Z is the number of fiscal initiatives in the previous 5 years.[3] Cross-sectional time series models were estimated with Stata 8.0.

Results

The full results of these estimates are available in the appendix. The models produce fairly consistent results, the most consistent being that conservative state public opinions depress spending in each of these areas (except education), independent of initiative use. The use of fiscal initiatives also depresses capital spending, spending on hospitals, operating spending, and the number of state employees per capita. The use of fiscal initiatives also appears to reduce spending on debt interest, and property tax revenues, and corresponds with greater use of charges and fees.

[3] In contrast, Matsusaka (2004) models the process as Y = b0 + B1X + b2Z , plus controls; where Z is a dummy variable representing the initiative process. Lasher et al (1996) and Camobrecco (1998) model it as Y = b0 + b1X + b2Z + b3XZ, with Z also as a dummy.

But things are not that simple. We use a program from Brambor et al (2006) to graph the estimated substantive effects of conservative state opinions on policy in Figures 3 - , with other factors in the models held constant. The darker line represents the effect on state policy of an identical marginal shift in state opinions (toward being more conservative) at different levels of fiscal initiative use.

Figures 3 - 8 about here

As Figure 3 illustrates, the marginal effect of having a more conservative electorate on education spending is associated with higher spending (about $100 per capita) in the absence of initiatives, but in states with at least six fiscal initiatives in the past five years, conservativism had a depressing effect on education spending. Likewise, Figure 4 illustrates that the marginal effect of a more conservative electorate had little effect on capital spending per capita where there were no fiscal initiatives, but where there were a high number of fiscal initiatives conservativism had a reductive effect on capital spending (about $50 to $75 less spending per capita). Figure 5 displays a similar effect with state per capita spending on hospitals. Where there were no initiatives, the marginal effect of more conservative opinions are estimated to have a modest (-$20) reduction in spending, but where there are many fiscal initiatives, those same conservative opinions are associated with a larger estimated reduction (-$60) in spending.

Figures 6, 7, and 8 plot additional estimates of the conditional relationship between state opinion and three other measures of fiscal policy outputs, respectively. The patterns are similar. The reductive effect of conservative opinion on debt interest spending per capita (Figure 6), charges and fees per capita (Figure 7) total state revenues per capita (Figure 8) and all suggest that state conservativism reduces each of these where there are more fiscal measures on the ballot. Figure 7 deserves particular attention: it shows that conservativism is generally associated with higher charges and fees per capita (about $100 more where there are no fiscal initiatives in the last five years); but that as the number of fiscal measures increases beyond four in the last five years, conservative opinion may reduce state collection of fees and charges per capita.

There are several reasons to be very cautious, however, in concluding from these data that the mere threat of fiscal initiatives leads to a smaller public sector. First, with some key fiscal measures we examine, such as education spending per capita, per capita spending on debt interest, and total revenues per capita, we find no *direct* relationship between fiscal initiative use and fiscal outcomes. Rather, the presence of initiatives interacted with state public opinion to increase the effect that public opinion already had on spending in these areas.

Second, with other fiscal measures (capital spending, hospital spending, spending on direct current operations, and use of fees and charges) we find direct effects of state opinions, direct effects the presence of fiscal initiatives, *and* an interaction between initiatives and opinions. It is only with spending on parks and recreation, the number of state employees per capita, and property tax revenues per capita, that we find no interaction.

Third, models estimated with information about fiscal measures voters actually *approved* (not shown here) produced evidence of a much stronger relationship between opinions and fiscal outcomes, yet models specified using a measure of all initiatives appearing on a state's ballot show no clear effects. Fourth, and most important, just as conservative state ideology had an important, direct effect on fiscal policy - leading to less spending, less revenue, and more use of charges and fees - so too liberal opinions had direct effects on more spending and revenue. When we reverse the coding of ideology such that high scores represented liberal states, our results show that initiatives interact with liberalism to increase spending and revenues.

Thus, although fiscal outcomes in some policy areas (parks spending, employees, and property taxes) appear to be directly depressed by the presence of initiatives, this is not the typical pattern we observe. Rather, most of our results demonstrate that it is not initiative use, per se, that affects spending and revenue.[4] Initiatives affect fiscal policy by amplifying the link between opinion and policy. In other words, the opinions of a state's electorate seem to be better (or at least more directly) represented in policy outcomes where initiative use is higher. This is Matsusaka's and Gerber's fundamental point, demonstrated across various measures of spending and revenue. Total revenues are lower where opinion is more conservative, and lower still where more initiatives reach the ballot. Of course the inverse of this applies as well: the marginal effect of a more liberal electorate can mean more revenues where there are more initiatives.

