For the Many or the Few

The Initiative Process, Public Policy, and American Democracy

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This material is excerpted from my book, For the Many or the Few, to be published by University of Chicago Press in 2004. There is more here than most people will want to read for a seminar, but I thought it would be better to leave in the extra material for the curious. Although the book is complete, I continue to work on the topic so comments are welcome: matsusak@rcf.usc.edu. Please do not circulate without permission.

March 2004
CHAPTER ONE

Introduction

When we consider the extent to which [political] pressure is made effective today by the greedy and highly organized few, rather than by the mere normally interested and unorganized many, a legislative system which may have been safe once comes to look decidedly defective.

— Lewis Jerome Johnson, The Initiative and Referendum, (1909)

The initiative process embodies the simple idea that ordinary citizens should have the right to propose and pass laws without the consent of their elected representatives. Support for this idea is deep and enduring. The initiative has been a part of state and local government for more than 100 years now, making it an older institution than universal women’s suffrage, term limits for the president, direct election of U.S. senators, the federal income tax, and social security. None of its popular luster has diminished over time. Opinion polls consistently reveal strong support for the initiative process at all levels of government—even the federal—from residents of both initiative and noninitiative states. As of 2003, 24 states and about half of all cities provided for the initiative. All told, about 200 million Americans, some 70 percent of the population, live in either a city or state with the initiative, and by most indications the numbers are growing.

Yet despite its enduring popularity, the initiative continues to trouble some thoughtful observers. They question whether voters are sufficiently informed to decide complicated policy issues, and whether the initiative ultimately promotes democracy or works to the advantage of rich special interests who use it to hijack the policy process. As
David Broder recently argued in *Democracy Derailed* (p. 243), “the experience with the initiative process at the state level in the last two decades is that wealthy individuals and special interests—the targets of the Populists and Progressives who brought us the initiative a century ago—have learned all too well how to subvert the process to their own purposes.”

This is not, of course, the view of the majority of the public that strongly supports the initiative. They believe that special interests subvert the legislative process in the state capitals, and that the initiative is a way for the majority to reassert its will. For example, M. Dane Waters, founder of the Initiative & Referendum Institute, a nonpartisan think tank, argues in the *Initiative and Referendum Almanac* (page xix) that, “[f]or a century, the initiative and referendum process has been THE critical tool to check the power of unresponsive and unaccountable government at the national, state and local level.”

The different views stem from fundamentally different beliefs about who benefits from the initiative process. Initiative defenders believe the process makes government more responsive to the public while critics believe it makes government more responsive to special interests. Which of these beliefs is correct is a matter of fact, not a matter of theory or principle. To a large extent, then, the different assessments of the initiative process hinge on an empirical question: *what does the initiative do to government policy, and who does this benefit?* The only way to address such a question is to determine the facts. That is what I attempt to do in this book. The book examines a huge amount of data on tax and spending policies of states and their local governments from 1957 to 2000 and select years in the first half of the twentieth century, and from over four thousand cities in the last two decades. With so much data it is possible to draw a fairly clear picture of how the initiative process changed fiscal policies in the twentieth century. I also examine a significant amount of opinion data to see what policies the majority of people wanted. By comparing public opinion to actual policies, we can determine whether the initiative advanced the interests of a majority or empowered narrow special interests.

You might wonder whether such an intensive look at the data is necessary. After all, everyone has heard of Proposition 13—don’t we already know what the initiative does? It is true that California’s famous Proposition 13 in 1978 cut property taxes, and triggered a reduction in other taxes and spending in California and other states. The
problem is that there were also initiatives that increased taxes and spending, pushing policy in the opposite direction of Proposition 13. For example, California’s Proposition 108 in 1990 allocated $2 billion for public transit, and Proposition 99 in 1988 increased tobacco taxes by $600 million a year. There is no such thing as a “typical” initiative, and the diversity of initiatives makes it inappropriate and misleading to generalize about the process from specific examples. Since the effect of the initiative cumulates over many measures and many years, the net effect can only be seen by “adding up” all of the individual effects. This is one reason the book analyzes so much data instead of focusing on a handful of measures.

You might also think that someone, somewhere, must have supplied the relevant facts already. To be sure, the initiative has attracted the attention of numerous scholars over the years. I count at least three dozen books and articles in the last two decades alone. These studies have provided a great deal of descriptive information about voter information, initiative campaigns, and use of the initiative. Yet with exceedingly few exceptions that I will discuss later in the book, they have not attempted to document the effect of the initiative by looking at actual policies across states and across time. And none of the existing work makes use of anything more than a small fraction of the available data. The limited empirical scope of previous work is easy to explain: until about 10 years ago when low cost computing first became available, it was simply not practicable to work with data sets that were anywhere near the size of those used in this book.

The main findings are easy to summarize. First, 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. Second, opinion surveys throughout the period show that a majority of people supported each of these policy changes: the voters wanted less spending, more local disbursement of funds, and greater reliance on user fees compared to broad-based taxes. The facts, then, do not support the view that the initiative process allows special interests to distort policies away from what the public wants. The initiative appears to promote the interests of the many rather than the few.
It takes quite a bit of work to reach these conclusions. In the rest of this chapter, I provide background information on the initiative—its history and current use—partly to dispel some misconceptions. Then I discuss some important lessons from the previous literature, and explain the empirical approach of the book.

**A Venerable Institution: A Brief History of the Initiative** [OMITTED]

**Voter Competence, Money, and Majority Rule**

Most research on the initiative process focuses on two issues, voter competence and the role of money. It is important to understand what we currently know about these two issues, and how they are related to the main issue in this book.

The “voter competence” question is whether voters are capable of making the right decision in the initiative process.\(^1\) There is reason to be skeptical. Many voters do not understand the petitions they sign. Few read the actual text of the measures they vote on. And most people fail miserably when quizzed about the details of any given measure. Based on evidence of this sort, Magleby (1984, pp. 197-198) colorfully concluded,

Some voters will be able to master the initiative process, but those with less than graduate-school reading ability will be unable to read and understand the voter’s handbook or the actual description of the measure printed on the ballot. Those who have not learned about the measure before entering the booth will play a form of electoral roulette, casting affirmative and negative votes at random, or will decide not to vote on the measures at all. The majority of the ballot measures are decided by voters who cannot comprehend the printed description, who have only heard

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\(^1\) For nontechnical but somewhat dated discussions of the main issues, see Magleby (1984) and Cronin (1989). Lupia and McCubbins (1998) is an outstanding study of information cues using modern theory and empirical techniques, and should be considered essential reading on the issue. Popkin (1991) is also valuable, and Downs (1957) contains the first rigorous theoretical study of the problem.
about the measure from a single source, and who are ignorant about the measure except at the highly emotional level of television advertising.

However, this view of voter competence seems overly simplistic. Voters may not need a detailed (or “substantive”) understanding of a measure in order to accurately register their preferences in the voting booth. They may be able to cast a “competent” vote (meaning a vote that reflects their underlying interests and values) by using information cues or shortcuts, such as recommendations from trusted organizations or individuals. For example, an environmentalist can cast the “right” vote (that is, a vote consistent with his or her values) on an environmental ballot proposition simply by learning whether the Sierra Club is for or against the measure, without reading or understanding anything in the voter’s handbook. By way of analogy, many of us manage to take the right medications for our ailments by relying on the advice of trusted experts (our physicians) even though we know nothing about the chemical composition of the medications or the results of clinical trials. When it comes to political matters, most people have access to numerous sources of information cues—interest groups, politicians, newspapers, coworkers, family, friends, neighbors, etc.—so they should not find it difficult to decide how to vote on most issues.\(^2\)

This is somewhat theoretical. As a matter of practice, are voters able to use cues to overcome their substantive ignorance about issues? The evidence suggests they are.\(^3\) In one of the most convincing studies, Lupia (1994) found that substantively uninformed people could mimic the votes of substantively informed people on five complicated ballot propositions simply by knowing the endorsements of Ralph Nader and the insurance

\(^2\) At first blush, the use of information shortcuts might seem a shirking of citizen duty. However, I would argue instead that it represents a responsible and economical way for citizens to register their opinions about public policy, which is the purpose of voting in the first place. It is not irresponsible to rely on the opinions of others; we do it for a great many of our everyday decisions, even the most important. Even professional legislators rely on information shortcuts: their decisions to support or oppose a bill often are based on the advice of fellow legislators, trusted aids, etc., not on a detailed reading of the text.

\(^3\) There is more evidence than what I discuss in this paragraph. See Lupia and McCubbins (1998), Bowler and Donovan (1998), and Gerber and Lewis (2002).
industry. Similarly, Kahn and Matsusaka (1997) and Kahn (2002) showed that aggregate voting patterns on 18 California environmental initiatives closely reflected underlying economic interests—voters who stood to suffer an economic loss from a measure tended to oppose it. Filer and Kenny (1980) found that citizens manage to vote their interests in city/county consolidation referendums. In perhaps the most comprehensive study of information and voting in candidate elections, Peltzman (1990) found that when voting in presidential, gubernatorial, and senatorial elections, people seemed to incorporate economic information in a surprisingly sophisticated way. He concluded (page 115), “[t]he broad picture that emerges here is of self-interested voters who correctly process relevant information. Indeed, one would be hard put to find nonpolitical markets that process information better than the voting market.”

Even if information cues and shortcuts are less effective than the literature suggests, the implications for the initiative process are unclear. Uninformed voters will do a poor job deciding ballot propositions but they will also do a poor job selecting candidates. Does giving them a say over issues in addition to letting them choose legislators compound the problem or make it better? The answer is not clear to me and probably varies from issue to issue: some ballot propositions are simpler to evaluate than candidates while others are more difficult.

The “money” question is whether the initiative allows rich individuals and groups to advance their agendas at the expense of the general public. Two prominent books were recently published devoted to the money question. Although the books approach the question from very different perspectives, they arrive at similar conclusions. Broder (2000) takes a journalistic approach, going inside a handful of ballot campaigns, and interviewing politicians and political activists in the initiative industry. He reports how expensive it is to place a measure on the ballot and wage a campaign in a large state like California (petition costs alone exceed $1 million), and how money has become a major factor in initiative politics. Gerber (1999) takes a scholarly approach, sifting through an

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4 Despite the scholarly debate, the fact that 49 of 50 states require popular approval by referendum for amendments to their constitutions—apparently without controversy—suggests that there is actually a broad consensus that ordinary citizens are capable of voting on issues. The point of contention would seem to be whether to allow ordinary citizens to make proposals or to reserve this right to the legislature.
impressive amount of campaign spending and polling data. She systematically corroborates Broder’s impression that money is important in the initiative process, but with a twist: campaign spending turns out to be much more effective in opposing a measure than promoting one. Deep pockets provide a veto of sorts when it comes to initiatives, but do not allow the purchase of favorable legislation. From the observation that money matters in the initiative process, Broder and Gerber both draw what seems like a natural conclusion: the initiative has become a tool to advance the interests of organized and wealthy special interests instead of the broad public.⁵

However, the inference—only the wealthy can afford to qualify and promote ballot propositions, therefore, the initiative process ends up helping the rich and hurting the (not particularly wealthy) majority—is not generally valid. It is easy to think of situations in which the majority is better off even if a narrow interest group monopolizes the process. To see the problem in the abstract, think about a family deciding what topping to order on a pizza (to get away from the details of state government for a moment). The default procedure is for (say) the father to choose the topping. Think of him as the legislature. His choice may be acceptable to a majority of the family members, but it might not be: he could misunderstand what the rest of the family wants, or order his personal favorite even knowing that everyone else would like something different.

