

## Direct Democracy Works

John G. Matsusaka

**I**n November 2004, in addition to electing a president and other representatives, voters nationwide acted as legislators themselves, weighing in on 162 statewide ballot propositions. Voters in 11 states amended their constitutions to ban gay marriage. Voters in California approved a \$3 billion bond issue for stem cell research and repealed a state law requiring businesses to provide health insurance to their workers, in Arizona passed a law denying state services to illegal immigrants, in Alaska declined to legalize marijuana, in Colorado required power plants to use clean energy sources, in Florida increased the minimum wage and in Oklahoma established a state lottery. An uncounted but even larger number of local ballot propositions also went before the voters, covering topics ranging from a sales tax increase for police in Los Angeles to land use regulation, such as an April 2004 referendum in Inglewood, California, over whether to exempt Wal-Mart from zoning and environmental regulation if it established a supercenter in the city. The storm of ballot box lawmaking has been raging since the passage of California's famous tax-cutting Proposition 13 in 1978. Many of the critical policy innovations of the last several decades were ignited and fueled by initiatives, including term limits, physician-assisted suicide, legalized gambling, medical marijuana, capital punishment, abortion, racial preferences/affirmative action and, of course, tax cuts. To a remarkable degree, initiatives and referendums are driving the policy agenda in the states.

Overall, more than half of all American states and cities provide for the initiative and referendum, and over 70 percent of the population now lives in

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either a state or city where these tools of direct democracy are available (Matsusaka, 2004). Since South Dakota first adopted the initiative and referendum in 1898, no state has ever chosen to do away with them, and states without are gradually adopting them (at a rate of about one state per decade since the end of World War II).

Not only is direct democracy firmly established in the United States, but it is spreading across the world. In Europe, 10 countries allow initiatives (as do six of the post-Soviet states), and the new Constitution for the European Union includes both the initiative and referendum. Twenty-nine referendums have been held on European monetary and market integration alone and at least 11 nations are planning referendums to approve the EU Constitution; it is almost expected in many countries that such matters will be put before the voters. In the Far East, Taiwan has used referendums for local issues for years and in 2003 adopted a law allowing national initiatives and referendums that led to the 2004 “Peace Referendum” concerning relations with mainland China. The government is contemplating a referendum on a new Constitution for 2006, and the explosive issue of formal Taiwanese independence (or reunification) could end up being put to a direct popular vote.

The spread of direct democracy is fueled in part by the revolution in communications technology that has given ordinary citizens unprecedented access to information and heightened the desire to participate directly in policy decisions. Opinion surveys reveal that 70 percent or more of Americans approve of direct democracy at the state and local level, with a majority even in favor of federal initiatives, and the numbers are comparable for Europe.<sup>1</sup> Yet many journalists, pundits and scholars remain concerned about direct democracy. They worry whether ordinary citizens have the attention span or competence required to decide complicated policy issues—and if they are not competent, if they can be manipulated into passing laws harmful to the general public. As U.S. Senator Robert LaFollette put it in 1909, the danger of the initiative “lies in the fact that it may easily be prostituted by factions, cliques, malcontents, and demagogues, to force upon the people projects of partisan, freak, or unnecessary legislation” (quoted in Munro, 1912, p. 190).

The purpose of this essay is to describe the practice and theory of the increasingly important political phenomenon of direct democracy and the main lessons from the scholarly literature. Many questions remain to be answered, but the emerging view is that direct democracy works—allowing the general public to participate in lawmaking often seems to improve the performance of government.

<sup>1</sup> For polling information, see the websites of the Initiative & Referendum Institute at (<http://www.iandrinstitute.org>) and IRI-Europe at (<http://www.iri-europe.org>).

## Basic Facts and Misconceptions

### Terms

Direct democracy is an umbrella term that covers a variety of political processes, all of which allow ordinary citizens to vote directly on laws rather than candidates for office. The *town meeting*, in which citizens assemble at a particular place and time to make public decisions, is the earliest form of direct democracy, dating back at least to ancient Athens. Town meetings are only feasible in the smallest polities and have dwindled in importance. The most prominent form of direct democracy today is an election in which citizens vote yes or no on specific laws listed on the ballot, called *ballot measures* or *propositions*. Ballot measures differ in how they come to the ballot and whether they propose a new law or to repeal an old law. An *initiative* is a new law proposed by ordinary citizens that is qualified for the ballot by collecting a predetermined number of signatures from eligible voters. A *referendum* (sometimes *petition referendum*) is a vote on a law already approved by the legislature, also qualified for the ballot by collecting a predetermined number of signatures.<sup>2</sup> Initiative and referendums let ordinary citizens take control of the agenda, and they are the form of direct democracy that grab the headlines. A *legislative measure* (also *referred measure* or *legislative referendum*) is placed on the ballot directly by the legislature. It could be a nonbinding resolution to get a sense of public opinion (an *advisory measure*) or the constitution may require popular approval before a law can go into effect. Advisory measures have been used for European integration; all but one U.S. state require amendments to the state Constitution to be approved by popular vote, and many also require direct approval of bond issues.

Within these broad classes is a bewildering variety of detail in how the procedures are implemented. For example, final approval might require a majority vote of the electorate, a supermajority vote or a majority with at least a minimum participation level (a “quorum requirement”). The number of signatures to qualify an initiative or referendum varies: North Dakota requires signatures from 2 percent of the electorate; Wyoming requires 15 percent. Legislatures may have the option to adopt initiatives before they are submitted to the electorate, or proposals may go straight to the voters. Initiatives may be used to amend the constitution or restricted to statutory matters. Certain subjects may be prohibited, such as appropriations, or anything may be fair game. Once approved, laws enacted by direct democracy may be easy or difficult to amend: at one extreme, California initiatives can only be amended by another initiative, while other states allow the legislature to amend them as ordinary statutes. Although there is some evidence that implementation details matter—high signature requirements clearly enervate the initiative, for

<sup>2</sup> There is some inconsistency in terminology. *Referendum* is sometimes used as a broad term for all ballot propositions and sometimes for the particular process of challenging a government law by petition. Also on terminology, the practice by most scholars and journalists is to use referendums instead of referenda as the plural of referendum, following the *Oxford English Dictionary*.

example (Matsusaka, 1995; Matsusaka and McCarty, 2001)—the consequence of alternative procedures is relatively unexplored.<sup>3</sup>

The recall process, often grouped together with the initiative and referendum for historical reasons, is closer to a variation on representative democracy than a form of direct democracy and will not be discussed in this essay.