As for the control variables included in our models (see appendix), wealthier states tend to spend more and raise more per capita, and populous states spend and raise less per capita, as expected. States with conservative policy preferences also generally spend and raise less (except on education), and states receiving more federal money

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[4] With these three measures that are exceptions, the interaction between initiative use and opinion is not significant, but the constitutive terms of the interaction are, when models are specified $Y = b0 + b1X + b2Z + b3\ XZ$. If models estimating outcomes in these three areas are specified with an interaction between initiative use and opinions with the initiative component of the interaction omitted [$Y = b0 + b1X + b2XZ$; the specification used by Gerber (1996)], the interaction between initiatives and opinions is a significant predictor of park spending and employees per capita.

spend and raise more. In line with work by Matsusaka and Glazer and McCann (forthcoming) we also included measures of state budget rules as controls – notably the super-majority requirement and period of the budget. It is important to note that supermajority budget rules seem to have had important effects on state expenditure and revenue patterns. On the expenditure side, supermajority rules are associated with significantly more spending per capita on parks, with more state employees per capita, and with less spending on education. On the revenue side, supermajority rules for approving budgets are associated with less use of fees and charges, with more debt (interest payments) per capita, more property tax revenue and more revenue overall.

Why is it that direct democracy may have limited effects on policy?

The preceding sections suggest that some of the criticisms of direct democracy may be a bit off target. There seems to be only limited evidence that ballot initiatives shrink the public sector, independent on any force of public opinion that might have a preference for that. Rather, it would seem that fiscal initiatives give voters more (or less) of what it is they want. Returning to the case of California clarifies this point. Thirty years after the tax revolt, despite important declines in some areas and shifts in revenue patterns, California ranked right about where it was before on several major spending measures. Likewise, analysis of cross-state data find little evidence that voter approved initiatives are driving revenue patterns as much as the ability of those measures to amplify the effects of public opinion on policy. This suggests that the causal mechanism between direct democracy and fiscal policy may be how (or if) representatives respond to popular pressures reflected in initiatives that reach the ballot.

Are there explanations for the relatively limited direct effects of initiatives on fiscal policy? Is it that the critics may be guilty of over-statement about the effects that voter-approved measures actually have on outcomes?

We can offer at least two possible answers: first, our focus in the previous section may have been too narrow and that, really, there are other and broader consequences that we should examine, such as chaos produced by non-fiscal initiatives that propagate things such as term limitations. In other words, we have been looking at the wrong measures. A second possibility is that critics of ballot propositions have a somewhat distorted model of the policy making process in the states that leads them to over-estimate the permanent, long-term effects that ballot measures have on policy.

Our first possible answer, then, is that it is we who have it wrong. The focus on spending and revenues may miss the bigger picture. There may be broader consequences of initiative use on state governance more generally that we simply miss when focusing on state spending. Voter approval of initiatives that target spending to certain programs, while cutting unpopular taxes and forcing legislators to find 'creative' revenue sources may mute the effects of initiatives when discrete fiscal measures are considered. The sum result, however, may be an erosion in the quality of governance in a state even as certain categories of spending are maintained.

Instead of looking at budgets what we should be doing, then, is looking at questions of governance more broadly. One way of doing this is by using the Maxwell School of Public Policy's Government Performance Project which periodically issues report card grades for the states. In 2005, grades were based on how well the state managed its fiscal resources (including investments, debt, accounting, contracting, procurement, forecasting). Overall, California received a D, the lowest grade issued. Oregon, another high-use direct democracy state, was the only other state awarded a D. Virginia and Utah received the highest marks (A), followed by Washington and Minnesota (A-).

Dalton (forthcoming) examines the impact of direct democracy on a previous version of the "good government" measures produced by the Maxwell School at Syracuse University. He finds generally weak and inconsistent evidence that the initiative has had an adverse effect on governance, although he concludes that the general effect is somewhat negative. Following Dalton's lead we model as our dependent variable measures of government performance in the area of fiscal management. Results are reported in Table 2. The dependent variable in Table 2 gives a somewhat arbitrary number to the 'good governance' ranking. For our purposes, A- receives a 1 while D a 9 (the range of the scores). If the initiative does indeed have a deleterious effect on fiscal management practices, then the parameter tying initiative use to the grade should be positive and significant.[5]

As we can see from column 1 Table 2 this is indeed the case: frequent use of the initiative in the period 1998-2003 did worsen the grade received in the GPP report. Likewise, frequent use of fiscal initiatives also corresponds with a lower fiscal management grade. But we as move away from a fiscal proposal (column 2) to a count of

[5] Dalton's measures from 2001 are not comparable to the measures used here. He employs the Maxwell school rankings while we use the scores from the Government Performance Project housed in the Pew Center on the states http://results.gpponline.org/ There is a great deal of similarity between the assessments and, indeed, the 2005 survey is seen as the third in the series. Nevertheless the authors are clear that the grades are not comparable because the categories of assessment have changed. Furthermore, our purposes here are somewhat different than Dalton's.

proposals that actual passed (column 3) we see the effect diminish until it becomes statistically indistinguishable from zero.