Under the “initiative process,” other family members are allowed to propose alternatives to the father’s choice, with disagreements resolved by majority rule. If one of the kids proposes a topping that the majority prefers to the father’s choice, the proposal will defeat the father’s choice and the majority will end up happier than if the initiative process was unavailable. If one of the kids proposes a topping the majority considers inferior to the father’s choice, it will simply be voted down. So we can see that allowing everyone in the family to make proposals generally works to the advantage of the majority. The conclusion stands even if the right to make proposals is reserved for certain family members (these members are the “narrow special interests.”) The majority is still

⁵ They reach the conclusion by slightly different avenues, however. Broder seems to suggest that money can buy legislation directly by qualifying measures for the ballot and getting them approved. Gerber is more pessimistic about the direct effect of money, but suggests it matters indirectly, by allowing wealthy groups to veto changes in the status quo and by providing a way to put pressure on legislators.
better off having an alternative to the father’s proposal because superior options can be accepted and inferior options rejected.

The point: the fact that narrow interests dominate the initiative process (as Broder and Gerber seem to show) does not necessarily imply that the final outcomes are nonmajoritarian. The special interest subversion argument fails to appreciate, first, that narrow interest groups do not always have policy goals in conflict with the interests of the general public and second, that voters are free to reject proposals they find less attractive than the legislative status quo. Indeed, the example suggests that as long as proposals are filtered through a majority-rule election, the only way initiatives make the majority worse off is if voters can be persuaded to approve policies contrary to their interest. It is certainly possible that voters can be misled to act against their interests, but whether that happens as a regular matter (as the subversion argument implicitly maintains) has to be demonstrated empirically, not simply assumed. The central purpose of this book is to provide evidence that reveals the extent to which voters are made worse off in practice.

**Preview of the Findings**

The central goal of the book is to establish whether the initiative makes policy more responsive to the will of the majority or increases the influence of narrow special interests. The investigation proceeds in two steps. First, I examine a set of fiscal policies and determine what changes are brought about by the initiative. Those policy changes are then compared with the expressed opinion of the electorate to determine if a majority of people like or dislike the changes.

The first step involves measuring how the initiative process changes policy. In theory, the initiative process can influence policy both directly, when a measure is passed and implemented, and indirectly, when the threat of an initiative induces the legislature to take a different path than it would have absent the initiative. My empirical strategy is to compare the fiscal policies of states with and without the initiative. The idea is that however the initiative works, directly or indirectly, the effect (if any) will show up in the final policies. Since tax and spending policies are influenced by a number of factors that
have nothing to do with the initiative, such as income and federal aid, I employ regression analysis to isolate the effect of the initiative. Chapter 2 discusses the theory and empirical procedures underlying the analysis.

Chapters 3 contains the main evidence on fiscal effects of the initiative. I focus on the 1970-2000 period initially since the initiative was heavily used during these years (Figure 1.2). Three systematic effects of the initiative emerge from the data. First, the initiative trimmed overall spending by state and local governments. Second, the initiative shifted spending away from state and toward local government, that is, it caused a decentralization of expenditure. And third, the initiative altered the manner in which funds were raised: broad-based taxes were cut and replaced with user fees and charges for services.

With these effects in mind, I then investigate who benefits from the initiative. Critics argue that special interests are the winners—they use the initiative to subvert the governmental process and secure policies that are opposed by a majority of citizens. If this view is right, then a majority of citizens should have been opposed to the policy changes induced by the initiative (lower spending, decentralization, and charges instead of taxes). If, on the other hand, the initiative promotes majority rule, then we should find that a majority favored the changes.

Chapter 4 examines opinion data to see which view is correct. I study numerous opinion polls and ask whether a majority of voters approved or disapproved of the policy changes brought about by the initiative. The polls seldom pose questions exactly as we would like, but they are close enough to paint a convincing picture of public opinion. The evidence is remarkably consistent: a majority of people supported each of the three policy changes associated with the initiative. The view that the initiative allows narrow special interests to override the majority is inconsistent with the evidence. In fact, the most natural interpretation of the evidence is that the initiative allows the majority to defend itself against powerful groups that receive favorable treatment in the legislature.

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6 The term “special interest” is inherently ambiguous; in some sense we are all special interests. Throughout I operationalize the term to mean a group comprised of less than a majority of the electorate. I realize one could define the majority to be a special interest as well, but that would make the entire notion of special interest subversion vacuous.
The evidence for 1970-2000 reveals that the initiative led to policies that are usually perceived as “fiscally conservative.” Does this mean that the initiative is a fundamentally conservative device, or did legislatures just happen to be more fiscally liberal than the majority of voters in the last three decades? Some prominent theories in political economy argue that governments inevitably tend to spend more than most voters would like. Chapter 5 reviews these theories and puts them to the test using data from 1902-1942. If governments systematically overspend, we should see spending cuts associated with the initiative in the first half of the century, just as in the second half. This is not what we see: initiative states in the early 20th century spent more than noninitiative states. Thus, it is inaccurate to view the initiative process as a fundamentally conservative device.

Chapters 3-5 are the empirical core of the book. They focus exclusively on establishing several important facts. Chapters 6 and 7 begin the task of developing a theoretical framework to explain the findings. Chapter 6 ventures a new theory of direct and representative democracy, proposing that legislatures occasionally fall “out of step” with their constituents in periods when voter opinion undergoes a rapid change. When this happens, legislatures may stick with existing policies against the wishes of the voters because they fail to perceive the change in the majority’s sentiments or because they favor the existing policy for their own reasons. The initiative allows voters to redirect policy more quickly than in noninitiative states, where changes require elected officials to learn about the new preferences of the majority or for replacements of stubborn incumbents to take office. According to this theory of “out-of-step” legislators, the gap between initiative and noninitiative states is transitory, and reflects a faster response to voter preferences in initiative states. To prove that this is the right way to understand the evidence is beyond the scope of this book. However, Chapter 7 discusses the evolution of state fiscal policy throughout the twentieth century in order to build a circumstantial case in favor of the theory. While not formally testing the theory, I show that it provides a natural way to understand key episodes in the fiscal history of the states.

The main contribution of the book in my opinion is to raise serious doubts about the view that special interests benefit and the broad public suffers from the initiative. I believe this constitutes a genuine advance in our understanding of the initiative since the
special interest subversion view attracts wide support. But in many ways it is a modest result. One particular view of the initiative is rejected, but the more fundamental question whether the initiative is a good or bad form of government is left open.

Chapter 8 and 9 offer some more subjective reflections on this larger question without trying to answer it definitively. If the initiative pushes policy toward what the majority wants, as the evidence suggests, we must grapple with whether majority outcomes are a good or a bad thing. Certainly, majority rule is a central principle of any democracy. However, American democracy is founded on a deep distrust of unchecked majorities. The puzzle of 1787 is the same one we face today: what form of government allows the majority to rule but protects minority rights? Since the initiative appears to be a majoritarian device, we need to know if it is prone to majority tyranny. Chapter 8 reviews the existing literature on the problem of majority tyranny, and the possibility that the initiative undermines the Constitutional foundations of American democracy. I outline the outstanding issues, review the meager empirical evidence so far available, and identify directions for future research.

In Chapter 9, I step back from the specifics and consider how we think about the initiative process in general. The most common approach to the initiative process is in terms of a delegation model: legislators are the agents of the voters, and the initiative gives voters a way to override unfaithful agents. I review the logic of the delegation view and its main implications. I then offer two different but complementary approaches to the initiative process that I call the information and competition views. In the information view, the problem of democracy is collecting the knowledge and preferences of ordinary citizens and bringing them to bear on the policy process. Unlike the delegation view, the information view suggests that the initiative can be useful even if representatives are faithful agents because the initiative has a superior ability to register preferences. The competition view sees the initiative as a way to introduce competition into the law-making process, a process that is otherwise monopolized by the political professionals who seek to hold elective office. I review the strengths and weaknesses of competition as currently understood in the literature. Then I show how the main intuitions about competition can be applied to the initiative, and suggest that doing so leads to a number of interesting questions about the role of the process in American democracy.
A final word on the style of presentation. This is a scholarly work that pays close attention to the modern theoretical literature and adheres to the most rigorous standards of data collection and analysis. At the same time, I have endeavored to make it accessible to readers with a limited background in game theory and statistics. All of the key ideas and results are stated in plain English or displayed in figures, and the nontechnical reader should not find it difficult to follow the lines of argument. So as not to clutter the text with material that many readers will find uninteresting, all nonessential data descriptions and sources have been collected in Appendix 3.
CHAPTER THREE

Spending and Taxes, 1970-2000

The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life.

– Joseph Schumpeter

This chapter investigates how the initiative affects spending and taxes. To preview the findings, we will see that over the last three decades the initiative had three significant effects on fiscal policy. First, it cut the overall size of state and local government, as measured by revenue or expenditure. Second, the initiative shifted disbursement of funds from state to local governments, that is, it “decentralized” government spending. Third, the initiative altered the way funds are raised: it reduced the reliance on taxes in favor of user fees and charges for services. These results establish benchmarks that we can compare with opinion data later on to see if the initiative brought about policy changes supported or opposed by the majority.

The results also are interesting in their own right because they shed light on how important, if at all, the initiative is in practice. Some observers believe the initiative has a major impact on public policy. For example, the editors of Dangerous Democracy (Sabato et al, 2001, p. x), a recent collection of essays on the initiative process assert, “Without question, ballot initiatives have had a profound influence on public policy. As a model of such influence, one need look no further than California’s Proposition 13. . . . By most accounts, the effect on California's fiscal policies and public sector was monumental.” Despite repeated assertions of this sort, however, there is actually very
little empirical evidence that the initiative has a big (or any) effect on state policies.¹ And there are plausible reasons to doubt that it has a big impact. For one thing, the number of measures approved by the voters is small compared to the number of laws promulgated by legislatures. In 1999 and 2000, only 35 measures were adopted by initiative compared to more than 10,000 new laws enacted by legislatures. It is hard to see how a sprinkle of initiatives could stir this ocean of legislation in a significant way. And even when an initiative is approved, it may not affect policy. Successful measures are often held up or nullified by judges, and as Gerber et al. (2001) show, elected officials and bureaucrats charged with implementation often simply ignore measures they dislike. With very little hard evidence currently available on the policy effects of the initiative, one of the most basic questions about the process—how much does it matter—remains largely unanswered. Another contribution of this chapter, then, is to quantify how important, if at all, the initiative process is for fiscal policy.

