



# Voter preferences, direct democracy and government spending



Patricia Funk<sup>a,\*</sup>, Christina Gathmann<sup>b,c,d</sup>

<sup>a</sup> Universitat Pompeu Fabra and Barcelona GSE, Department of Economics and Business, Ramon Trias Fargas, 25-27, 08005 Barcelona, Spain

<sup>b</sup> University of Heidelberg, Alfred-Weber-Institut, Bergheimer Strasse 58, 69115 Heidelberg, Germany

<sup>c</sup> CESifo, Munich, Germany

<sup>d</sup> IZA, Bonn, Germany

## ARTICLE INFO

### Article history:

Received 19 January 2012

Received in revised form 6 September 2013

Accepted 7 September 2013

Available online 15 September 2013

### JEL classification:

H11

H50

D78

### Keywords:

Voter preferences

Direct democracy

Fiscal policy

Switzerland

## ABSTRACT

This article uses unique voting data on 331 federal propositions to estimate voter preferences in Swiss cantons. We document that preferences vary systematically with cantonal characteristics. In particular, cantons whose voters are more conservative, less in favor of redistribution and less supportive of public spending tend to have stronger direct democracy. We show that voter preferences have a stable and sizable effect on government spending even conditional on many observable cantonal characteristics. We then revisit the relationship between direct democracy and public spending. Once we fully control for voter preferences, the cross-sectional correlation between direct democracy and government spending declines by roughly 20%. The results in this article provide empirical support for models, in which both voter preferences and direct democratic institutions are important determinants of the size of government.

© 2013 Elsevier B.V. All rights reserved.

## 1. Introduction

Direct democracy has become increasingly popular in recent decades as a complement for purely representative forms of government. In the United States, for instance, more than two-thirds of the population live in a state or city with popular initiative or referendum (Matsusaka, 2004). Direct democracy has also been popular in Europe, especially in Switzerland, and increasingly so in Eastern Europe. Most recently, several European countries have held referendums on the new European constitution.

An important motivation for granting direct democratic participation rights is to give citizens more weight in the political process. Its attractiveness is rooted in part in the belief that direct voter control would improve the quality of policy-making or could slow down the rapid growth in government spending observed over the past decades. Theoretical models only predict that direct democracy brings policies closer to the preferences of voters (Gerber, 1996; Besley and Coate, 2008). How direct democracy will affect policy outcomes then depends crucially on the policies preferred by the majority of voters.

In this paper, we make use of unique ballot data from Switzerland to provide direct evidence on voter preferences and how they vary across time and space. Since Switzerland allows for referendums and initiatives at the federal level, we can use data from federal ballot propositions to characterize voter preferences in each canton. Our setting has a number of attractive features: Switzerland is the world leader in the use of direct democracy. At the federal level alone, 331 votes have been held between 1950 and 2000. The ballots cover a wide variety of policy proposals from taxes, environmental policy, immigration, to membership in

\* Corresponding author. Tel.: +34 935421942; fax: +34 935421746.

E-mail address: [patricia.funk@upf.edu](mailto:patricia.funk@upf.edu) (P. Funk).

international organizations or subsidies for agriculture. The data on ballot votes therefore provides a rich source to characterize voter preferences expressed at the ballot box over several decades.

Even more importantly, voter preferences are comparable across cantons as all citizens vote on the same federal ballot. We can therefore analyze for the first time how preferences expressed at the ballot box vary across states with alternative political institutions, e.g. different direct democratic institutions. Our results show that voter preferences differ substantially across cantons. Cantons with strong direct democratic institutions have a substantially lower taste for government spending. Further, our measures of voter preferences can better capture heterogeneity in preferences than observable state characteristics (like the strength of left-wing parties, for example).

That preferences vary by political institutions seems to be a more general phenomenon visible also for alternative measures of preferences and other political institutions. Several channels could account for this correlation between institutions and voter preferences. Most plausibly, direct democracy has been adopted by fiscally conservative voters in the past. If political preferences are transmitted across generations (see [Dohmen et al., 2012](#) for evidence), citizens will be more fiscally conservative in cantons with stronger direct democracy today. Selective migration of citizens with preferences for low government spending to cantons with stronger direct democracy would be a second explanation for preference heterogeneity across cantons. Finally, preferences of the electorate might be strengthened by institutions through positive experiences, for instance. We provide suggestive evidence that voter preferences are important determinants of institutional change as shifts in preferences precede reforms in political institutions. We find little support, in contrast, that institutional reforms shift preferences in the years after reforms. Hence, preferences appear to shape institutional choice in our context.