Table 2 about here

We should treat this evidence with some caution. There are only 50 cases here which will necessarily affect the significance tests of parameters. And these models are much more crude than those we used to estimate spending and expenditure. But the pattern here is striking: it is not the *actual* initiated fiscal laws that have the clearest effect on governability in fiscal management so much as the overall number initiatives that are *proposed* on any topic. Thus, there may be something about politics in high initiative use states, perhaps something about legislative response to initiative proposals - something above and beyond what voters actually approve - that affects the general governability of a state. If it were the direct consequences of voter approved fiscal initiatives that mattered we should see effects of the passage rate of propositions and not the rate of proposal. We do not.

A second possible answer why we see such muted direct effects of initiatives on policy is that the critics of direct democracy have it wrong, in part because they have a distinctive and partial view of how public policy is made. One implicit assumption of critics is that state government is a passive and powerless victim of voter approved initiatives when it comes to policy making. But the initiative is but one branch of government and as such is checked and balanced by the other branches and actors in state government. One of the least known examples of recent scholarship on the initiative process is also one of the more important by making this argument. The study *Stealing the Initiative* by Gerber et al (2001) rests on the deceptively simple premise that initiatives do not implement themselves but rely on the other actors in state government in order to have any effect. Those other actors include not just governors, legislatures, bureaucrats and the courts but also state-wide interest groups with extensive and well funded lobbying organizations. These actors are ever-present in state government and – while the electorate may have fiscally conservative or liberal preferences – actors in government may have different preferences. It is, for example, standard in treatments of bureaucratic politics to note that politicians come and go but civil servants are ever present. So, too, with the initiative process: propositions come and go but the legal and bureaucratic apparatus of the state – and the needs of the states citizens – continue. Other work in this same vein shows that those actors can find alternative sources of revenue (fees; special districts; other taxes) that help maintain spending levels. One reason for the large increase in special districts in the states, for example, is that they provide a way to maintain spending and get around voter-initiated tax and expenditure limitations (TELs) and other – voter approved – constraints (Bowler and Donovan 2004b).

We can also find additional evidence to determine whether or not policy outcomes in a state are – or are not – congruent with voter wishes. If the general argument found in Gerber's *Stealing the Initiative* is correct then we should see the influence of groups with an active legislative lobbying presence 'bump' policy away from what voters might otherwise want. Indeed, this very argument underlies part of the critique of how direct democracy contributes to 'ungovernability': it is interest groups that are to blame for public policy failures but direct democracy enables groups to do so.

If the argument is that interest groups are the real culprit in making policy non-representative of opinions – and not direct democracy – what we should see is that a greater density of interest groups make policy less, not more, responsive to popular opinions. But there is a competing perspective. This suggests that ballot initiatives should amplify the way popular opinion is expressed in public policy - indeed, this is what we illustrate in figures 1 - 6. If this extends to general congruence of policy with opinion, we should see initiative states have greater congruence.

Similarly, although some see that the advantage of legislatures over direct democracy is that they are assemblies of professional legislators who are skilled at passing legislation others, (including perhaps the Progressives) might argue that this is precisely the reason why legislators should be constrained – because they are too skilled at passing laws voters do not like or undermining laws passed by the initiative. As with the role of interest groups, then, we have competing expectations on the role of professionalized legislatures. On the one hand, they may be good at translating what voters want into policy, on the other hand the presence of a professional legislature could mean policy outcomes less congruent with public demands.

We can provide at least some evidence to speak to that debate relying on a recent study of public policy by Matsusaka (2007). In that study he examines policy across a range of issues to see whether or not policy was congruent with majority sentiment or not (Matsusaka 2007: 47). The more congruent policy is with popular opinion – the higher the score. Matsusaka models the impact of direct democracy as a dummy variable: his hypothesis being that direct democracy should promote policies more in line with majority sentiment ("congruence"). We share Matsusaka's argument but have a slightly different concern: explaining the lack of congruence. What we may see is that the more dominant the interest group structure in a state and/or the more professionalized the legislature the *less* congruent policy is with opinion.

Table 3 about here

Table 3 displays the results of some very simple OLS regressions that put these conjectures to the test using two different measures each of legislative professionalism (one from King, 2000; the other from the NCSL) and of interest group power (one using the Thomas-Hrebnar (2003) measure of interest group systems across the states; the other based on Gray and Lowery's count of group density (Gray and Lowery 2001). As can be seen, in very general terms the evidence is consistent with our conjectures: professionalism and interest group strength do seem to work against congruence, while the existence of direct democracy may facilitate congruence.