The Importance of Spending and Taxes [OMITTED]

First Effect: How the Initiative Changes the Size of Government

The first question is how did the initiative change the size of government, as measured by total spending or revenue? I focus here on the combined spending (or revenue) of state and local government. Conceptually, it makes sense to look for the effect of statewide initiatives on combined state and local spending because initiatives

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¹ For a review of the limited evidence currently available, see my entry under “Initiative and Referendum” in the forthcoming Encyclopedia of Public Choice, edited by Rowley and Schneider (2004). Rather than being a model of the profound influence of the initiative, Proposition 13 is a good example of how tricky it is to convincingly identify initiative effects. The difficulty can be seen by noting that California ranked third among continental states in overall spending per capita in 1977, the year before Proposition 13 passed, but had fallen only to fourth place in 1987, ten years later. This is not to say that Proposition 13 was unimportant, but to illustrate that demonstrating its importance is not as easy as it might seem. For a careful attempt to discern the effects of Proposition 13, see Gerber et al. (2001), especially Chapter 15.
can be and are targeted at the behavior of both state and local governments. For example, California’s Proposition 13 was primarily a restriction on local property taxes.

**Basic Findings**

Table 3.1 presents the main regressions showing how the initiative affects revenue and expenditure. Each column reports coefficients from a single regression. The unit of observation is a state in a given year over the period 1970-2000. The dependent variable is either general revenue from own sources (“revenue”) or direct general expenditure (“expenditure”), as indicated at the top of the column, expressed in year 2000 dollars per capita. The key explanatory variable is a dummy variable equal to 1 if a state allows the initiative. The $R^2$’s are typically 0.99, suggesting that the variables do a good job accounting for variation in the data. The coefficients on the noninitiative control variables present no surprises—each dollar of state income results in about 11 cents more revenue and expenditure, federal aid stimulates spending, and so on—so I will pass over them without comment.

Consider first the effect of the initiative on revenue in column (1). The coefficient on the initiative dummy indicates that states with the initiative raised $133.38 per capita less revenue than states without the initiative. The estimate is statistically significant at better than the 10 percent level using standard errors adjusted for clustering within states. To put the estimate in perspective, the numbers imply that a family of four paid $534 less in taxes and fees if they lived in an initiative state than if they lived in a noninitiative state. Another way to look at it is in terms of average revenue. Revenue during the sample period averaged $3,186 per capita, meaning the initiative reduced revenue by about 4 percent. The initiative clearly matters, but does not put the government on a major diet.

Regression (2) estimates the effect of the initiative on spending. It can be seen that expenditure was $147.26 per capita lower in initiative states than noninitiative states. The estimated effect is significant at better than the 5 percent level. Voters appear to have used the initiative to chip away at both revenue and spending. The estimate works out to about a 4 percent reduction compared to the average per capita expenditure of $3,891.
during the sample period. Here again we see that the initiative matters, but is not the primary driver of fiscal policy.

It is sometimes argued that voters cannot be trusted to vote on tax and spending measures because they are short sighted. Given the opportunity, the argument goes, voters will approve tax cuts and at the same time increase spending, forcing the government to borrow until it runs out of credit. Regressions (1) and (2) show that is not what happens: the initiative drives down both taxes and spending. How much of this is due to voter foresight and how much to institutional safeguards such as balanced budget requirements is not clear from these results, but the notion that voter control of budgeting decisions will lead to a fiscal breakdown is clearly incorrect.²

[OMITTED MATERIAL HERE]

I have estimated these regressions with literally hundreds of other specifications. The main result—that revenue and spending are lower in initiative states—is highly robust. In particular, the results are robust to expressing the key variables as a fraction of income (instead of per capita) or logarithmically. They are robust to deletion of the South dummy or the West dummy. The main patterns emerge if all the Western states are deleted, if all the Southern states are deleted, and if California is deleted. The results appear if additional control variables are included such as mineral wealth or population density.

Initiative or Ideology?

Initiative states spend and tax less than noninitiative states (at least since 1970), but how do we know the initiative is the cause of the cutbacks? Perhaps some other factor leads states to adopt the initiative and also to reduce the size of government. This “spurious correlation” problem boils down to a question of whether a key variable has

² For more systematic evidence on the relation between direct democracy and borrowing, see Matsusaka (1995a) and Kiewiet and Szakaly (1996).
been omitted from the regressions. The most plausible candidate for an omitted variable is the ideology of a state’s electorate. Suppose that residents of initiative states happen to be more fiscally conservative than residents of noninitiative states. Their conservatism might lead them to adopt the initiative and at the same time restrain spending. If this were the case, the fiscal policy differences between initiative and noninitiative states would actually be caused by the underlying ideology of electorate, not the availability of the initiative.

As it turns out, the possibility that the initiative effect is merely a proxy for ideology can probably be dismissed. I show this in several ways. The first and most direct approach is to include measures of citizen ideology directly in the spending regressions. The demographic variables, such as income, capture some of the ideological variation across states, but perhaps not all of it. Table 3.2 reports expenditure regressions that include three proxies for voter ideology (unreported revenue regressions look the same.)

The first proxy is a measure of the ideology of a state’s U.S. senators. In an exhaustive study of roll call voting in the U.S. congress, Poole and Rosenthal (1991) assigned a score to each member based on an analysis of all of his or her roll call votes. These “NOMINATE” scores place each senator on a spectrum that runs from −1 (liberal) to +1 (conservative). The proxy I use is simply the average score for the state’s senators. We expect that as voters become more conservative, the voting records of their U.S. senators will become more conservative.3

Column (1) reports the spending regression with the NOMINATE variable included. The estimated coefficient on this ideology variable is negative as expected if conservative states spend less, but far from statistical significance. More to the point, even with the ideology variable included the initiative coefficient is still negative, almost the same magnitude as before, and statistically significant.

3 One might question whether senators actually vote the interests of their constituents. Reasonable scholars disagree on this, but I find the evidence in Peltzman (1984) persuasive: Constituent interests explain most of the variation in their representatives’ votes, especially for high-profile issues such as taxes and spending. For the purposes of Table 3.2, we do not need senators to follow constituent ideology slavishly; we only need a correlation or general tendency in that direction.
The NOMINATE variable is a good proxy for citizen ideology if senators vote according to constituent interests. It seems possible, though, that some representatives may emphasize the interests of their supporters more than the electorate as a whole. If this happens, the NOMINATE variable will indicate the ideology of their supporters, not the state as a whole. The second ideology variable, developed by Berry et al. (1998), addresses this possibility by taking into account both the voting record of elected officials and the positions of their election challengers. The ideology variable was constructed by calculating the ideological position of each incumbent congressman using ratings by Americans for Democratic Action (ADA) and the AFL-CIO Committee on Political Education (COPE), two liberal interest groups. Positions of challengers (who did not vote and hence were not rated by ADA and COPE) were imputed using the average score for members of their party in the state. The incumbent and challenger scores were then averaged based on election vote shares and aggregated across all districts to yield a state measure. The final variable takes on values between 0 and 100, with 100 representing the most liberal position. Berry et al. call this variable “citizen ideology,” but it is more accurate to think of it as a measure of candidate ideology.

Column (2) reports the spending regression with the “citizen ideology” variable included. The sign on the ideology variable is positive—suggesting that liberal states spend more, all else equal—but statistically insignificant. The important result, however, is that a significant negative initiative effect continues to appear.4

The NOMINATE and “citizen ideology” variables are indirect measures of state ideology—citizen preferences are inferred from the voting behavior of their elected representatives. The third variable measures voter ideology directly using opinion data from the National Election Surveys (NES). These surveys are given to a sample of voters prior to each election. Among other things, respondents are asked two “thermometer” questions about their perception of liberals and conservatives. Based on these responses, each person is assigned a number between 0 and 97, where 0 is the most liberal and 97 the most conservative. I use the median value of each state for the ideology variable. The

4 I also tried the “government ideology” variable of Berry et al., with similar results.
underlying questions are not asked in every year or for every state, so the sample size falls by about three-quarters.\textsuperscript{5}

Column (3) reports the spending regression that includes this variable. The ideology variable is positive but statistically insignificant. Its inclusion has no material effect on the initiative coefficient. The significance level falls because there are many fewer observations.

Just for good measure, column (4) reports a spending regression that includes all three ideology variables at the same time. Nothing new turns up. Two of the three ideology variables continue to fall short of statistical significance (the NES variable is significant at the 10 percent level), and the initiative effect continues to appear. The limited explanatory value of the three ideology variables suggests that the demographic variables already are capturing most of the relevant variation in state ideology.

So far, we have seen that inclusion of three different ideology variables does not make the initiative effect go away. A different approach is to directly compare the ideology of initiative and noninitiative states. Figure 3.3 and Table 3.3 report six different comparisons. The first three are simply the mean NOMINATE, “citizen ideology,” and NES scores, respectively. The next is based on \textit{CBS News/New York Times} polls from 1976-1988. The last two are based on Gallup polls from 1937-1939 and 1947-1964. The three opinion polls asked respondents to identify themselves as liberal or conservative. The responses were then aggregated for each state and normalized to yield a number from –100 to +100, where higher numbers correspond to more liberal respondents. Table 3.3 reports the raw statistics. Figure 3.3 simplifies things by converting each measure to a uniform scale ranging from 0 (most liberal) to 100 (most conservative).

If we focus on the first four measures that most closely correspond to the 1970-2000 sample period, we see that initiative states were more conservative than noninitiative states according to the NOMINATE, “citizen ideology,” and CBS/NYT measures, and more liberal according the NES measure. The only difference that can be distinguished from zero at conventional levels of statistical significance is the one using

\textsuperscript{5} I also ran the regressions using the mean values and tried deleting states with fewer than 10 respondents, none of which affected the results in a material way. I am slightly abusing the NES data here because the surveys are not designed to be representative at the state level.
“citizen ideology.” Going back before the sample period, we see that initiative states were more conservative according to the Gallup polls, but again the differences are not statistically significant. Statistical significance seems almost beside the point here, though. A glance at Figure 3.3 suggests that whatever ideological differences might exist or might have existed are quantitatively trivial (except, perhaps, when the “citizen ideology” variable is used). It is hard to avoid the conclusion that the citizens of initiative and noninitiative states are not now (and were not going back to 1937) much different in ideology.