To illustrate the importance of voter preferences for the study of political institutions, we reconsider the relationship between direct democracy and fiscal policy in Switzerland. We hereby focus on the mandatory budget referendum, which gives citizens direct control over cantonal spending. If a canton has a mandatory budget referendum in place, voters need to approve individual projects that exceed a monetary threshold. In other cantons, citizens cannot decide on expensive projects or need to collect signatures to call an optional referendum.<sup>1</sup> Budget referendums in Switzerland are similar to tax and expenditure limitations in the United States which require the electorate in some states to approve tax increases or expenditure growth above a certain threshold. They are also similar to budget approvals for local school districts in the United States and other countries. In our analysis, we classify cantons as strongly direct democratic with respect to fiscal policy if their constitutions require a mandatory budget referendum. In contrast, cantons with only an optional or no budget referendum have a weaker or no direct influence on fiscal policy.

We find that a stronger taste for government in a canton is associated with substantially higher cantonal spending and revenues per capita. Many previous studies, in contrast, found no discernible effect of proxies for voter preferences on spending.<sup>2</sup> As we argue, the most likely explanation for this pattern is that previously employed proxies for voter preferences are insufficient. Furthermore, our estimates suggest that the impact of the mandatory budget referendum on spending declines by about 20% once we control for voter preferences.

The rest of this article is structured as follows. The next section briefly discusses the related literature. [Section 3](#) provides background information on the structure of direct democracy and fiscal policy in Switzerland. The data are described in [Section 4](#). Estimates of voter preferences are reported in [Section 5](#), while [Section 6](#) shows how institutional rules and voter preferences affect fiscal policy. Finally, [Section 7](#) concludes.

## 2. Related literature

Our article contributes to a sizable literature, especially in political science, on the estimation and analysis of voter preferences. Most studies rely on public opinion polls or survey data to study aggregate voter preferences (for example, [Ansolabehere et al., 2008](#); [Camobreco, 1998](#); [Erikson et al., 2002](#); [Evans et al., 1996](#); [Gerber, 1996](#); [Lascher et al., 1996](#)).<sup>3</sup> Some studies rely on preferences estimated from ballot data but these are typically from a single state ([Gerber and Lewis, 2004](#); [Lewis, 2001](#); [Snyder, 1996](#)). We can estimate voter preferences for each canton in Switzerland and study how they vary across cantons and by political institutions. In addition, we show that voter preferences are related to public spending decisions in a consistent way.

Our second contribution is to the large literature on the relationship between direct democracy and public spending using cross-sectional variation (e.g. [Besley and Case, 2003](#); [Farnham, 1990](#); [Feld and Matsusaka, 2003](#); [Matsusaka, 2004](#); [Zax, 1989](#)).<sup>4</sup> Here, we show that voter preferences are an important omitted variable in studies without state fixed effects. We then show that the effectiveness of a mandatory budget referendum in cutting public spending is reduced by between 10 and 30% (depending on the controls included), once we condition on our measure of voter preferences.

The article is also related to a small but growing empirical literature that attempts to address concerns of endogeneity of institutions. [Tyrefors and Pettersson-Lidbom \(2012\)](#) use a regression-discontinuity design to compare spending in communities with town meetings to those with purely representative forms of government. [Olken \(2010\)](#) uses an experimental design to study

<sup>1</sup> Typically, the mandatory budget referendum gives more power to the electorate because voting is required by law and occurs automatically for all projects exceeding the monetary threshold. In the empirical analysis below, we find that the mandatory budget referendum, but not the optional referendum, cuts public spending.

<sup>2</sup> In the United States, NOMINATE scores or the median on a Liberal/Conservative score are used as measures for voter ideology (see e.g. [Matsusaka, 2004](#)). In Switzerland, cantonal characteristics and the share of left wing parties in parliament are often used to approximate voter ideology (see e.g. [Feld and Matsusaka, 2003](#)).

<sup>3</sup> [Peltzman \(1992\)](#) relies on indirect evidence from election behavior to show that voters are more fiscally conservative than legislators.

<sup>4</sup> [Feld and Kirchgässner \(2000\)](#) provide a good summary of the studies using Swiss data.

Download English Version:

<https://daneshyari.com/en/article/5068025>

Download Persian Version:

<https://daneshyari.com/article/5068025>

[Daneshyari.com](https://daneshyari.com)