Caution should be exercised before making too much of these results. The data are a snapshot where the N =50. The measures, too, may be flawed and – more to the point – the models are simple and the statistical significance of the results somewhat subject to specification.[6] All those caveats to one side, this is at least some evidence consistent with the argument of Gerber et al (2001) that the political system is not helpless in the face of voter approved initiatives. After all, some of the biggest spending categories in the California budget remain education and prisons while the CTA and the prison guard's union are important players in state politics. Both these groups push for greater state spending.

We began this section with a question: why don't we see much of a *direct* effect of initiatives on fiscal policy outcomes? We suggest that expectations about voters being

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[6] This last point is especially true of the parameter for legislative professionalism, although the parameter for the interest group measures does not seem especially sensitive

able to directly set policy via initiatives may be based on unrealistic assumptions, and that expectations about the effects of initiatives may under-estimate the legislatures' (and affected interest groups') ability to respond both to initiatives that fail and to initiative measures voters actually pass. Results here are consistent with those that demonstrated the relationship between initiatives and fiscal policy reflects some process where representatives respond to signals from initiatives, more than it reflects direct results of initiated measures that voters approve.

Conclusion

Discussions of state public policy that also embrace discussion of the initiative trend pretty quickly towards criticism of the direct democracy process. There may be a great deal wrong with the governance of California and other direct democracy states, and voter approved initiatives clearly complicate governance. But fiscal initiatives alone are not likely the major cause of enduring budget problems, and, by themselves, are not likely the primary engine that drives fiscal policy.[7] We do find some evidence that frequent initiative use corresponds with constraints on governance and a state's public sector, but these effects tend to reflect public preferences for policy. The effect state conservativism has a greater depressing effect on spending and revenue where more initiatives are used, and state liberalism has a greater expansionary effects on fiscal policy where more initiatives are used.

[7] Deficits associated with the massive loss of state revenues after the dot com bust, for example, probably have much more to do with actions of elected officials and the state's supermajority requirement for tax increases, than with the cumulative effect of fiscal initiatives.

Previous studies have examined the direct relationship between the initiative process and fiscal measures. Others estimated effects of initiatives on policy as an interaction between the initiative and public opinion; with the assumption being that initiatives (or their threat) move policy closer to the state's median voter's preferences Prior to our study, there has been little evidence of a link between opinion, initiatives, and fiscal policy. One implication of this has been that the assumed revenue constraining effects of fiscal initiatives may be seen as operating independent of voter preferences.

We find that fiscal effects of initiatives tend to amplify the political ideology (voter preferences) of a state. There are important implications to this. If there are problems with fiscal initiatives, it is not that they move policy away from voter preferences. Rather, conservative state opinion in direct democracy states dilutes spending more than representative government would on education, hospitals, and capital investment when more initiatives are used and more are passed. Conversely, liberal opinions may inflate spending more than representative government would. This suggests that if elected representatives have priorities that differ from the median voter, they are less able to act on those priorities where initiatives more are used.