It is also worth pointing out that the initiative in most cases was adopted over 50 years before the start of the sample period. As Erikson, Wright, and McIver (1993) show, there is little correlation in state ideology over such long periods of time. Even if the initiative was adopted by conservatives, there is no reason to think that the adopting states were still conservative in the sample period. Moreover, fiscal conservatives were generally opposed to adoption of the initiative. The initiative was promoted by Populists and Progressives, and the historical evidence suggests that they wanted new government programs, not spending cuts. Indeed, as will be shown in Chapter 5, the initiative had the effect of insulating spending in the early part of the century. A final observation, developed at greater length in Chapters 6 and 7, is that the effect of the initiative varies over time even in the postwar period, and in some periods there is no difference in spending between initiative and noninitiative states. If the initiative effects in Tables 3.1 and 3.2 were really caused by some unobserved ideology of the electorate, we would not expect to see initiative effects appear and disappear over time (unless ideology is much more transient than commonly believed.)

In short, there is little reason to believe that the estimated initiative effects are spuriously caused by unmeasured citizen ideology. Absent another plausible omitted variable that could have caused initiative states to spend less than noninitiative states, it seems fair to attribute the spending difference to the initiative itself.

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6 The initiative was also promoted by organized labor, especially the AFL-CIO, and the socialists. Initiative and referendum provisions appeared in the national and state platforms of the American Socialist Party.

7 As another approach to endogeneity problems, I estimated the regressions using instrumental variables (not reported) where the instrument for the initiative dummy was the availability of the initiative process in
Summary: The Initiative Cuts the Size of Government

This section documents that the initiative reduced the size of state and local government (measured by revenue or expenditure) by about 4 percent over the period 1970-2000. The results are robust to alternative estimation procedures, and are not the spurious consequence of an omitted citizen ideology variable. The initiative appears to bring about a modest reduction in spending. It does not trigger monumental cuts or lead to systematic deficits.

Second Effect: How the Initiative Changes the Centralization of Spending

In the previous section, we saw that the initiative led to cuts in the overall size of state and local government during the period 1970-2000. This section investigates how those cuts were achieved: did they come from state government, local government, or both? The answer will provide a second benchmark that we can compare with opinion data in order to determine if the majority supports or opposes the changes brought about by the initiative.

The evidence is also of independent interest because the division of spending between state and local governments affects the degree of government centralization. Spending is centralized if the state government makes the preponderance of expenditure decisions, and decentralized if local governments make most decisions. It is well documented that government centralization of revenue and expenditure increased throughout the twentieth century (Wallis, 1995). Whether this was a good or a bad thing is a matter of dispute. Central governments may be the most efficient providers of services with benefits or costs that spill over across jurisdictions (national defense is a prime example at the federal level). Local governments, on the other hand, are probably

1920. This follows Poterba (1995) and is based on the idea that institutions are difficult to change. The estimated initiative effects were, in anything, larger in magnitude.
better at tailoring policies to local conditions. Local governments are also subject to competition from other local governments (called Tiebout competition): people can shop among local governments and settle in the jurisdiction of the one that provides a desirable mix of spending and taxes. Competition puts pressure on local governments to adopt efficient public policies, but it could also result in a “race to the bottom” (or top) as local governments sacrifice their environment to attract businesses (see Fischel (2001) for a discussion and evaluation.)

The dispute over centralization is especially vivid when it comes to education, the largest single category of state and local expenditure (Figure 3.1). Some argue that spending decisions should be left primarily to local governments, who have better information about the benefits and costs of spending in their communities. Others argue that local governments are unable to police themselves, and involvement by state government is needed to protect the interests of children (particularly when it comes to standards: testing, curriculum, and teacher certification.) Others favor state involvement in order to transfer resources from rich to poor districts.

Although the trend toward increasing centralization is known, and the main arguments for and against it are clear, we understand relatively little about the politics of centralization. A particularly interesting question is whether the growth of centralization has been a response to (or in opposition to) voter demands.\(^8\) By measuring the effect of the initiative on centralization, and assessing whether it serves the many or the few, we will arrive at an answer of sorts.

*Basic Findings*

To understand how the initiative affects state versus local spending, I decompose expenditure into the amount disbursed by the state government and the amount disbursed

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\(^8\) Voters might also care about the mix between state and local government because they care about the mix of services provided by government. If voters like the services provided by local governments (such as police and fire) more than those provided by state government, they might want to shift money to local governments independent of any considerations relating to centralization. The precise reasons for decentralization are not important for my analysis.
by local governments, and estimate the effect of the initiative on each. The spending measures indicate which level of government ultimately spent the money, not where the money was raised. That is, money raised by the state and then transferred to a local government shows up as a local expenditure. Since state grants often come with strings attached, my measure of state spending probably understates the importance of state government in spending decisions.  

The results are reported in Table 3.4. The layout is the same before: each column is a regression, the main entries are coefficient estimates, and the standard errors adjusted for clustering are in parentheses. The dependent variable is indicated at the top of each column. The usual control variables are included as well as the NOMINATE ideology variable (nothing important changes if the ideology variable is deleted).

In regression (1), the dependent variable is state (only) expenditure per capita. The estimate indicates that state spending was $215.24 per capita less in initiative states than noninitiative states, all else equal. The coefficient is different from zero at better than the 5 percent level. State spending averaged $1,790 per capita over the sample, so the initiative triggered about a 12 percent reduction. The effect of the initiative on state spending is more dramatic than we saw for combined state and local spending, suggesting the process may be more important for the composition of spending than its level.

Regression (2) is the same as (1) except that the dependent variable is local expenditure per capita. The unit of observation here is the sum of all spending by local governments within a state (not individual cities, counties, etc.), and the initiative variable shows whether a state-level initiative was available (not whether a local initiative was available). The coefficient on the initiative dummy variable is $62.36, implying that local spending was about 3 percent higher in initiative than noninitiative states, based on a sample average of $2,101. However, there is enough imprecision in the estimate that we cannot rule out the possibility that local spending was the same in initiative and noninitiative states.

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9 I also estimated the state-only regressions for a subset of years using general expenditure, which includes intergovernmental transfers, instead of direct general expenditure. The estimated effects are similar, but generally larger in magnitude.
Regressions (1) and (2) reveal that the overall spending reduction triggered by the initiative was accomplished by drastically cutting state spending while holding constant or even increasing local spending. As a result, the initiative ended up decentralizing overall expenditure. Regression (3) makes this point more directly. The dependent variable is the percent of combined state and local expenditure disbursed by state government, what Wallis (1995) calls the “centralization index.” The coefficient on the initiative variable indicates that initiative states were 3.32 percent less centralized than noninitiative states, although the estimate is not quite distinguishable from zero at conventional levels of significance. For reference, the mean centralization index for the sample is 46 percent.

As with most regressions reported in this book, I checked the results by estimating the models with literally hundreds of alternative specifications. The finding that the initiative cuts state spending is highly robust. The positive effect on local spending is not. The initiative coefficient in the local spending regression is particularly sensitive to whether or not the regional dummies are included, and becomes about zero when Hawaii (where the state runs the public schools) is excluded. In any event, the key result—the initiative reduces the centralization of spending—does not depend on the treatment of Hawaii or the regional dummies.

How would an initiative bring about decentralization? There are probably few if any measures that legislate directly on the division of spending between state and local governments. However, measures that provide funds for local governments are not that hard to find. For example, California’s Proposition 98 in 1988 required the state to provide specified minimum levels of spending for schools districts. This money is raised by the state, but ends up being spent by local governments.

Evidence from Cities [OMITTED]

Summary: The Initiative Shifts Spending from State to Local Government

The main finding of this section is that states with the initiative ended up with more decentralized spending over the period 1970-2000. The initiative cut state spending
by about 12 percent, and apparently stimulated local spending (although the evidence on the size of this effect is somewhat mixed). The estimates indicate that state spending accounted for all of the reduction in combined state and local spending brought about by the initiative, and suggest that the initiative might have a larger effect on the division of spending than on its level.

**Third Effect: How the Initiative Changes the Way Money Is Raised**

So far we have seen that the initiative altered the size of government and the way money was spent. This section investigates how the initiative changed the way money was raised. The results provide a third policy effect of the initiative that can be compared to public opinion.

Governments raise funds in a number of ways. Table 3.6 lists the major revenue sources for state and local governments in 1997, and the fraction of revenue that each provided. Most revenue is collected in the form of taxes, primarily sales, property, and income taxes. A significant chunk of money is also raised from user fees and charges for services (“charges” for short), primarily tuition fees to attend public schools, colleges, and universities, and charges for hospital services and sewerage. The analysis to follow focuses on these two broad categories of revenue: taxes and charges (the third category is miscellaneous revenue and interest income, which I do not examine.) The conceptual difference between taxes and charges is that a person’s tax bill does not depend on how many government services he uses, while his charges are directly related to his use of government services. States have a fair amount of flexibility when deciding whether to finance public spending with taxes or charges. For example, the education of a student in a public university can be funded with fees paid by the student (tuition) or with taxes paid by the population at large.

The balance of taxes and charges is important because it affects economic efficiency and the amount of wealth redistribution. Economic efficiency generally requires the price of a service to be set equal to its marginal cost of provision. Efficiency considerations then point to heavy reliance on charges (the “price” of government services.) When taxes are used to subsidize and provide a service at below marginal cost,
consumption of the service will be excessive (from the viewpoint of economic efficiency) and there will be distortions in the markets where the taxes are assessed. If there are externalities associated with public spending (for example, a person who has a flu shot will not transmit the disease to others), it might be efficient to set the charge below marginal cost even though distortionary taxes will be needed to provide the subsidy.

The mix between taxes and charges also affects the amount of redistribution in society. Taxes allow wealth to be transferred from taxpayers to the recipients of services, while charges restrict the amount of redistribution. For example, if college students are charged 100 percent of the cost of their education, there is no redistribution. On the other hand, if tuition is free and the costs of provision are paid by general tax revenue, wealth is transferred from taxpayers to students. We know from casual observation that changes in the level of tuition at state universities are highly contentious.

In short, the mix of taxes and charges in a government’s finances is important because it affects economic efficiency and the amount of redistribution. The evidence in this section sheds light on what determines the ratio in practice, and allows us to assess whether the initiative pushes the mix in a direction favored by the public.

Basic Findings

Table 3.7 reports the main results in the usual format (each column is a regression, standard errors are beneath coefficient estimates, etc.) The dependent variable is indicated at the top of the column. The standard control variables are employed as well as the NOMINATE ideology variable.

Consider first how the initiative affected tax revenue. Column (1) shows that initiative states raised $110.00 per capita less from taxes than noninitiative states, all else equal. The coefficient is significantly different from zero at better than the 5 percent level. In percentage terms, the initiative is associated with about a 5 percent reduction in tax revenue compared to the average of $2,280 per capita. Recall from earlier in this chapter that the initiative cut total revenue by about $151 per capita (Table 3.2, column (1)). It appears that taxes bore the brunt of the revenue cutbacks.
The regression in column (2) corroborates this impression. Here the dependent variable is charges per capita. The coefficient on the initiative dummy is trivially small, and statistically insignificant. We might have expected the revenue cuts triggered by the initiative to be apportioned to taxes and charges more or less proportionately, but that does not appear to be the case.