### **Availability**

A common misconception is that direct democracy is a new and exotic form of government that entered the body politic in the late 1970s around the time of California's Prop. 13. David Broder's *Democracy Derailed*, for example, begins: "At the start of a new century—and millennium—a new form of government is spreading in the United States" (Broder, 2000, p. 1). In fact, the initiative and referendum are old forms of government—in use for more than 100 years in the United States (the legislative referendum has been around since the beginning of the Republic)—and their spread in the United States took place very early in the *twentieth century*.

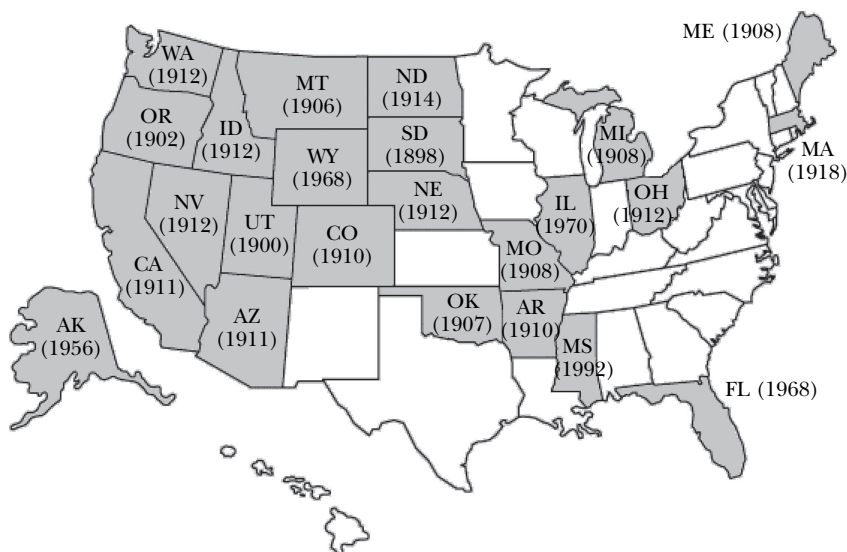
Figure 1 shows the American states that currently provide for the initiative at the state level and the date it was adopted.<sup>4</sup> A list of states with the referendum process would look similar, with the difference that Florida, Illinois and Mississippi do not have the referendum, while Kentucky, Maryland and New Mexico do have it. The first state to adopt the initiative and referendum was South Dakota in 1898, making them older than universal women's suffrage, Social Security and the federal income tax. A burst of adoption activity followed over the next two decades associated with the Progressive movement, so that by 1918, 20 states had adopted the initiative. As Figure 1 shows, the initiative is most popular west of the Mississippi River, but it is not exclusively a California or western phenomenon, appearing in all regions of the country from Maine and Massachusetts in the northeast to Arkansas, Florida and Mississippi in the south and to Michigan and Ohio in the central region.

The process of putting actions of the legislature before the voters is even older and more common. Massachusetts held a referendum in 1780 to approve its new constitution. Rhode Island made referendums mandatory for constitutional changes in 1842. Referendums on constitutional changes were the norm by the late nineteenth century (except in certain southern states where legislatures did not seek popular approval for changes disenfranchising black citizens), and today, only one state (Delaware) does not require constitutional amendments to be put before the voters. Referendums are commonly required for public borrowing also. In the mid-nineteenth century, a series of state and local governments defaulted on public bonds that were used to finance public works such as railroads, turnpikes and

<sup>3</sup> For detailed information on state and local direct democracy provisions, see Dubois and Feeney (1998), Waters (2003), Matsusaka (2004, appendix 1) and the website of the Initiative & Referendum Institute at (<http://www.iandrinstute.org>).

<sup>4</sup> Most of the information in this section is taken from Matsusaka (2004).

Figure 1

**States with Initiative in 2004***(adoption year in parentheses)*

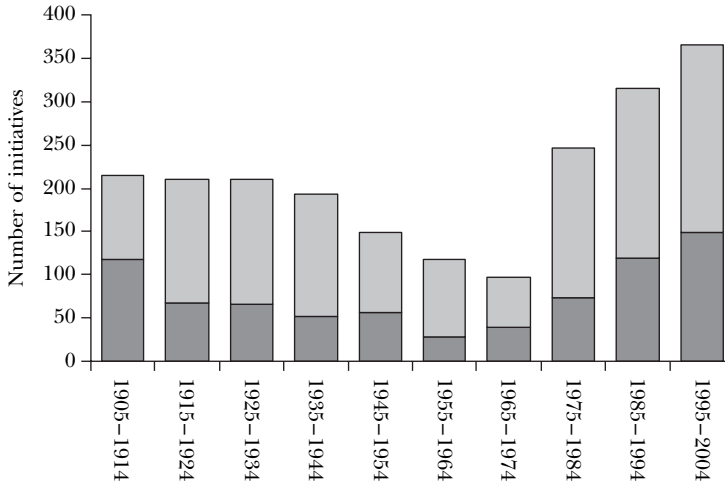
canals. Many states responded by adopting provisions restricting the issuance of public debt. Currently, 21 states require a popular vote before state bonds can be issued (Kiewiet and Szakaly, 1996).