Figure 3: Marginal Effect of Opinion on Education $ p.c. As # Inits Increase

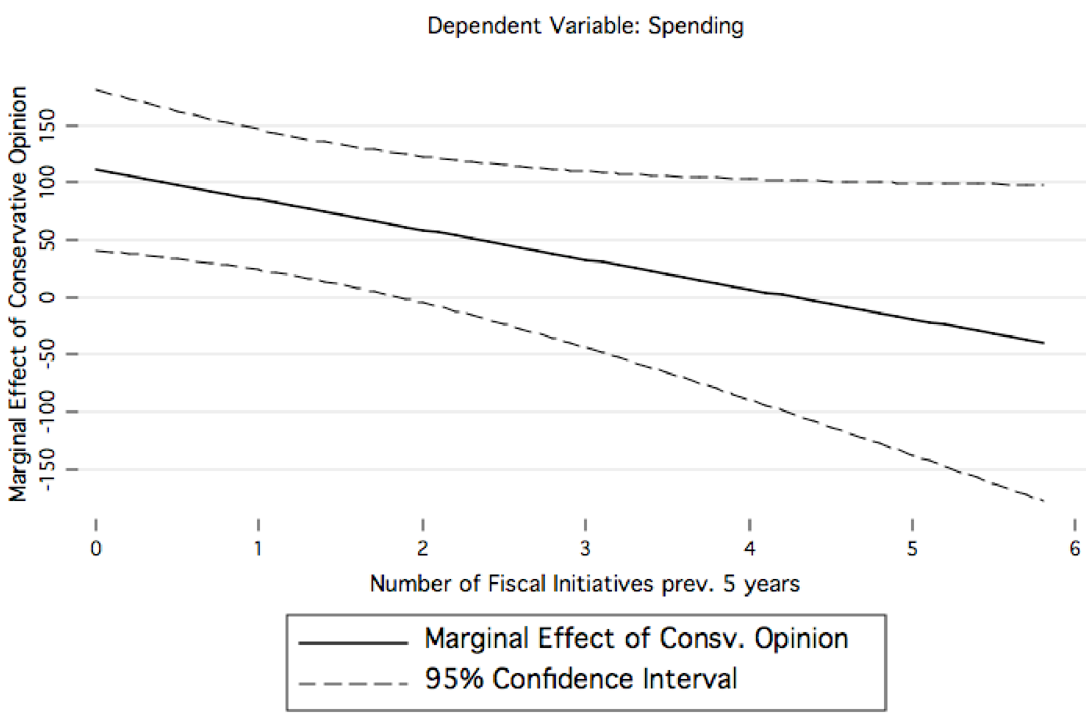

Figure 4: Marginal Effect of Opinion on Capital $ As # Inits Increase

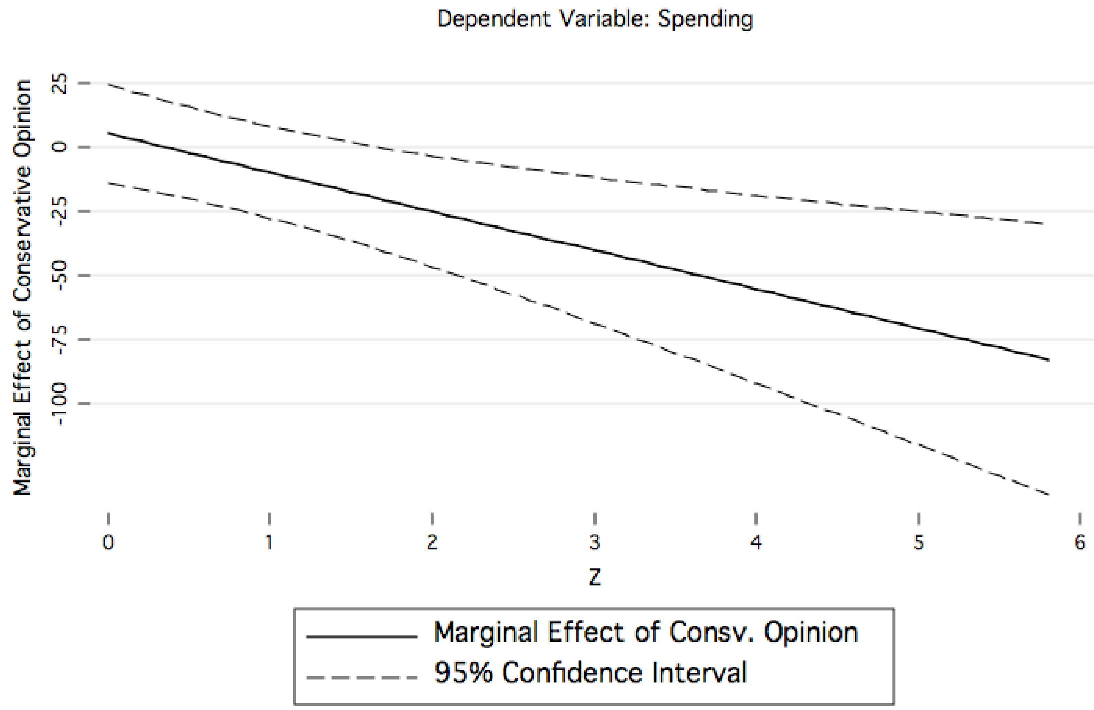