The regression in column (3) provides another perspective on this. The dependent variable in this regression is the percentage of revenue that comes from taxes divided by the sum of tax and charge revenue. This is a measure of the importance of tax revenue relative to charge revenue. As can be seen, the initiative led to a 0.90 percent reduction in the percentage of revenue coming from taxes. The estimate cannot be differentiated from zero at conventional levels of significance, however, and the effect is modest compared to the sample average of about 81 percent.

As usual, I also estimated these regressions a number of other ways to check robustness. Among other things, I included/excluded ideology variables, ran the regressions without the western states and without the southern states, used log-of-the odds specifications for regression (3), and checked for influential state observations. The negative effect of the initiative on taxes is highly robust, as is the small and insignificant effect on charges. The effect of the initiative on the taxes/revenue ratio is always negative, but the magnitude of the effect is much larger and achieves statistical significance in some specifications (for example, when southern states are deleted.) The broad picture that emerges is that the initiative cuts taxes, absolutely and as a proportion of revenue.

Evidence from Cities [OMITTED]

Summary: The Initiative Shifts Revenue from Taxes to Charges

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10 The sample for regressions (2) and (3) runs from 1978 to 2000 because the data sources do not report charge revenue separately from miscellaneous revenue prior to 1978. I also estimated these regressions with charges + miscellaneous revenue as the dependent variable, and the results are about the same. See also Matsusaka (1995a).
The main finding of this section is that the initiative shifted the financing mix of state and local governments away from taxes and into user fees and charges for services. At the state level the initiative led to about a 5 percent reduction in taxes and no change in charges. At the city level, the initiative led to about 14 percent more charges and no change in taxes. The revenue structure of initiative states and cities therefore ended up less reliant on taxes and more reliant on charges, with fewer possibilities for redistribution of wealth.

**Conclusion: Three Policy Changes**

The central question of this book is whether the initiative serves the many or a special interest few. This chapter lays the groundwork for answering the question. The chapter documents three policy changes brought about by the initiative: (1) the initiative reduces total government spending, (2) the initiative shifts spending from state to local governments, and (3) the initiative shifts the sources of revenue from taxes to user fees and charges for services. The next chapter examines an array of public opinion data over the last three decades to determine if the majority was in favor of these three changes or, as the special interest subversion view maintains, if the changes were brought about contrary to the will of the majority.
CHAPTER FOUR

For the Many or the Few

All that we can ask of a law, in a democracy, . . . is that it shall be reasonably acceptable to that vague thing which we call public opinion.

—Charles Beard

This chapter takes up the central question of the book: does the initiative benefit the many or the few? The previous chapter documented several ways the initiative changed tax and spending policies in the states over the last three decades: it cut spending, decentralized expenditure from state to local governments, and led to less reliance on taxes and more on charges for services. Did the public want these changes to occur? Or were the changes forced upon the public by narrow special interests who used the initiative to manipulate the policy process for private gain?

These questions are at the heart of the debate over the initiative. The Progressives believed the initiative would allow citizens to approve popular policies that were suppressed in the legislature by special interests. Critics of the initiative turn the argument on its head and argue that special interests use the initiative to thwart the will of the voters. Which argument is correct is an empirical question.

[OMITTED MATERIAL HERE]

This chapter presents such evidence. My approach is very simple. I focus on the three dimensions of fiscal policy studied in Chapter 3: (1) total spending/revenue, (2)
expenditure centralization, and (3) taxes versus charges. Chapter 3 documented specific changes brought about by the initiative in each of these policy dimensions, summarized in Figure 4.1. With these empirical regularities in mind, I collected polling data in which citizens registered their preferences on each policy dimension. This chapter compares the expressed preferences of the public to the policy changes brought about by the initiative and asks: was the majority in favor of the changes or opposed to the changes? If the majority supported the changes, we can say that the initiative served the interests of the many; if the majority opposed the changes it would seem the initiative served the interests of the few.

Some limitations of my approach are worth noting before considering the evidence. The most significant is that opinion surveys seldom pose questions exactly as we would like. I will call attention to this problem throughout. In my view, the limitation is outweighed by the consistency of the responses across different polls, but the reader should nevertheless keep this limitation in mind.

Another issue is whether the answers given to pollsters are the actual preferences of voters. It is fairly clear that ordinary citizens are generally uninformed about policy, and their views about specific pieces of legislation may not necessarily reflect their true preferences. This is why we wonder if ballot elections truly reflect the public’s interests. But it does not seem a stretch to imagine that citizens do know their preferences in a general sense, at the broad level of the survey questions I employ, such as whether they would like government spending increased or decreased.\(^1\) I therefore assume throughout that people do know their broad policy preferences, and those preferences can be captured by opinion polls. I leave open the question whether voters are sophisticated enough to determine if a particular ballot proposition before them will actually advance or hinder their interests.

The general strategy is to study a large amount of data of various types and from various sources and periods—none of which are decisive on their own—and draw conclusions from the preponderance of the evidence. There is no silver bullet here, no key parameter on which everything depends. For this reason, we will not end up with

\(^1\) See Hansen (1998) for evidence that opinions on broad fiscal matters are generally coherent.
conclusions that are “true” with conventional measures of statistical significance, but I believe a fairly compelling picture emerges even so.

Finally, a note on the use of the term “special interest” is appropriate. Although this term is common in everyday discourse, it is not well-defined. As many have noted, we are all special interests to a degree. I will be using the term in the following sense: Suppose a majority of people favor policy $X$ over policy $Y$. If policy $X$ is implemented, I will say that the outcome reflects the majority interest. If policy $Y$ is selected, I will say that it reflects a special interest. When I refer to a “special interest,” then, I simply mean the interest of less than a majority of the population. I believe this is a sensible definition of “special interest,” and captures the essence of what the term means in practice. But my primary motivation in using the term is to avoid a cumbersome repetition of the phrase “interest of the numerical minority.” It is very important to note that I am not claiming that the policy favored by a majority is necessarily a “better” policy than the one favored by a minority. That is a deeper issue.² My goal here is simply to test whether the initiative pushes policy toward or away from what the majority wants.

Data Sources

I rely on several sources for opinion data. One important set of surveys were conducted under the auspices of the Advisory Commission on Intergovernmental Relations (ACIR), a bipartisan federal commission created in 1959 and closed in 1996. The purpose of the commission was to study and make recommendations to improve the federal government’s relations with state and local governments. From 1972 to 1995, the ACIR commissioned a set of surveys to measure attitudes toward federal, state, and local governments and their policies. The actual polling of 1,000+ men and women was conducted by the Opinion Research Corporation of Princeton (1972-1982) and the Gallup Organization (1983-1995).

² My definition of “special interest” has no normative content. In casual conversation, the term is sometimes used normatively (to mean an interest opposed to the (purely subjective) “public interest.”) Because such a definition is entirely subjective, it is unsuitable for scientific analysis.
The second source of opinion data is the American National Election Studies (NES), collected by the Survey Research Center/Center for Political Studies at the University of Michigan. The surveys have been conducted biennially since 1948, usually prior to federal elections, but sometimes afterward. Respondents are asked a huge battery of questions to measure how they feel about issues and candidates. Survey sizes range from 1,181 in 1960 to 2,705 in 1972.

I also use Los Angeles Times/ABC News (LAT/ABC) polls, the April 2003 Internet Survey conducted by the USC/Caltech Center for the Study of Law and Politics, and a scattering of other sources. These are described in the text when referenced. More precise information on the data sources appears in Appendix 3.

**Who Wants Smaller Government?**

Consider first total revenue and spending. We saw in Chapter 3 that the initiative triggered a cut in the size of state and local governments. Was this because special interests used the initiative to hijack the policy process and impose their anti-spending views on a pro-spending majority? Or did the initiative allow an anti-spending majority to restrain pro-spending interests in the legislature?

To answer these questions, we must determine if the majority was in favor of or opposed to spending/revenue cuts during the sample period. Two reasonably good surveys cover the sample period. The ACIR provides fairly clean evidence for 1975-1986. Respondents were asked:

*Considering all government services on the one hand and taxes on the other, which of the following statements comes closer to your view?*

1. Decrease services and taxes.
2. Keep services and taxes about where they are.
3. Increase services and taxes.
4. No opinion.

I like this question because it forces respondents to take into account the link between spending and taxes. Responses to surveys that ask only about spending or only
about taxes are harder to interpret, and sometimes contradictory. People tend to respond positively to questions about spending and negatively to questions about taxes.

Figure 4.2 reports the percentage who gave each response in each sample year. The most popular response in every year was to keep services and taxes “about where they are,” with the number giving this answer ranging from 42 percent to 52 percent. The second most popular response, not too far behind, was to decrease spending and taxes, with numbers ranging from 30 percent to 39 percent. The least popular response, even below “No opinion” and always in single digits, was to increase spending and taxes.

These numbers, taken at face value, can accommodate two views, depending on how we interpret the “keep services and taxes about where they are” response. At one extreme, if we think all people who said they wanted to keep things “about where they are” really wanted to keep things “exactly where they are,” then there was not a majority in favor of spending cuts or spending increases. The majority (or plurality) view was to maintain the status quo.

However, an argument can be made that a majority of people favored modest cuts in spending, perhaps on the order of the 5 percent cuts that actually occurred. Presumably, among the people who wanted to keep spending and taxes “about where they are” were some who would have liked to see modest increases in spending and others who would have liked to see modest cuts. If we suppose, as an approximation, that there were equal numbers of both types of people, then a majority of 56 to 62 percent existed in favor of modest spending cuts (calculated by adding together the number of respondents who explicitly expressed a desire for less spending and the imputed number of people who wanted modest cuts.) In this case (and under most reasonable assumptions about the distribution of preferences), a majority of people were in favor of the spending and revenue cuts brought about by the initiative.