The initiative appeared in American cities at about the same time it appeared at the state level. California counties were given initiative rights in 1893, and the first cities to adopt the initiative were San Francisco and Vallejo in 1898. By 1910, all or substantially all municipalities in 10 states had been granted initiative rights, and it was available in individual cities in at least nine other states. The best estimate on current availability is that half of all cities in the country now have the initiative, including 15 of the 20 largest cities. As with the state-level initiative, the local initiative is most popular in the West, available in 77 percent of cities. But it is also available in 47 percent of northeast cities, 35 percent of southern cities and 49 percent of cities in the central states (Matsusaka, 2004).

**Use**

One of the most stunning developments in direct democracy has been the explosion of citizen-initiated measures beginning in the late 1970s. Figure 2 shows that the total number of measures jumped to almost 250 in the decade of the tax revolt (1975–1984), establishing a new benchmark, and then jumped to even higher levels in each of the following two decades. The 360+ initiatives over the last 10 years is a record in absolute terms and on a per state basis. Proposition 13 in

Figure 2

**Number of Statewide Initiatives by Decade**

*Notes:* The number of initiatives in the west coast states of California, Oregon and Washington is shown with dark shading.

*Source:* Data are from the historical database maintained by the Initiative & Referendum Institute.

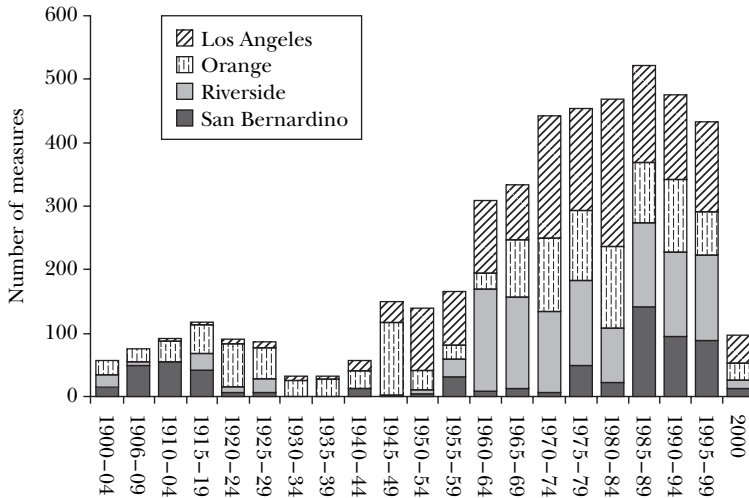
1978 was one of the signal political events of the later twentieth century, and in the years immediately after its passage, some believed the country was undergoing a passing infatuation with direct lawmaking, but now it seems more likely that we are experiencing a fundamental shift in how policy decisions are made (Matsusaka, forthcoming b).

Although the recent growth of citizen lawmaking is unprecedented, it would be misleading to conclude that direct democracy was ignored before Prop. 13. As Figure 2 shows, initiatives were used extensively in the first few decades of the twentieth century, with more than 200 measures in the period 1905–1914. For reasons that are not well understood, the process fell from favor for about 30 years beginning in the 1940s and continuing to the mid-1970s.

Figure 2 also shows the fraction of measures that have appeared in the three west coast states of California, Oregon and Washington. More initiatives appear in Oregon and California than anywhere else, and Washington is also a big user of the process. As the figure shows, states not on the west coast produce large numbers of initiatives as well. Direct democracy is more than a California fad.

Comparable information on initiative use in local governments is not available. One study compiled a list of ballot measures in the four southern California counties of Los Angeles, Orange, Riverside and San Bernardino. Figure 3 shows the number of measures that went before the voters in all jurisdictions (counties, cities, school districts and special districts) of these four counties. This figure, unlike Figure 2, shows all ballot measures, not just initiatives. Most of these measures were placed on the ballot by local government officials. The data are incomplete for the

*Figure 3*  
**Number of Local Ballot Measures over Five-Year Periods in Four California Counties**



*Notes:* The figure reports the number of ballot measures in counties, cities, school districts and special districts in each county. The numbers are not comprehensive, especially before 1950.  
*Source:* Raw data are from *Preserving the Record of Direct Democracy in Southern California: An Archive Completed by the University of California, Santa Cruz, Environmental Studies Department*, by Daniel Press, August 2001.

first half of the century, so not much should be made of the time trends. What is remarkable is the amount of activity. During the peak period, 1985–1989, more than 100 measures per year went before the voters. At least in these jurisdictions, a substantial amount of lawmaking at the local level is being done through direct democracy.

**Money**

One way to gauge the growing importance of direct democracy is in terms of the policy changes it is bringing about and the way it is driving the policy agenda in many initiative states. Another way, perhaps more simple, is to count the money. In 1998, \$400 million was spent nationally on ballot proposition campaigns. In comparison, \$326 million was spent in the 2000 presidential campaign (primary and general election, all parties) and \$740 million in the federal House and Senate campaigns of 1998. Another eye-opening number is the \$80 million that was spent on five California auto insurance propositions in 1988, more than George Bush spent on his entire presidential campaign that year (Schrag, 2004). In 2004, gambling interests spent \$90 million in California on two propositions alone, roughly a quarter of what George W. Bush and John Kerry each spent on their presidential campaigns.

## Theoretical Lessons

The theory of direct democracy revolves around three ideas: principal-agent problems, asymmetric information and issue bundling. Each of these ideas yields interesting insights concerning when direct democracy is likely to be helpful and harmful, and aids in interpretation of empirical evidence.