Figure 5: Marginal Effect of Opinion on Hospital $ As # Inits Increase

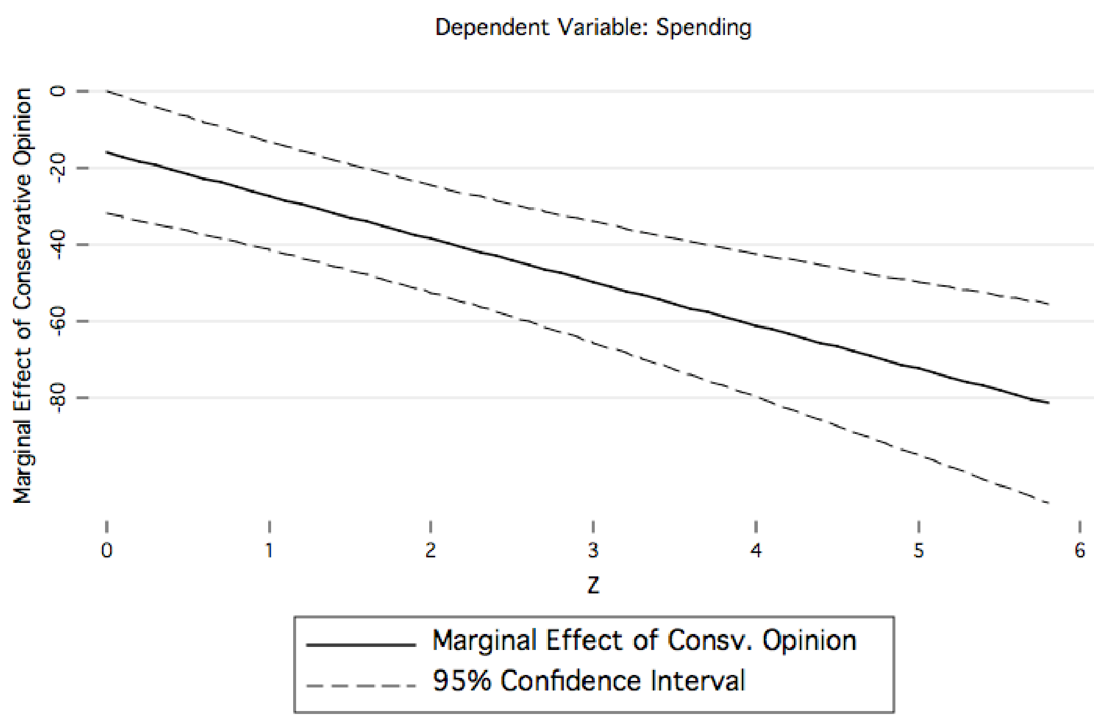

Figure 6: Marginal Effect of Opinion on Interest $ p.c. As # Inits Increase

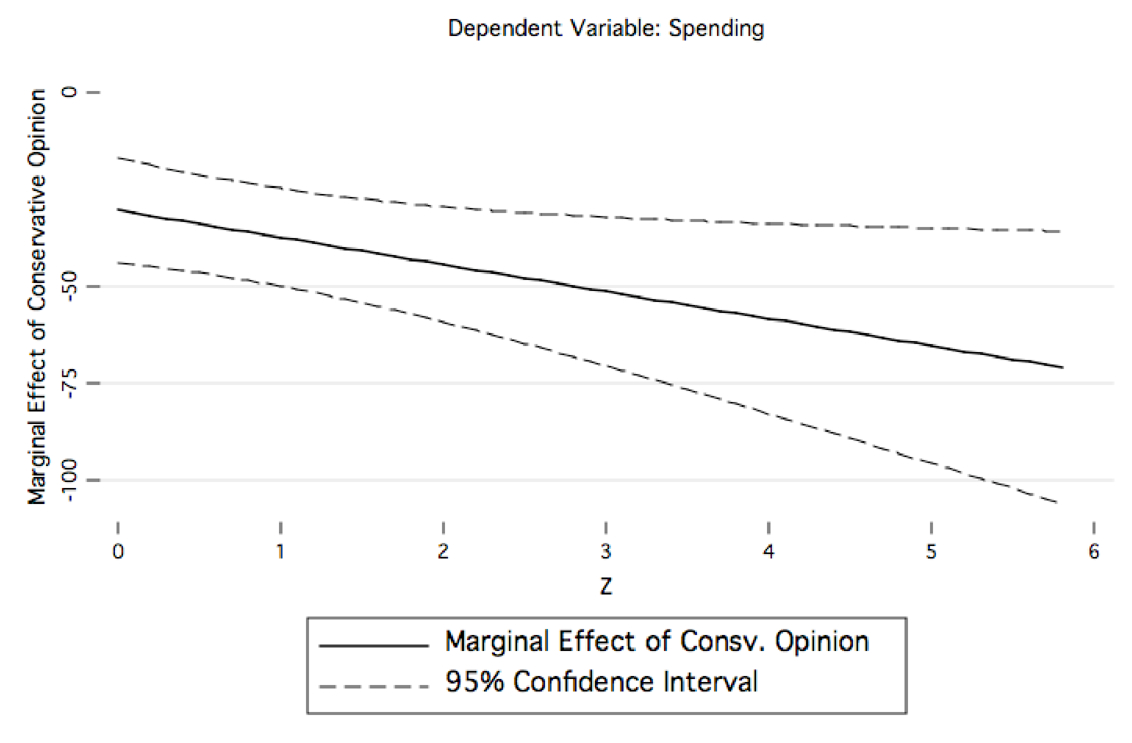

Figure 7: Marginal Effect of Opinion on Charges/Fees $ p.c. As # Inits Increas