To avoid introducing theoretical jargon here, I have tolerated some imprecision. This footnote goes into a bit more detail for the technical reader. We are trying to learn from Figure 4.2 the views of the median voter. Suppose citizens are defined by a desired change in spending, $S$, and there are two cutoff values, $S_H > 0$ and $S_L < 0$, that determine how people respond to polls. Citizens with $S \geq S_H$ say they want to increase spending, citizens with $S \leq S_L$ say they want to cut spending, and citizens with $S_L < S < S_H$ say they want to keep spending “about where it is.” It is clear from Figure 4.2 that the median voter ($S_{med}$) is

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3 To avoid introducing theoretical jargon here, I have tolerated some imprecision. This footnote goes into a bit more detail for the technical reader. We are trying to learn from Figure 4.2 the views of the median voter. Suppose citizens are defined by a desired change in spending, $S$, and there are two cutoff values, $S_H > 0$ and $S_L < 0$, that determine how people respond to polls. Citizens with $S \geq S_H$ say they want to increase spending, citizens with $S \leq S_L$ say they want to cut spending, and citizens with $S_L < S < S_H$ say they want to keep spending “about where it is.” It is clear from Figure 4.2 that the median voter ($S_{med}$) is
This conclusion is reinforced by evidence from *Los Angeles Times*/ABC News polls from 1984-2000. Respondents were asked:

*Would you say you favor smaller government with fewer services, or larger government with many services?*

A difference between this question and the ACIR question is that those in favor of modest changes were forced to indicate whether they wanted cuts or increases. A downside is that the question does not allow those people who supported the status quo to express that opinion. Another deficiency of the question, from my perspective, is that it only asks spending and not taxes. Respondents tend to express more favorable opinions about government when it comes to spending and less favorable views when it comes to taxes. Therefore, I would expect the question to be biased in a pro-spending direction.

Figure 4.3 reports the percentage of respondents giving each answer in the LAT/ABC surveys. The figure shows that those who wanted fewer government services outnumbered those who wanted more services throughout the sample period. If those without opinions are ignored, we see absolute majorities in favor of spending cuts in all years.

Taken together, Figures 4.2 and 4.3 strongly suggest that a majority of people were in favor of spending reductions during our sample period. There is perhaps an argument that a majority favored the status quo, but it feels somewhat forced to me.\(^4\) There is nothing at all in the figures suggesting that a majority favored spending increases. The evidence, then, is that voters wanted less spending throughout the sample period. The initiative, which did cut spending, was therefore pushing policy in the

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in the group that wants services to be kept about the same, that is, \(S_L < S_{med} < S_H\). This in itself does not tell us much: the median voter could have \(S_{med} > 0\) or \(S_{med} = 0\) or \(S_{med} < 0\). However, it is easy to show that if the distribution of \(S\) is symmetric around 0, the median \(S\) cannot be positive, and if the distribution is atomistic, the median \(S\) must be negative. There is no reasonable assumption that would have the median voter in favor of spending increases.

\(^4\) Nothing rides on this as far as the subversion hypothesis goes. We would reject the hypothesis even if a majority favored the status quo: If the initiative allows special interests to subvert the public will, we should see a majority *opposed* to prevailing policies in initiative states.
Another concern with these survey questions is their failure to distinguish between federal, state, and local spending. Attitudes toward spending at different levels of government are likely to be correlated, but it would be nice to have something more concrete to go on. Fortunately, evidence of a different kind appears in a study by Peltzman (1992), and it corroborates the conclusions from the surveys.

In his study, Peltzman examined the relation between votes received by state governors when they stood for re-election and growth of state spending during their term of office (over 1950-1988). A substantial literature in economics and political science documents that voters tend to reward and punish officials for economic performance during their term. Peltzman measured how voters responded to government spending growth in addition to economic performance. He found a significant negative reaction to state spending growth: each +1 percent change in state spending during the governor’s term cost ¼ percent of the vote when he or she stood for re-election. The important point for our purposes is that the marginal voter considered state spending to be excessive. It is also interesting that the magnitudes are modest, reinforcing the impression that the marginal voter wanted only a modest retrenchment of government spending.5

To sum up, the evidence consistently shows that a majority of people wanted (modest) reductions in government spending during the last three decades. The effect of the initiative was to cut spending. It seems that the initiative nudged state spending in the direction preferred by a majority of citizens.

Who Wants Decentralization?

Consider next the decentralizing effect of the initiative: initiative states spent less at the state level and more at the local level than noninitiative states. Here we investigate if decentralization conformed or was contrary to the wishes of the majority. The opinion data on this question are at best indirect. The surveys do not ask people whether they wanted to change the mix between state and local spending. Nevertheless, the available polls, if analyzed carefully, provide a good indication what the answer would be.

The longest running survey that speaks to our question was compiled by the ACIR. Respondents were asked the following question:

*From which level of government do you feel you get the most for your money?*

1. Federal
2. State
3. Local
4. Don’t know.

The answers give a broad sense how people assessed the three levels of government during the sample period. Figure 4.5 plots the percentage of people giving each response for surveys conducted between 1970 and 2000. The numbers bounce around over time, but in every year more people selected local government than state government as providing the most value for their money. The ACIR also asked variations of the question: “Which level of government do you think spends your tax dollars most wisely?” (1989, 1991) and “Which level of government do you think responds best to your needs?” (1989). In all cases, local government received the most responses, followed by state government, and then the federal government.

Although Figure 4.5 suggests that the majority looked more favorably on local than state government, it does not provide enough information to be conclusive. The problem is that we do not know the relative ranking of state and local governments among those people who ranked federal spending as the most valuable. If, for example,
every person who chose federal spending as the most valuable happened to rank state spending ahead of local spending, the majority would have preferred state to local government.

The ACIR asked a different question in 1988 that allows us to get around this problem:

In your opinion, how often does the federal/state/local government perform its duties efficiently and at the best possible cost?

1. Almost all of the time
2. Most of the time
3. Some of the time
4. Hardly ever
5. Don’t know.

Here each person expressed an opinion about each level of government. Figure 4.6 reports the percentage of people who gave each response. As can be seen, more people considered local government efficient “almost always” or “most of the time” than felt the same about state government.6

Figures 4.5-4.8 show that citizens consistently viewed local government as more efficient/effective than state government during the sample period. While it seems plausible that people would want funds to be disbursed by the most efficient level of government, we can only infer such a preference from the figures. In an effort to get even more direct evidence, I placed a question on the April 2002 Internet Survey conducted by the USC/Caltech Center for the Study of Law and Politics that explicitly asked if people would like to shift spending from state to local government, or from local to state

6 In 1990, the ACIR asked respondents to rate the performance of state and local governments from “excellent” to “failing.” Again, local government did better, although the differences were less pronounced than in Figures 4.6 and 4.7.
government, or keep it the same. Because the survey was completed over the internet, the sample is unlikely to be representative of the general population. The nature and extent of the biases are not yet known, but the responses to a question about the overall size of government suggests the respondents are more conservative than the general population.\(^7\) Since state spending offers greater scope for redistribution, sample respondents may be more inclined toward decentralization than the population at large. Be that as it may, the survey at least provides concrete information on the views of a subset of the population. The most popular response, selected by 30 percent, was to shift spending from state to local government. Almost as many people, 29 percent, wanted to keep spending about the same. Only 14 percent want to shift local spending to the state.

To summarize, the initiative shifted the disbursement of funds from state to local governments over the last 30 years. Every piece of opinion data we have seen suggests that the majority of voters approved of a shift in that direction. Again, it seems the initiative brought about a policy change that was supported by the majority.

Who Wants Charges Instead of Taxes?

A third effect of the initiative is on government finance. Initiative states and cities relied more on user fees and charges for services and less on broad-based taxes than noninitiative states and cities. The question again is whether this shift toward charges represents subversion by special interests or did the majority prefer lower charges and higher taxes?

Opinion data that speak to this question are available from select years of the ACIR survey. Citizens were asked how they would prefer to raise revenue, assuming that more revenue was going to be raised. The results are reported in Table 4.1. The first question (panel A) focused on local government:

\(^7\) Asked whether state and local spending and taxes should be decreased, kept the same, or increased, 59 percent favored cuts, 18 percent favored the status quo, and 6 percent wanted more spending. In comparison, the Los Angeles Times survey in 2001 found 54 percent in favor of cuts and 31 percent in favor of increases.
Suppose your local government must raise more revenue. The better way to do this would be . . .

1. Local income tax
2. Local sales tax
3. Local property tax
4. Charges for specific services
5. Don’t know/no answer.

The responses were similar for all three years that the question was asked. Charges were favored by the greatest number of people, and commanded an absolute majority of those who expressed a preference in 1981 and 1986. In 1987, the number of people who preferred a tax of some sort (income, property, sales) exceeded the number who preferred charges, 38 percent to 33 percent. The unusually large number of “other/don’t know” responses in 1987 was due to 17 percent of respondents who rejected the premise of the question and volunteered that taxes should not be raised at all. Taken together, the responses suggest that most people would have opted for charges instead of taxes if forced to choose.

The second question (panel B) asked about state revenue:

If your state government decided to raise a small amount of additional revenue to help meet costs and improve services, which one of these would you prefer?

1. An increase in cigarette and liquor taxes

---

8 The decline in popularity of the “charges” answer may be due to a change in question wording. In 1987, the question enumerated specific charges: “things like the use of local parks and swimming pools, parking, library use, garbage pick-up, or ambulance service.”

9 Two potential sources of bias come to mind that probably work in opposite directions. First, the question mentions that revenue would be used for “services” rather than transfers. This may lead to a bias toward the “charges” response since charges are more naturally associated with services. Second, the respondents are offered a menu of three different taxes but only a single charge category. This may exaggerate the number of tax responses.
2. An increase in the general state sales tax
3. An increase in gasoline and diesel fuel taxes
4. An increase in state income tax rates, or an income tax if your state does not now have one
5. An increase in user fees or charges for things like the use of state parks, automobile registration, boating licenses, or toll roads
6. Don’t know.

The runaway favorite was cigarette and liquor taxes, supported by 54 percent of respondents. These are neither broad-based taxes nor a user fees, although some people may have viewed them as akin to a user fee since they can be avoided with modest changes in behavior (unlike sales and income taxes). Leaving aside cigarette and liquor taxes, we see that user fees and charges were the most popular revenue source.

The third question (panel C) did not distinguish between levels of government:

If there is a need to raise additional revenue to improve public works services, which one of these would you prefer?
1. User fees or charges for specific services
2. Special taxes dedicated to funding specific services
3. General purpose taxes
4. Other
5. Don’t know.

General purposes taxes were the least popular way to raise revenue. More than three times as many people preferred user fees or charges. The most popular response, selected by 37 percent of respondents, was “special taxes dedicated to funding special services.” In practice, this probably meant something like gasoline, cigarette, or liquor taxes, but whether respondents understood the question this way is unclear. Running a close second was “user fees or charges for specific services,” selected by 35 percent of respondents.
I placed a related question on the *April 2002 Internet Survey* that simply asked if people would like to see more, less, or the same reliance on taxes versus charges. The potential (conservative) bias of the internet survey discussed above should be kept in mind. The most popular response, selected by 37 percent, was to keep the mix of taxes and charges about the same. A close second with 33 percent was to reduce taxes and rely more on charges. Only 8 percent wanted to rely more on taxes and less on charges.

To summarize, the survey evidence shows that most people preferred user fees and charges to broad-based taxes for both state and local government. We saw in Chapter 3 that the initiative shifted the revenue mix in exactly this direction at both the state and local level. Again, the initiative pushed policy in the direction favored by the majority.