### Controlling Agency Problems

Perhaps the best known result in political economy is the median voter theorem (Downs, 1957; Hotelling, 1929): under certain strong conditions (including unidimensional issue space and single-peaked preferences), competition between parties causes policy to converge to the position of the median voter. At first glance, direct democracy would seem redundant if policy is set at the median by elected officials because voters would reject any ballot measure proposing to move policy away from the median. Accordingly, theories of direct democracy usually assume that the median voter theorem does not hold for candidate elections. The starting assumption instead is that an agency problem exists between voters and their elected representatives because of free rider problems in monitoring and disciplining officeholders, giving elected officials leeway to pursue policies that are not in the interests of their constituents (Kau and Rubin, 1979; Kalt and Zupan, 1984; Peltzman, 1984). From this perspective, direct democracy can affect policy in two ways. First, initiatives and referendums can override the decisions of unfaithful elected officials (direct effect). Second, the threat of a ballot proposition can cause elected officials to choose different policies than they would have if direct democracy were unavailable (indirect effect). Gerber (1996) is a prototypical example of this kind of model.

Several interesting implications emerge from this line of argument. First, both the direct and indirect effects of direct democracy generally push policy closer to the position of the median voter. Since ballot propositions are filtered through the electorate, only policies that make the median voter better off can gain approval in an election or credibly threaten the legislature. Second, direct democracy does not generally result in a policy exactly at the median voter's ideal point (Romer and Rosenthal, 1979). If the legislature establishes an initial policy and an interest group proposes the alternative, voters end up with a limited set of choices that typically does not include the median voter's ideal policy. Third, the initiative and referendum can influence policy without a measure appearing on the ballot when the legislature changes policy in response to a threatened ballot measure. An implication for empirical research is that the effect of having direct democracy available cannot be measured by examining only the propositions on the ballot because doing so would exclude the indirect threat effect.

While fairly intuitive, these implications do not always hold in models with asymmetric information. For example, if legislators are uncertain about voter preferences, the threat of an initiative may cause them to meet an extreme interest

group halfway, making the median voter worse off, rather than run the risk that voters actually support the extreme group (Gerber and Lupia, 1995; Matsusaka and McCarty, 2001).

### **Quality of Information**

A recurrent criticism of direct democracy is that ordinary voters lack the expertise to make policy decisions. “We are not in the mass adapted to pass upon questions of detail,” wrote Congressman Samuel W. McCall in the *Atlantic Monthly* in 1911. “The function that we can best exercise is that of selecting agents for that purpose and of holding them responsible for results” (quoted in Munro, 1912, p. 177). According to this viewpoint, the critical challenge for policymaking is not controlling agency problems, but bringing appropriate information to bear on public decisions. Another contribution of theory has been to highlight how the performance of direct democracy relative to legislatures depends on the nature of the information required to make policy decisions.

Imagine that the information necessary to make “good” policy decisions can only be obtained from specialists, which might include government bureaucrats, academics or even legislators themselves. In a model of this sort, direct democracy typically leads to worse outcomes than representative government because ordinary citizens lack access to the expert opinion that is available to legislators (Maskin and Tirole, 2004). Even worse, regular use of ballot propositions may reduce the incentive of public officials to collect information, further diminishing the quality of decisions (Kessler, forthcoming).

On the other hand, there are cases where good policymaking may require information that is not known or knowable by experts. For example, the efficacy of workplace safety regulation might depend in part on widely dispersed information known by employers and employees à la Hayek (1945). Moreover, many issues are mainly about a community defining its values, such as whether to use capital punishment or allow physician-assisted suicide. When the information necessary to make the right decision is dispersed, elected officials may make poor policy decisions. Opinion surveys might seem like a good alternative to direct democracy, but evidence suggests that they are unreliable predictors of how citizens actually vote on issues (Matsusaka and McCarty, 2001). The growing use of referendums to resolve sovereignty issues related to European integration may be related to a belief that these decisions involve a wide variety of factors that are difficult for the government to evaluate, are inextricably linked to public values, or both.

Direct democracy can be effective even when voters have no more or even worse information than legislators. If policy disagreements arise from different information rather than different underlying preferences, and if each person receives an informative signal about the right course of action, aggregating the opinions of a million voters can be highly accurate by the law of large numbers even if each person’s chance of being right is small (this is a version of the Condorcet Jury Theorem; McLennan, 1998; Lupia, 2001).

Information models in general suggest that some issues, such as detailed standards governing water quality, are best left to experts, while others, such as whether to allow capital punishment, are best decided by citizens directly because experts have no obvious information advantage. Some evidence suggests that representatives do focus on questions of a more technical nature, while initiatives and referendums focus on issues where information is more dispersed or related to values (Matsusaka, 1992). Information also helps explain why successful initiatives in one state sometimes trigger similar policy changes elsewhere, for example, Proposition 13 in 1978 is often said to have sparked the nationwide tax revolt: a successful measure reveals new information about voter preferences that mobilizes policy entrepreneurs outside the state. Information also helps explain why, somewhat surprisingly, interest groups say that “signaling support to the legislature” is a more important reason for sponsoring an initiative than gaining its passage (Gerber, 1999, chapter 5).

### **Issue Unbundling and Candidate Elections**

Legislatures often bundle issues together in omnibus bills that are voted on as a package. This “logrolling” allows legislators to trade votes with each other and gain approval of their top priorities by giving ground on issues they consider of secondary importance. Initiatives and referendums give citizens a way to unbundle specific issues.

In terms of efficiency, unbundling can be good or bad depending on whether logrolling itself is efficient. One view is that logrolls allow intensity of preferences to be taken into account, creating efficiency gains from trade (Buchanan and Tullock, 1962, chapter 10). Unbundling such logrolls by initiative and referendum would lead to welfare losses (Matsusaka, 1995). An alternative view is that logrolling is inefficient, leading to excessively high spending as legislators deliver pork for their districts and spread the costs over other districts (Buchanan and Tullock, chapter 11). A fair amount of evidence supports the overspending theory, particularly its implication that spending increases as the number of representatives increases.<sup>5</sup> Breaking up this sort of logroll improves welfare.