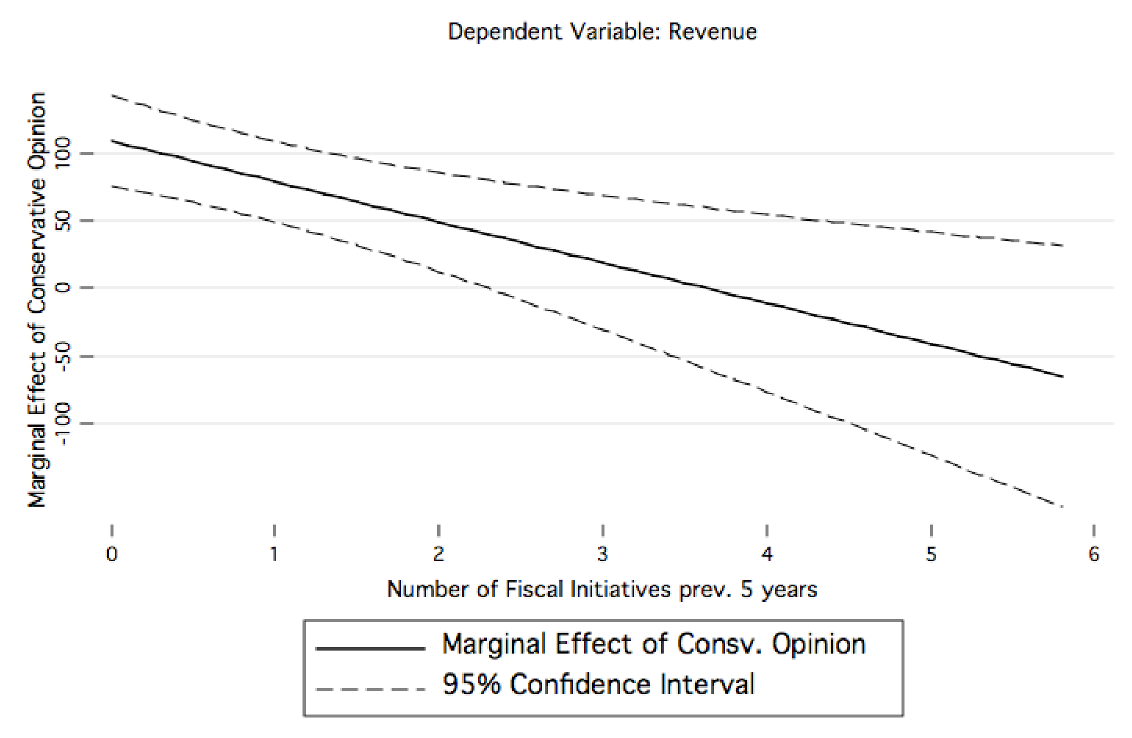

Figure 8: Marginal Effect of Opinion on State Revenues $ p.c. As # Inits Increa

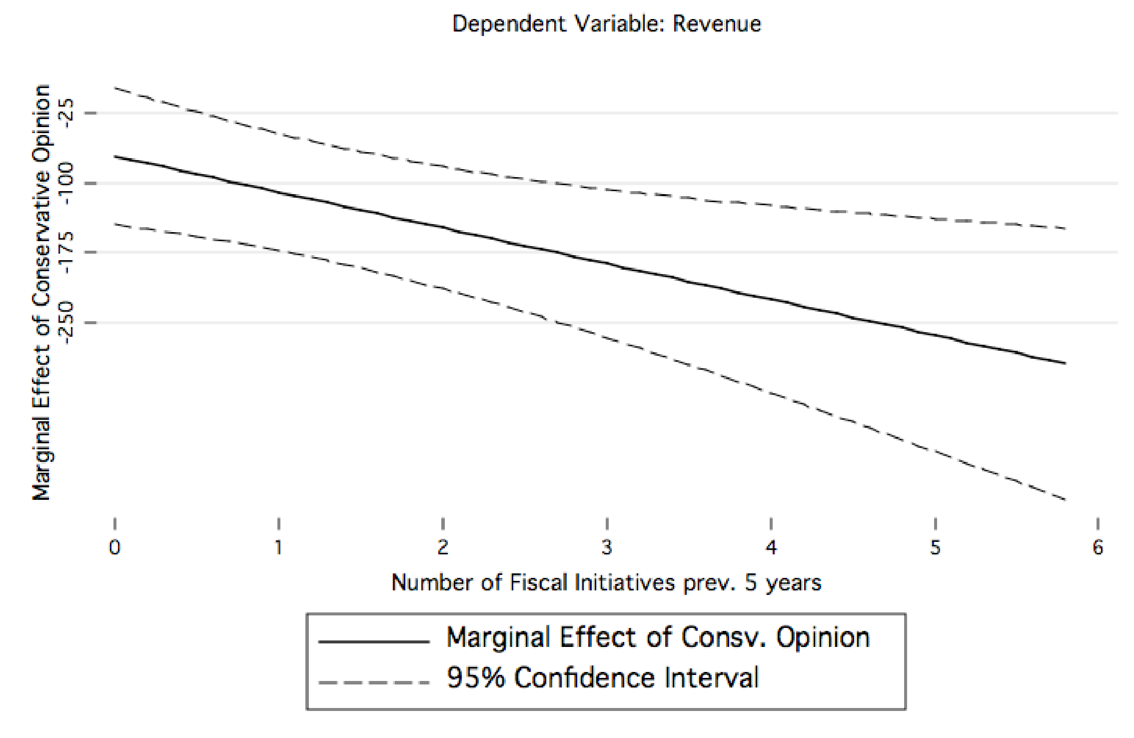

Table 1: Propositions passing that affect state/local finances since Proposition 13.