**Conclusion**

Fiscal policy from 1970 to 2000 differed between initiative and initiative states in three systematic ways: initiatives states (1) spent/taxed less, (2) decentralized expenditure from state to local governments, and (3) raised less money from taxes and more from charges for services. This chapter reviewed a great deal of opinion data to assess what voters thought about these policies. The data were collected from a variety of sources, spanned several decades, and solicited opinions using a number of different questions. Yet, remarkably, they all tell essentially the same story: a majority of people preferred the policies brought about by the initiative. None of the polls individually is conclusive, at least to me, but I find their cumulative effect rather convincing. It is hard to escape the conclusion that the initiative promoted the interests of the many and not the few.

Some thoughtful observers, such as Broder (2000), have argued that the initiative allows wealthy individuals and groups to bring about policies contrary to the public interest. Their argument is based on the observation that the initiative process is expensive to use, and appears to be dominated by rich individuals and groups. The evidence here, however, shows that even if wealthy interests are prominent players in initiative politics, their efforts ultimately redound to the benefit of the majority. There is no mystery how this could happen. Without the initiative, voters are forced to accept the policy choices of the legislature. With the initiative, voters are given choices. If the
alternative on an initiative is worse than the legislature’s policy, the initiative can be rejected and no harm is done. If the alternative is better, the voters can accept the initiative and are better off. In short, even if there is unequal access when it comes to proposing initiatives, the ability of voters to filter out the bad proposals and keep the good ones allows the process to work to advantage of the majority.

To be clear, the evidence here shows that the initiative serves the many and not the few when it comes to fiscal policy. None of this precludes the possibility that the initiative allows special interests to subvert policy in some other dimension, such as regulation or social policy.\(^\text{10}\) However, to say that something is possible does not mean it is true or even likely to be true. Since all of the evidence to date is inconsistent with the subversion hypothesis, the burden of proof would seem to be upon those who argue for the special interest view. Until such evidence is produced, at least the subversion hypothesis should no longer be peddled as embodying either knowledge or wisdom.\(^\text{11}\)

Finally, I want to emphasize that the evidence is value neutral; it does not tell us whether the initiative process is a good or bad form of government. The evidence simply shows that the initiative promotes the will of the majority. To be sure, majority rule is a core principle of democracy, but it is not the only one. For example, we also care about protecting the rights of minorities from tyranny of the majority. To make a judgment about the desirability of the initiative requires a weighing of all its consequences, not just whether it promotes or hinders majority rule. Chapters 8 and 9 discuss some of these other consequences in depth.

\(^{10}\) But see the evidence in Gerber (1996, 1999), which suggests that death penalty and abortion policies are closer to the majority position in initiative states than noninitiative states.

\(^{11}\) This phrase is a homage to Lapalombara and Hagan (1951), who long ago called for initiative students to base their opinions more firmly on empirical evidence.
REFERENCES


REFERENCES - 3
REFERENCES


Figure 3.3
“Ideology” of Initiative and Noninitiative States

Note. This chart indicates the average “ideology” of initiative and noninitiative states. All ideology measures are normalized so that 0 is the most liberal and 100 is the most conservative. NOMINATE is the average DW-NOMINATE score for the state’s U.S. senators, based on roll call votes. Citizen Ideology is the index constructed by Berry et al. (1998). NES is the median self-reported ideology of respondents to the National Election Surveys. The polls are index numbers computed by Erikson, Wright, and McIver (1993).
Figure 4.1

Note. This figure summarizes the findings from Chapter 3. For example, the first triangle shows that the initiative cut total spending and revenue by about 4 percent.
Figure 4.2
Views about Government Services and Taxes, ACIR Surveys
“Considering all government services on the one hand and taxes on the other, which of the following comes closest to your view?”
Figure 4.3
Views about Government Services, LAT/ABC Surveys
“Would you say you favor smaller government with fewer services, or larger government with many services?”
Figure 4.5
“From Which Level of Government Do You Feel You Get the Most for Your Money?”

The graph shows the percentage of responses over time, categorized by level of government: Local, State, and Federal. The data is presented from 1970 to 2000, with fluctuations in the percentage of responses for each level over the years.
Figure 4.6
“How Often Does Government Perform Its Duties Efficiently and at the Best Cost Possible?”

Almost always  Most of time  Some of time  Hardly ever  Don't know

Percent of Responses

State  Local
Table 3.1
Regressions of State and Local Revenue and Expenditure on Initiative and Control Variables, 1970-2000

<table>
<thead>
<tr>
<th>Variables</th>
<th>Revenue (1)</th>
<th>Expenditure (2)</th>
<th>Revenue (3)</th>
<th>Expenditure (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dummy = 1 if initiative state</td>
<td>-133.38*</td>
<td>-147.26**</td>
<td>-253.97</td>
<td>-320.26*</td>
</tr>
<tr>
<td></td>
<td>(76.32)</td>
<td>(70.86)</td>
<td>(183.56)</td>
<td>(182.66)</td>
</tr>
<tr>
<td>Signature requirement × initiative dummy</td>
<td>...</td>
<td>...</td>
<td>18.87</td>
<td>27.13</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(23.05)</td>
<td>(22.71)</td>
</tr>
<tr>
<td>Income</td>
<td>0.11***</td>
<td>0.11***</td>
<td>0.12***</td>
<td>0.11***</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.01)</td>
<td>(0.01)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Federal aid</td>
<td>1.17***</td>
<td>2.08***</td>
<td>1.20***</td>
<td>2.12***</td>
</tr>
<tr>
<td></td>
<td>(0.29)</td>
<td>(0.32)</td>
<td>(0.30)</td>
<td>(0.31)</td>
</tr>
<tr>
<td>Population, logarithm</td>
<td>48.12</td>
<td>39.60</td>
<td>49.88</td>
<td>42.12</td>
</tr>
<tr>
<td></td>
<td>(73.75)</td>
<td>(71.42)</td>
<td>(73.39)</td>
<td>(69.99)</td>
</tr>
<tr>
<td>Metropolitan population, %</td>
<td>0.55</td>
<td>1.87</td>
<td>0.43</td>
<td>1.70</td>
</tr>
<tr>
<td></td>
<td>(2.21)</td>
<td>(1.97)</td>
<td>(2.31)</td>
<td>(2.10)</td>
</tr>
<tr>
<td>Growth of population, previous 5 years, %</td>
<td>4.25</td>
<td>10.54*</td>
<td>1.89</td>
<td>7.16</td>
</tr>
<tr>
<td></td>
<td>(5.90)</td>
<td>(6.10)</td>
<td>(6.19)</td>
<td>(6.13)</td>
</tr>
<tr>
<td>Dummy = 1 if southern state</td>
<td>-214.56**</td>
<td>-212.35**</td>
<td>-206.00**</td>
<td>-200.04*</td>
</tr>
<tr>
<td></td>
<td>(99.27)</td>
<td>(101.31)</td>
<td>(98.75)</td>
<td>(100.10)</td>
</tr>
<tr>
<td>Dummy = 1 if western state</td>
<td>182.89*</td>
<td>167.29*</td>
<td>183.08*</td>
<td>167.56*</td>
</tr>
<tr>
<td></td>
<td>(91.25)</td>
<td>(88.53)</td>
<td>(91.57)</td>
<td>(87.28)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.992</td>
<td>0.994</td>
<td>0.992</td>
<td>0.994</td>
</tr>
</tbody>
</table>

Note. Each column is a regression with 1,488 observations. The main entries are coefficient estimates; standard errors adjusted for within-state clustering are in parentheses. Revenue and expenditure are combined totals for state and local government. Revenue, expenditure, income, and federal aid are expressed in year-2000 dollars per capita. The sample includes all states except Alaska and Wyoming and covers the years 1970-2000. Each regression included year dummies whose coefficients are not reported. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.
Table 3.2
Expenditure Regressions Controlling for “Ideology”

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dummy = 1 if initiative state</td>
<td>-152.87**</td>
<td>-142.29*</td>
<td>-153.94</td>
<td>-159.32</td>
</tr>
<tr>
<td></td>
<td>(70.09)</td>
<td>(70.89)</td>
<td>(96.04)</td>
<td>(99.48)</td>
</tr>
<tr>
<td>Income</td>
<td>0.10***</td>
<td>0.11***</td>
<td>0.11***</td>
<td>0.11***</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.01)</td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Federal aid</td>
<td>2.03***</td>
<td>2.06***</td>
<td>2.25***</td>
<td>2.18***</td>
</tr>
<tr>
<td></td>
<td>(0.36)</td>
<td>(0.34)</td>
<td>(0.39)</td>
<td>(0.40)</td>
</tr>
<tr>
<td>Population, logarithm</td>
<td>40.38</td>
<td>41.19</td>
<td>151.05*</td>
<td>156.64*</td>
</tr>
<tr>
<td></td>
<td>(72.65)</td>
<td>(71.81)</td>
<td>(85.05)</td>
<td>(84.04)</td>
</tr>
<tr>
<td>Metropolitan population, %</td>
<td>1679</td>
<td>1.55</td>
<td>-2.89</td>
<td>-3.77</td>
</tr>
<tr>
<td></td>
<td>(1.91)</td>
<td>(1.95)</td>
<td>(2.98)</td>
<td>(2.93)</td>
</tr>
<tr>
<td>Growth of population, previous 5 years, %</td>
<td>11.71*</td>
<td>11.28*</td>
<td>9.55</td>
<td>11.03</td>
</tr>
<tr>
<td></td>
<td>(5.75)</td>
<td>(6.06)</td>
<td>(8.63)</td>
<td>(8.97)</td>
</tr>
<tr>
<td>Dummy = 1 if southern state</td>
<td>-206.51*</td>
<td>-211.42**</td>
<td>-242.22**</td>
<td>-202.89*</td>
</tr>
<tr>
<td></td>
<td>(103.03)</td>
<td>(101.91)</td>
<td>(117.14)</td>
<td>(121.99)</td>
</tr>
<tr>
<td>Dummy = 1 if western state</td>
<td>175.38*</td>
<td>164.13*</td>
<td>185.91</td>
<td>197.76</td>
</tr>
<tr>
<td></td>
<td>(90.58)</td>
<td>(86.62)</td>
<td>(141.14)</td>
<td>(138.00)</td>
</tr>
<tr>
<td>Ideology 1: NOMINATE for U.S.</td>
<td>-97.69</td>
<td>…</td>
<td>…</td>
<td>20.91</td>
</tr>
<tr>
<td>senators, average</td>
<td>(120.60)</td>
<td></td>
<td></td>
<td>(148.67)</td>
</tr>
<tr>
<td>Ideology 2: “Citizen Ideology” from</td>
<td>…</td>
<td>0.81</td>
<td>…</td>
<td>3.08</td>
</tr>
<tr>
<td>Berry et al. (1998)</td>
<td></td>
<td>(1.21)</td>
<td></td>
<td>(2.74)</td>
</tr>
<tr>
<td>Ideology 3: “Liberal/Conservative”</td>
<td>…</td>
<td>…</td>
<td>6.21</td>
<td>7.18*</td>
</tr>
<tr>
<td>thermometer from NES, median</td>
<td></td>
<td></td>
<td>(3.96)</td>
<td>(4.23)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.994</td>
<td>0.994</td>
<td>0.994</td>
<td>0.994</td>
</tr>
<tr>
<td>$N$</td>
<td>1,488</td>
<td>1,440</td>
<td>472</td>
<td>472</td>
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</tbody>
</table>