Candidates are also bundles—they take positions on multiple issues—and voters must accept or reject them as packages. By stripping out individual issues, direct democracy reduces the number of issues on which candidates take positions, which theory suggests improves the representation process. When candidates run on fewer issues, citizens can send stronger messages at the voting booth and are less likely to have to support a candidate who is right on some issues but wrong on others (Besley and Coate, 2003; Matsusaka, 2005).

<sup>5</sup> Gilligan and Matsusaka (1995, 2001), Bradbury and Crain (2001) and Baqir (2002) provide evidence on the “Law of  $1/n$ .” DelRossi and Inman (1999) show how fiscal externalities affect the votes of congressmen on water project bills.

## Evidence

Only 35 initiatives were adopted in 1999 and 2000 compared to 10,000 new laws approved by legislatures (Matsusaka, 2004). There is much debate over whether direct democracy is good or bad, but what evidence do we have that it even makes a difference for policy in the first place?

To measure the impact of direct democracy on policy, it is not enough to study the propositions that were approved by the voters. After all, if the initiative didn't exist, legislators might have taken similar actions. And when the initiative does exist, legislators might be influenced by the threat alone of an initiative being placed on the ballot. Thus, measuring the impact of direct democracy requires tracing the effect back to *availability* of the initiative or referendum. The usual approach is to compare the policies of a group of states (or cities, or counties) that have direct democracy with those that do not have it, controlling for other factors that drive policy, and attribute the differences to availability of direct democracy.

The most extensive evidence concerns taxes and spending, the longstanding favorite subject of initiatives. More than 10 studies (listed in Matsusaka, 2004, Appendix 4) have found that initiative states spent and taxed less than noninitiative states beginning around the mid-1970s, controlling for demographic and political factors. The estimates imply that the initiative cut the combined spending of state and local governments by about 5 percent and cut state government spending by over 10 percent (Matsusaka, 2004, chapter 3). The effects are nontrivial, but at the same time they don't suggest the initiative puts government on severe diet.

Initiative states also seem to adopt more conservative social policies. Gerber (1999) found that initiative states were more likely than noninitiative states to allow the death penalty and to require parental notification before a minor could get an abortion. Bowler and Donovan (2003) found that initiative states adopted more restrictive abortion laws, and also more restrictive campaign finance laws. Matsusaka (1995, 2004, chapter 3) found that initiative states shifted their financing out of broad-based taxes and into user fees and charges, requiring those who use government services to pay for them, and possibly reducing the scope of government redistribution.<sup>6</sup>

Initiative states also keep their governments on a shorter rein. The most dramatic difference is in legislative term limits: 22 of 24 initiative states adopted term limits for their congressmen or state legislatures, compared to two of 26 noninitiative states. Initiative states are about 25 percent more likely than noninitiative states to have gubernatorial term limits, and they pay their top officials (governor, secretary of state, attorney general, lieutenant governor, treasurer)

<sup>6</sup> The main fiscal patterns—initiatives cause less spending, decentralization from state to local government, and revenue shifts from taxes to fees—hold for Swiss cantons as well (Feld and Matsusaka, 2003; Schaltegger and Feld, 2003).

lower salaries, controlling for population, wealth and region of the state (Di Tella and Fisman, 2004; Anderson and Persily, 2005; Matsusaka, 2005).

### **Is the Initiative a Proxy for Something Else?**

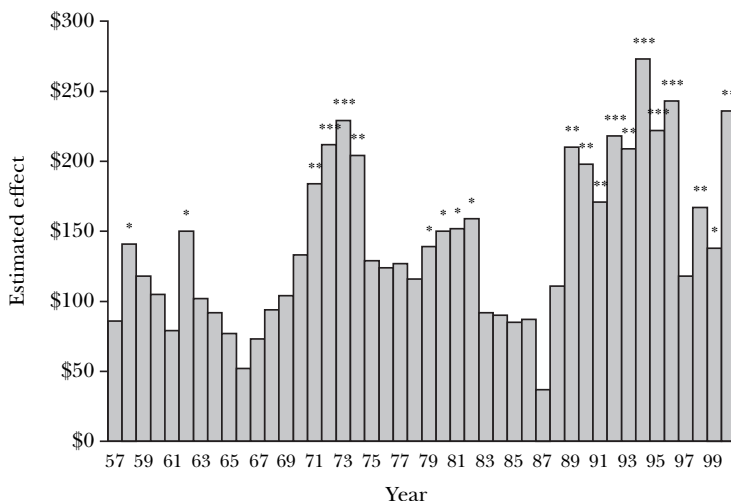
How do we know the initiative *causes* the policy differences between initiative and noninitiative states instead of just serving as a proxy for the real determinant? Perhaps there is an unobserved factor that leads states to adopt the initiative, such as a conservative ideology, that also brings about lower taxes and spending. There is a variety of evidence that casts doubt on the proxy interpretation. Matsusaka (2004, chapter 3) shows that initiative states were no more conservative or liberal than noninitiative states using six different measures of public opinion, ranging from voting records of senators and representatives to survey data from opinion polls. The fact the initiative effect changes over time undercuts the idea that initiative status proxies for an unobserved state-specific effect. Matsusaka (2000) found that initiative states spent *more* than noninitiative states in the early decades of the twentieth century, which challenges the idea that the initiative inevitably favors conservative policies.

The tax cutting effect of the initiative has swung over time even during the last 40 years. Figure 4 reports the estimated gap in spending between initiative and noninitiative states by year. These numbers were calculated with a regression that used state and local direct general expenditure per capita as the dependent variable. The explanatory variables included 41 year dummies equal to 1 for initiative states, 41 year dummies, and variables for income, population, population growth, population density, federal aid, urbanization and south and west region dummies. The figure reports (minus) the coefficient on the initiative dummy variable by year, that is, it shows the average amount of spending *cut* by the initiative each year.

