The impact of direct democracy on state spending priorities

Daniel C. Lewis [a,*], Saundra K. Schneider [b], William G. Jacoby [b]

[a] Siena College, Department of Political Science, 515 Loudon Rd., Loudonville, NY 12211, United States
[b] Michigan State University, Department of Political Science, 303 South Kedzie Hall, East Lansing, MI 48824, United States

ARTICLE INFO

ABSTRACT

Do direct democracy institutions affect governmental policy? Previous research on the American states has generated a disparate variety of findings, so there is no scholarly consensus on this question. We argue that many earlier works were limited by their focus on single policy areas or static analyses. To overcome these issues, we analyze yearly data on governmental spending priorities across a full array of policy areas in the 50 states from 1982 through 2011. Our results clearly show that direct democracy states devote more resources to collective goods policies while non-direct democracy states emphasize particularized benefits. This difference occurs because public preferences in direct democracy states are more closely aligned with policy priorities than is the case in states without direct democracy institutions.

Direct democracy institutions comprise the most visible and lasting legacy of the Progressive era in the United States. Mechanisms like the initiative petition, the referendum, and recall elections are intended to remove "artificial" barriers between citizens and public policy. As such, direct democracy should facilitate government responsiveness to mass opinion. In principle, citizens are making policy themselves, leading to direct influence. At the same time, the presence of direct democracy mechanisms should make government officials more sensitive to constituents' preferences, thereby creating indirect influence.

One of the most important questions confronting scholars is whether direct democracy institutions really do have any impact on public policy (Lupia and Matsusaka, 2004). One need only look at some recent events in American politics to produce instances where direct citizen action does appear to make an important difference. For example, the 1978 California Tax Revolt culminated in Proposition 13 which had enormous consequences for state revenue and expenditures. More recently, a wave of referendums in the 2004 elections imposed restrictions on same-sex marriage in 33 states. And, by early 2014, ballot initiatives in 20 states and the District of Columbia have led to the liberalization of marijuana laws. So clearly, direct democracy institutions *can* affect public policy in significant ways. But, are these representative examples of a general pattern that exists throughout states that possess direct democracy institutions? Or, do the preceding episodes stand out precisely because they are unusual events?

In this paper, we address precisely those questions. Specifically, we use data from the last three decades to examine whether and how direct democracy institutions influence policy spending priorities in the American states. Our results show that direct democracy states do have significantly different policy priorities from other states. Furthermore, these differences are rooted in a heightened responsiveness to public preferences that appears to exist in direct democracy states. Thus, we believe that our analysis provides a compelling answer to one of the most important questions in the study of American state politics.

1. Background

Previous research has not produced any scholarly consensus about the relationship between direct democracy and public policy. Instead, there are three distinct types of findings. The first set of studies produces negative results, finding that direct democracy does not affect policy outcomes and it does not enhance opinion-policy congruence (e.g., Lax and Phillips, 2009a, 2012). The literature provides two possible explanations for the apparent ineffectiveness of direct democracy institutions. Lascher et al. (1996) and Camobreco (1998) both emphasize that the limited choices provided in ballot initiatives and referendums are invariably imperfect reflections of public preferences. Therefore, they do little to enhance the connection between public opinion and public policy.

* Corresponding author.
E-mail addresses: dlewis@siena.edu (D.C. Lewis), sks@msu.edu (S.K. Schneider), jacoby@msu.edu (W.G. Jacoby).

Alternatively, interest groups may be able to exploit direct democracy institutions and use them to achieve their own objectives (Lascher et al., 1996; Gerber, 1999; Monogan et al., 2007). If so, this could actually undermine policy responsiveness to public opinion.