Note. Each column is a regression. The main entries are coefficient estimates; standard errors adjusted for within-state clustering are in parentheses. The dependent variable is combined state and local direct general expenditure per capita. Expenditure, income, and federal aid are expressed in year-2000 dollars per capita. The sample includes all states except Alaska and Wyoming and covers 1970-2000. Each regression included year dummies whose coefficients are not reported. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.
<table>
<thead>
<tr>
<th>Ideology Measure</th>
<th>Initiative States</th>
<th>Non-initiative States</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) NOMINATE of U.S. senators, average</td>
<td>-0.037</td>
<td>-0.051</td>
<td>0.64</td>
</tr>
<tr>
<td>(liberal = -1, conservative = +1)</td>
<td>N = 324</td>
<td>N = 444</td>
<td></td>
</tr>
<tr>
<td>(2) “Citizen Ideology” from Berry et al. (1998)</td>
<td>47.4</td>
<td>51.2</td>
<td>3.11***</td>
</tr>
<tr>
<td>(conservative = 0, liberal = 100)</td>
<td>N = 607</td>
<td>N = 833</td>
<td></td>
</tr>
<tr>
<td>(3) “Liberal-Conservative” index from NES, median</td>
<td>50.6</td>
<td>50.9</td>
<td>1.01</td>
</tr>
<tr>
<td>(liberal = 0, conservative = 97)</td>
<td>N = 189</td>
<td>N = 283</td>
<td></td>
</tr>
<tr>
<td>(4) CBS News/New York Times polls, 1976-1988</td>
<td>-15.3</td>
<td>-13.4</td>
<td>0.87</td>
</tr>
<tr>
<td>(conservative = -100, liberal = 100)</td>
<td>N = 21</td>
<td>N = 26</td>
<td></td>
</tr>
<tr>
<td>(5) Gallup polls, 1947-1964</td>
<td>-6.1</td>
<td>-1.7</td>
<td>1.31</td>
</tr>
<tr>
<td>(conservative = -100, liberal = 100)</td>
<td>N = 20</td>
<td>N = 26</td>
<td></td>
</tr>
<tr>
<td>(6) Gallup polls, 1937-1939</td>
<td>-3.3</td>
<td>-0.1</td>
<td>0.96</td>
</tr>
<tr>
<td>(conservative = -100, liberal = 100)</td>
<td>N = 20</td>
<td>N = 26</td>
<td></td>
</tr>
</tbody>
</table>

Note. The main entry in each cell is the mean value of the ideology measure. N is the number of observations. The t-statistic is for the hypothesis that the means are the same. The extreme values for “liberal” and “conservative” are indicated in parentheses after each measure is described. Alaska and Wyoming are omitted from all calculations, Nevada is omitted from all polling data, and Hawaii is omitted from the Gallup poll data. Initiative status is defined as of 2000. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.
Table 3.4
Separate Regressions for State Expenditure and Local Expenditure

<table>
<thead>
<tr>
<th></th>
<th>State expenditure</th>
<th>Local expenditure</th>
<th>Centralization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Dummy = 1 if initiative state</td>
<td>-215.24**</td>
<td>62.36</td>
<td>-3.32</td>
</tr>
<tr>
<td></td>
<td>(103.29)</td>
<td>(113.97)</td>
<td>(2.14)</td>
</tr>
<tr>
<td>Income</td>
<td>0.04***</td>
<td>0.07***</td>
<td>-0.00</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.02)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Federal aid</td>
<td>1.27***</td>
<td>0.76</td>
<td>0.01**</td>
</tr>
<tr>
<td></td>
<td>(0.15)</td>
<td>(0.47)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Population, logarithm</td>
<td>-317.20***</td>
<td>357.57***</td>
<td>-7.14***</td>
</tr>
<tr>
<td></td>
<td>(68.23)</td>
<td>(95.57)</td>
<td>(1.44)</td>
</tr>
<tr>
<td>Metropolitan population, %</td>
<td>5.93***</td>
<td>-4.25*</td>
<td>0.10***</td>
</tr>
<tr>
<td></td>
<td>(2.09)</td>
<td>(2.26)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>Growth of population previous 5</td>
<td>-9.88</td>
<td>21.59*</td>
<td>-0.28***</td>
</tr>
<tr>
<td>years, %</td>
<td>(9.29)</td>
<td>(11.15)</td>
<td>(0.19)</td>
</tr>
<tr>
<td>Dummy = 1 if southern state</td>
<td>107.87</td>
<td>-314.38**</td>
<td>3.68</td>
</tr>
<tr>
<td></td>
<td>(109.87)</td>
<td>(150.92)</td>
<td>(2.67)</td>
</tr>
<tr>
<td>Dummy = 1 if western state</td>
<td>166.94</td>
<td>8.44</td>
<td>0.74</td>
</tr>
<tr>
<td></td>
<td>(219.25)</td>
<td>(191.81)</td>
<td>(3.89)</td>
</tr>
<tr>
<td>Ideology 1: NOMINATE for U.S.</td>
<td>-197.87*</td>
<td>100.19</td>
<td>-3.17</td>
</tr>
<tr>
<td>senators, average</td>
<td>(102.49)</td>
<td>(156.06)</td>
<td>(2.24)</td>
</tr>
</tbody>
</table>

\[ R^2 \]

0.978 0.974 0.984

Note. Each column is a regression with 1,488 observations. The main entries are coefficient estimates; standard errors adjusted for within-state clustering are in parentheses. The dependent variable is either state direct general expenditure (DGE), local DGE, or “centralization”—state DGE as a percent of combined state and local DGE—as indicated at the top of each column. Revenue, expenditure, income, and federal aid are expressed in year-2000 dollars per capita. The sample includes all states except Alaska and Wyoming and covers the years 1970-2000. Each regression included year dummies whose coefficients are not reported. Significance levels are indicated as follows: * = 10%, ** = 5%, and *** = 1%.
Table 3.7

Regressions for State and Local Taxes and Charges

<table>
<thead>
<tr>
<th>Dummy = 1 if initiative state</th>
<th>Taxes (1)</th>
<th>Charges (2)</th>
<th>Taxes/Revenue (%) (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-110.00**</td>
<td>1.62</td>
<td>-0.90</td>
</tr>
<tr>
<td></td>
<td>(48.34)</td>
<td>(38.51)</td>
<td>(0.98)</td>
</tr>
</tbody>
</table>

Income

|                               | 0.10***  | 0.00        | 0.00***               |
|                               | (0.01)   | (0.01)      | (0.00)                |

Federal aid

|                               | 0.90***  | 0.06        | 0.00                  |
|                               | (0.28)   | (0.10)      | (0.00)                |

Population, logarithm

|                               | 80.79    | -8.21       | -0.69                 |
|                               | (49.58)  | (34.25)     | (0.81)                |

Metropolitan population, %

|                               | -0.06    | 0.35        | -0.01                 |
|                               | (1.10)   | (1.60)      | (0.04)                |

Growth of population previous 5 years, %

|                               | 3.09     | 0.90        | 0.03                  |
|                               | (4.27)   | (3.48)      | (0.10)                |

Dummy = 1 if southern state

|                               | -228.55*** | 71.21       | -4.29***              |
|                               | (71.79)    | (48.16)     | (1.32)                |

Dummy = 1 if western state

|                               | 59.57     | 48.74       | -0.79                 |
|                               | (74.25)   | (54.57)     | (1.41)                |

Ideology 1: NOMINATE for U.S. senators, average

|                               | -86.03    | 8.41        | -1.33                 |
|                               | (88.46)   | (42.81)     | (0.98)                |

$R^2$

|                               | 0.992     | 0.960       | 0.998                 |

$N$

|                               | 1,488     | 1,104       | 1,104                 |

Note. Each column is a regression. The main entries are coefficient estimates; standard errors adjusted for within-state clustering are in parentheses. Column (1) covers 1970-1999, and columns (2) and (3) cover 1978-1999. The dependent variable is indicated at the top of each column. Taxes, charges, income, and federal aid are expressed in year-2000 dollars per capita. The sample includes all states except Alaska and Wyoming and covers 1970-2000 (column (1)) or 1978-2000 (columns (2) and (3)). Each regression included year dummies whose coefficients are not reported. Significance levels are indicated as follows: * = 10%, ** = 5%, and *** = 1%.
Table 4.1
Views about How to Raise Local and State Revenue

A. “Suppose your local government must raise more revenue. The better way to do this would be . . .” (1981, 1986, 1987)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local income tax</td>
<td>7%</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Local sales tax</td>
<td>21</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Local property tax</td>
<td>5</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Charges for specific services</td>
<td>55</td>
<td>49</td>
<td>33</td>
</tr>
<tr>
<td>Other/don’t know</td>
<td>12</td>
<td>9</td>
<td>29</td>
</tr>
</tbody>
</table>

B. “If your state government decided to raise a small amount of additional revenue to help meet costs and improve services, which one of these would you prefer?” (1987)

<table>
<thead>
<tr>
<th>Method</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarette and liquor taxes</td>
<td>54%</td>
</tr>
<tr>
<td>Gasoline and diesel fuel taxes</td>
<td>4</td>
</tr>
<tr>
<td>State income taxes</td>
<td>6</td>
</tr>
<tr>
<td>State sales tax</td>
<td>8</td>
</tr>
<tr>
<td>User fees or charges</td>
<td>13</td>
</tr>
<tr>
<td>Other/don’t know</td>
<td>7</td>
</tr>
</tbody>
</table>

C. “If there is a need to raise additional revenues to improve public works services, which one of these would you prefer?” (1988)

<table>
<thead>
<tr>
<th>Method</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>User fees or charges for specific services</td>
<td>35%</td>
</tr>
<tr>
<td>Special taxes dedicated to funding specific services</td>
<td>37</td>
</tr>
<tr>
<td>General purpose taxes</td>
<td>12</td>
</tr>
<tr>
<td>Other/don’t know</td>
<td>16</td>
</tr>
</tbody>
</table>

>Note. The question in Panel A was slightly different in 1987 than in 1981 and 1986; see Appendix 3.