Proposition	Year	Effect
13	1978	Limits general Property tax to 1% after property is bought or constructed
		Requires 2/3 vote for Legislature to increase taxes
4	1979	Limits sending by state and local entities to prior year amount adjusted for population growth and per capita income growth
6	1982	Prohibits state gift and inheritance taxes
7	1982	Requires Indexing of state personal income tax brackets for inflation
37	1984	Creates state lottery and allots revenue to education
62	1986	Requires approval of new local general taxes by 2/3 of governing body and a majority of local voters
98	1988	Establishes minimum state funding guarantee for K-12
99	1988	25 cent per pack tax on cigarettes
162	1992	Limits Legislature's authority of state retirement systems
163	1992	Repeal of snack tax and prohibits future sales taxes on items including candy
172	1993	Imposes half cent sales tax
218	1996	Limits authority of local governments to impose taxes
10	1998	50 cent per pack tax on cigarettes
39	2000	Allows 55% vote for local school bonds
42	2002	Gas taxes permanently directed to transportation
49	2002	Requires state to fund after-school programmes
57	2004	Authorizes $15bn in bonds
58	2004	Requires a balanced budget, restricts borrowing mandates creation of a reserve fund
1A	2004	Restricts state's ability to reduce local government revenues
63	2004	1% tax on incomes over $1 million
1A	2006	Limits state's ability to retain gas sales tax revenue

Source: Cal Facts: California's Economy and Budget in Perspective Legislative Analyst's Office

Table 2: The impact of initiative on state fiscal management governance ratings

	(1)	(2)	(3)
	Fiscal management	Fiscal management	Fiscal management
Supermajority requirement	0.79	0.76	0.94
	(0.68)	(0.75)	(0.76)
Biennial budget	-0.29	-0.15	.07
	(0.73)	(0.79)	(0.82)
Population of state	.000	.000	.000
	(.001)	(.001)	(.000)
Total Initiatives 9803	.102**		
	(.032)		
Fiscal initiatives 9803		.195+	
		(.121)	
Initiatives passed 9803			.101
			(.222)
Constant	4.05**	4.17**	4.20**
	(.36)	(.38)	(.39)
Observations	50	50	50
R-squared	0.25	0.13	0.08

Ratings data source: Government Performance Project 2005.

Table 3: Factors predicting congruence between state opinion and state policy

	Expected Sign	(1)	(2)	(3)	(4)
Initiative and Referendum (dummy variable)	+	0.787*	1.117**	1.291***	1.577***
		(1.81)	(2.61)	(2.94)	(3.66)
Legislative Professionalism (NCLS)	-	-0.338		-0.761***	
		(1.25)		(2.71)	
Thomas/Hrebnar measure of groups	-	-0.741**	-0.582*		
		(2.48)	(2.00)		
Population 2000	?	0.000	0.000**	0.000	0.000**
		(1.44)	(2.60)	(1.14)	(2.29)
Legislative Professionalism (King, 2000)	-		-0.006** (2.62)		-0.008*** (3.46)
Gray-Lowery measure of groups per capita	-			-5.461*** (2.89)	-3.730** (2.21)
Constant		5.785***	7.510***	3.688***	7.182***
		(4.11)	(9.68)	(3.55)	(11.66)
Observations		50	50	50	50
R-squared		0.25	0.33	0.29	0.34

Note: Absolute value of t statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

Table 4: California, A liberal population but a conservative electorate?

Survey Question:
In general, which of the following statements do you agree with more—I'd rather pay higher taxes to support a larger state government that provides more services, or I'd rather pay lower taxes and have a smaller state government that provides fewer services?

	Not-Likely Voter	*Likely Voter**	*All*
Higher Taxes and More Services	45%	32%	38%
Lower Taxes and Fewer Services	42	56	49
N	897	1104	

* defined as someone registered to vote who "always" votes.

Source: PPIC Statewide Survey September 2003; columns do not sum to 100, don't know's/others not reported

Table 5: California. Trusting citizens, doubting voters?

	Not-Likely Voter	*Likely Voter**	*All*
Just About Always	9%	4%	6%
Most of the Time	22	16	19
Only Some of the Time	59	65	63
None of the Time	6	13	10
N	897	1104	

* defined as someone registered to vote who "always" votes

Source: PPIC Statewide Survey September 2003; columns do not sum to 100, don't know's/others not reported

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