Initiative states spent less than noninitiative states throughout the period, but the size of the effect swings over time. The first big difference opened up in the 1970s when spending cuts reached \$229 per capita, 7 percent of the mean. The gap began to close with the onset of the tax revolt as noninitiative states belatedly adjusted to the new fiscal conservatism. By the mid-1980s, the differences had almost vanished and were not statistically significant. Another huge gap emerged in the 1990s, reaching \$273 per capita, 6 percent of the mean. Historical evidence suggests that initiative cuts show up in periods when legislatures responded slowly or inaccurately to changing voter demands, that is, when they got “out of step” with public opinion (Matsusaka, 2004, chapters 6 and 7). The initiative seems to have brought policy back in line with voter preferences faster in initiative states.

The question of spurious correlation is related to the issue of endogeneity, which is a concern whenever trying to measure institutional effects. In some respects, the initiative provides a relatively clean environment to study the effect of an institution because the institution is arguably exogenous over the last several

Figure 4

**Estimated Expenditure Cuts from the Initiative Year-by-Year, 1957–2000**

*Notes:* This figure shows the difference in per capita spending between initiative and noninitiative states for each year. For example, the first bar shows that initiative states spent \$86 per capita less than non-initiative states in 1957. The regression details are in the text. All states are included except Alaska and Wyoming. Estimates are expressed in year-2000 dollars. Significance levels are indicated with asterisks above the bars: \* significant to the 10 percent level; \*\* significant to the 5 percent level; \*\*\* significant to the 1 percent level.

*Source:* This figure is adapted from Matsusaka (2004).

decades—recall that most states had adopted the process before 1920 and none have done away with it in over 80 years.<sup>7</sup>

### Voter Competence

One of the most prominent criticisms of direct democracy is that voters lack the competence to make policy decisions. In the words of political science professor David Magleby (1984, p. 198): “The majority of ballot measures are decided by voters who cannot comprehend the printed description, who have only heard about the measure from a single source, and who are ignorant about the measure except at the highly emotional level of television advertising, the most prevalent source of information for those who have heard of the proposition before voting. The absence of straightforward, understandable, rational argumentation in initiative campaigns, combined with what has been discovered about voting decision making in these situations, raises serious questions about the integrity of the direct

<sup>7</sup> Attempts to use instrumental variable approaches to study the effect of initiative status — for example, using initiative status 50 years before (following Poterba, 1995) — do not change any of the broad patterns. A difficulty in developing instruments is that we do not yet understand why certain states adopted the process and others did not.

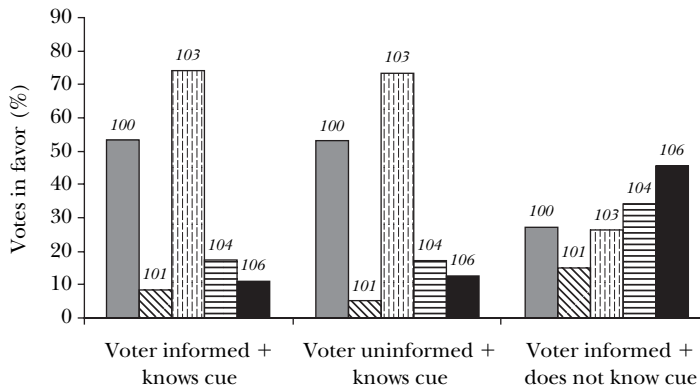
legislation process.” Indeed, decades of survey research have shown that most voters are uninformed to the point of ignorance about public policy, politics and government in general. From this viewpoint, direct democracy may seem like giving matches to children.

But surveys on how well informed voters are can be highly misleading. Such surveys ask whether voters know the name of their congressman, the platforms of political parties, the technical details of a ballot proposition, and so on. However, voters do not need a detailed understanding of a measure to register their preferences accurately in the voting booth. They may be able to cast a vote that reflects their underlying interests and values by using information cues or shortcuts, such as recommendations from trusted individuals or organizations. For example, an environmentalist can cast a pro-environment vote on a measure concerning the environment simply by learning whether the Sierra Club is for or against the measure. Most people have access to numerous sources of information cues—interest groups, newspapers, coworkers, family, friends.

In fact, the evidence suggests that information cues are fairly effective in allowing voters to make reasoned choices in the voting booth. In one of the most remarkable studies, Lupia (1994) examined voting patterns on five complicated California insurance propositions in 1988 that on the surface were hard to distinguish. Based on exit surveys, he classified voters into “informed” and “uninformed” groups based on whether they could correctly answer questions about the substance of the measures. He found that uninformed voters could emulate the voting patterns of informed voters simply by knowing the positions interest groups such as Ralph Nader and the insurance industry had taken on the measures, while uninformed voters without access to cues could not emulate the informed voters (Figure 5). Bowler and Donovan (1998) and Lupia and McCubbins (1998) provide a variety of other evidence on the effectiveness of information cues and investigate how voters go about identifying reliable cue providers. Evidence of a different sort appears in Kahn and Matsusaka (1997) and Kahn (2002), which show that 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. Similarly, Filer and Kenny (1980) found that citizens managed to vote their interests in city/county consolidation referendums.

In any case, the argument that voters are incompetent and uninformed would seem to cut against democracy in general, rather than against direct democracy alone. Few voters bother to read the actual text of the measures they vote on, but few voters read the official party platforms or study the policy plans on the websites of candidates for office either. One could argue that, if anything, uninformed voters are more likely to make mistakes when voting on candidates than ballot measures because candidates represent bundles of issues and characteristics, while ballot propositions typically involve only a single issue.

Figure 5

**Votes in Favor on Five California Insurance Propositions, 1988**

*Notes:* The figure shows the percentage of votes in favor on five California insurance measures in 1988 (Props. 100, 101, 103, 104, 106) for three groups of voters: “informed + knows cue” voters could correctly answer questions about the substance of the measures and knew the insurance industry’s positions; “uninformed + knows cue” voters could not answer substantive questions but knew the insurance industry positions; “uninformed + does not know cue” voters could not answer substantive questions and did not know the insurance industry positions.

*Source:* Data are from Lupia (1994).

**For the Many or the Few**

The reason we are concerned about voter competence is because incompetent voters may adopt damaging policies. A leading criticism of direct democracy is that voter ignorance and apathy allows organized and wealthy special interests to use the tools of direct democracy for their own benefit and to the detriment of the public. Journalist and pundit David Broder (2000, p. 243) stressed this point in his recent book on direct democracy: “[T]he experience with the initiative process at the state level in the last two decades is that wealthy individuals and special interests . . . have learned all too well how to subvert the process to their own purposes.” Is this concern well founded?

At first glance, it might seem that direct democracy promotes majority rule by definition: since it takes a majority of voters to approve a measure, how can the majority not be made better off? There are several possible answers to this question. First, not everyone votes, and those who do vote may have different preferences than the population at large. If some groups are better at mobilizing their supporters to go to the polls, they will exert a disproportionate influence. Second, uninformed voters may be susceptible to deceptive campaign information and could be misled into casting a vote against their own interests.<sup>8</sup> Third, the threat of direct democracy, by giving outsiders the ability to challenge and make laws, might cause legislatures to change their behavior in ways that hurt the majority.

<sup>8</sup> The forces that might prevent majority outcomes in democracies are discussed in depth in Stigler (1971), Peltzman (1976) and Becker (1983), which develop the interest group theory of politics.

Despite the concerns of special interest subversion, the evidence generally shows that direct democracy serves the many and not the few. Matsusaka (2004) examines fiscal data spanning the entire twentieth century at both the state and local level to determine whether the initiative promotes tax and spending policies favored by the majority or, as the special interest view maintains, leads to policies favored by a minority and opposed by the majority. The study first documents three significant policy changes brought about by the initiative: 1) spending and tax cuts; 2) decentralization of spending from state to local governments; and 3) a shift of revenue out of broad-based taxes and into user fees and charges for services. Numerous opinion surveys are then examined, which generally show that a majority of people favored the three changes brought about by the initiative. Thus, as far as fiscal policy is concerned, the initiative appears to have delivered policies desired by the majority.

Evidence about social policies points in the same direction. Gerber (1999) examines parental abortion notification and death penalty policies in the states. Both policies were favored by a majority of citizens in all states during her sample period according to opinion surveys. Her estimates imply that initiative states were more likely to adopt both policies, meaning that initiative states were more responsive to majority opinion in initiative states than noninitiative states.

Perhaps the most dramatic evidence comes from term limits, an issue where legislators' self-interest conflicts with the desires of their constituents. Opinion polls uniformly show broad popular support for legislative term limits. Almost all initiative states have adopted some form of legislative term limits while almost no noninitiative states have adopted them (22 of 24 initiative states versus 2 of 26 noninitiative states). The evidence is similar but not as pronounced for gubernatorial term limits (Matsusaka, 2005). States with direct democracy clearly are much more responsive to public opinion about term limits than states without direct democracy.

Much of the concern over special interests is directed at the role of money in ballot proposition campaigns. Despite the large amount of money spent, however, the evidence suggests that it is difficult to buy passage of a measure. Money appears to have the largest effect when spent against a measure, in effect, lending support to the status quo (Gerber, 1999; but see Stratmann, 2004, and de Figueiredo et al., 2005).

Inasmuch as majority rule is a central premise of democracy, the fact that direct democracy tends to bring about majoritarian policies should be viewed as a "plus factor" when evaluating the institution. However, pleasing the majority does not necessarily make a policy "good," and policies favored by the majority may be worse than policies favored by a minority under some criteria, such as maximizing the sum of individual utilities. Indeed, much of the U.S. Constitution is designed to prevent majority rule in situations where the rights of minorities are threatened. Direct democracy could potentially allow the majority to "tyrannize" minority groups. Antiminority measures do appear from time to time, such as an Oklahoma initiative in 1910 that disenfranchised black citizens and a California initiative in

1912 that restricted the property rights of Japanese. Yet legislatures have harmed minorities, too—almost all Jim Crow laws throughout the South were brought about by legislatures—and elected representatives, not direct democracy, interned Japanese-American citizens during World War II. There is no convincing evidence—anecdotal or statistical—that minority rights are undermined by direct democracy with a greater regularity than by legislatures.<sup>9</sup> Moreover, the fact that racial minorities overwhelmingly support the initiative process—57 percent to 9 percent for blacks and 73 percent to 3 percent for Latinos in a 1997 poll—suggests the danger is small.<sup>10</sup>

### **For Better or Worse**

Of course, the bottom line is whether direct democracy makes government better or worse. This question may not have an objective answer since whether a policy is good or bad so often is in the eye of the beholder. Nevertheless, some research has attempted to assess the quality of direct democracy policymaking in terms of efficiency, utility and other concepts that economists traditionally use to evaluate outcomes.

The first statistical study was Pommerehne's (1983) examination of trash collection in Swiss municipalities. He found that cities with direct democracy collected trash at a lower cost than cities without direct democracy, all else equal. This could happen if direct democracy was used to combat public sector unions, require competitive bidding, and so on. In a similar vein, Feld and Savioz (1997) estimated aggregate production functions for Swiss cantons (equivalent to American states) and found greater total factor productivity in cantons with more direct democracy. Higher productivity could be evidence that public sector investments are more productive. Blomberg, Hess and Weerapana (2004) fit a growth model to data from American states over 1969–1986 and found that states with the initiative process grew more quickly and had higher output per capita than noninitiative states, again holding constant other factors such as the capital stock. These studies do not resolve the problem that initiative status might proxy for some other unobserved factor, but they paint the outline of a positive picture of direct democracy when it comes to economic performance.

Evidence of a different sort comes from Frey and Stutzer (2000). They used survey data in which individuals reported their “subjective well-being,” called “happiness” for short. Frey and Stutzer found that people living in Swiss cantons reported higher levels of “happiness” when there was more direct democracy available.

Then there is evidence on how initiatives affect public budgeting. Some opinion surveys suggest that voters have inconsistent preferences when it comes to

<sup>9</sup> Examining this issue is complicated by the lack of standard to distinguish majority *rule* from majority *tyranny*. If voters ban gay marriage, is that a legitimate expression of majority rule or an abridgment of the essential civil rights of gays and lesbians?

<sup>10</sup> This is an abbreviated discussion of Matsusaka (2004, chapter 8).

budgeting. In their study of Prop. 13, Sears and Citrin (1985, p. 44) conclude, “To make a long story short, substantial majorities of the California electorate wanted cutbacks in government spending and taxes . . . while at the same time (and by equally strong majorities) requesting additional services in most areas of government responsibility. On the face of it, the public seemed to want something for nothing.” Myopic voters would bring about budget imbalances if they appropriated money for particular programs while at the same time cutting taxes. However, the evidence is that initiative states are no more likely to borrow than noninitiative states, and mandatory referendums on debt issues seem to reduce borrowing, if anything (Matsusaka, 1995; Bohn and Inman, 1996; Kiewiet and Szakaly, 1996; Feld and Kirchgassner, 2001).

A related argument is that there are so many initiatives locking in funding for specific programs and preventing tax increases that the legislature does not have enough flexibility to budget responsibly, what Florida senate president Jim King recently labeled the “Californication” of the budget process. This seems more myth than reality. Estimates for California (where the claim is typically made and is most plausible) indicate that at most 32 percent of the state budget is tied up by initiatives (and only about 2 percent is dedicated to programs that would not otherwise be funded), and initiatives have not prevented tax increases to any significant degree, except for property taxes, which are a secondary revenue source for state governments (Matsusaka, forthcoming a). Moreover, in all states but California, the legislature can amend or repeal a statutory initiative after a prescribed period of time if it stands in the way of responsible budgeting.

A final concern is that initiatives lead to too many constitutional amendments and end up cluttering constitutions with trivial material. A 2002 Florida amendment that gave pregnant pigs a constitutional right to a cage large enough to turn around in is a poster child for this problem. There is no quantitative evidence on the amount of “trivial” material in the constitutions of states with and without direct democracy, but a simple word count presented in Table 1 shows that the median constitution is longer in initiative states than noninitiative states (although the longest by far is Alabama, a noninitiative state). Initiative states amend their constitutions more frequently than noninitiative states (also Table 1), with the median number of amendments per year 1.1 in initiative states and 0.8 in noninitiative states. However, most of the amendment activity originates with legislatures even in initiative states—for example, over 90 percent of California’s 507 amendments were put on the ballot by the legislature—so the marginal contribution of the initiative to this problem (if it is a problem) seems small (Cain, Ferejohn, Najar and Walther, 1995).

## **Economic Perspectives on Direct Democracy**

Research grounded in the conventional tools of economics—rational maximizing agents, equilibrium, modeling, and so on—tends to paint a fairly positive

Table 1

**Comparison of State Constitutions: Number of Words and Amendments**

	<i>Noninitiative states</i>	<i>Initiative states</i>
Words		
Median	21,319	34,659
Minimum	9,200 (NH)	13,145 (MT)
Maximum	340,136 (AL)	74,522 (CO)
Amendments		
Median	91	122
Minimum	7 (RI)	11 (IL)
Maximum	746 (AL)	507 (CA)
Amendments/year		
Median	0.8	1.1
Minimum	0.3 (VT)	0.3 (IL)
Maximum	7.2 (AL)	4.1 (CA)

Notes: "Initiative states" are the 17 states that allow constitutional initiatives.

Source: Data are from *Book of the States*, Volume 36, published by The Council of State Governments, Lexington, Kentucky, 2004.

picture of direct democracy compared to the skeptical views of pundits outside economics. What is it about the tools of economic analysis that makes direct democracy seem relatively attractive?

A central concern of some critics is the ignorance of voters: a process in which the main participants are uninformed seems unlikely to yield an informed outcome. Economists may be more receptive to the idea that uninformed agents can produce informed outcomes in the aggregate because economists carry around in their heads the competitive model of markets in which individual agents work to their own benefit as well as the benefits of society as a whole when they use cues and information shortcuts—prices—to make decisions, even if they do not understand the economy-wide ramifications of their actions (Hayek, 1945). Exactly what political signals, if any, play the role of prices in a market is an open question (endorsements might be one), but economists have been open to the idea that such cues might exist and be able to overcome the information limitations of individuals (Peltzman, 1990). Moreover, economists are more inclined to ascribe rationality to voters.

Other critics are very concerned with the high cost of using direct democracy. In California, it takes over \$1 million to collect enough signatures to place a measure on the ballot, and even more to run a campaign for or against a measure. It is not altogether unreasonable to think that because organized and well-financed groups control the agenda and dominate the campaigns, they must be the primary beneficiaries. However, economists by training are relatively comfortable with the idea that competition between large profit-maximizing firms narrowly focused on their own interests can make consumers better off and improve welfare. It is not a big step from there to imagine that increased competition over the policy process—allowing interest groups to break the legislature's monopoly on policymaking—

might benefit citizens, even if the competing groups are not motivated by the common good. Voters gain from being offered the opportunity to choose between the legislative status quo and an alternative since they can always reject the initiative if it would hurt them.

Finally, some critics see lawmaking as a contest between the wealthy few and the “general public.” Government, in this view, is largely a disembodied intermediary that tries to do the right thing in the face of competing pressures, while direct democracy is a corrupting influence that overrides the good intentions of elected officials. Economic research, on the other hand, has often viewed elected officials as having distinct interests from the public (for example, Niskanen, 1971), and the failure of political institutions such as legislatures is a recurrent theme in the literature. From this perspective, direct democracy may not distract beneficent elected officials from pursuing the public interest so much as prevent them from serving their own narrow interests.

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