The second set of studies finds that direct democracy has a conservative influence on policy outcomes. This effect is particularly evident with respect to state fiscal policies. Matsusaka (2004) shows that states with ballot initiatives and referendums exhibit lower levels of taxation and spending than states without these institutions. Similarly, Tolbert et al. (1998) show that direct democracy states impose stricter limitations on their taxing and powers, while Gerber (1999) shows that these states are also less likely to have a state income tax. Evidence of direct democracy's conservative effect on fiscal policy has also been found in other nations (Feld and Matsusaka, 2003; Feld et al., 2008). And, it appears to have a similar influence on social policies such as gay rights and same-sex marriage in the American states (Matsusaka, 2010; Lewis, 2011a, 2011b).

The third set of studies reports that direct democracy enhances policy congruence with public opinion, regardless of ideological orientation. This is particularly the case with "hot-button" social issues, like gay rights and abortion (Matsusaka, 1995; Gerber, 1996, 1999; Arceneaux, 2002; Burden, 2005; Matsusaka, 2010; Lewis, 2011b, 2012; Taylor et al., 2012). But, direct democracy also strengthens the connection between citizen preferences and governmental policy in other issue areas, including campaign finance (Bowler and Donovan, 2004) and the death penalty (Gerber, 1996, 1999). These studies seem to demonstrate that direct democracy institutions have precisely the effects that they are intended to produce, at least in certain issue areas.

The literature on the policy consequences of direct democracy institutions contains a fairly disparate array of findings. But, we believe there is a straightforward explanation for this diversity: The varied results are associated with substantively different policies. First, the null findings occur in studies that use composite measures, usually generated by factor analysis or similar scaling techniques, to summarize state policies across multiple policy domains. Second, the findings of conservative impact tend to occur primarily, but not exclusively, with fiscal policies. And third, the preference-policy congruence results occur in studies of specific social policies. Thus, the different findings may reflect the idiosyncrasies of the individual programs used as dependent variables, rather than anything inherent in direct democracy institutions. In effect, a focus on specific policies may introduce selection biases into the respective analyses that have differential impacts on the analytic results in each case.

Another possible limitation of the previous research is that several of the studies rely on static analyses of policy congruence. Governmental responsiveness is inherently a dynamic concept (e.g., Erikson et al., 2002). Therefore, static models cannot capture the interplay between public preferences and policy, since it occurs over time. A recent study by Lewis and Jacobsmeier (2014) highlights the importance of incorporating dynamics into tests of policy responsiveness.

In this study, we will use an alternative approach to overcome the limitations that exist in previous research. Specifically, we will focus on state policy *priorities* rather than individual programs or selective subsets of policies. Our dependent variable (explained below) will measure how state governments allocate resources across the full range of substantive areas in which they are active. In this way, we avoid the selection issues that may arise in studies of single policies. Furthermore, our policy priorities measure is available on a yearly basis, so it is a straightforward task to specify a dynamic model of the relationship between direct democracy institutions and governmental priorities in the American states.

2. State spending priorities

The dependent variable for this analysis is the measure of state policy priorities developed by Jacoby and Schneider (2009). This variable assigns a yearly score to each state for the time period from 1982 through 2011.[1] Each score represents the degree to which a state spends money on policies that promote collective goods rather than policies that provide particularized benefits in a given year.[2] The policy areas that fall under the collective goods heading are education, highways, law enforcement, parks/natural resources, and government administration. The particularized benefits category includes welfare, hospitals, health care, and corrections. Again, these two sets of policies fall at contrasting extremes of a single continuum; states that spend higher proportions of their annual budgets on collective goods invariably spend smaller proportions on particularized benefits and vice versa.

Jacoby and Schneider's procedure identifies which policy areas fall at each end of the continuum, and locates the yearly state positions with respect to the two general policy categories. The units of measurement for the resultant variable are percentages, and higher values indicate more spending on collective goods. So, for example, if state A has a score of 10, and state B has a score of 20 in a given year, then state B spends ten percent more of its budget on collective goods than state A; alternatively, state A spends ten percent more of its budget on particularized benefits than state B. The variable is centered so that the origin falls at the mean division of spending between the two categories.

Fig. 1 summarizes the state policy priority scores. Specifically, the figure contains a dotplot. The plotted points show the mean yearly score for each state, and the horizontal line segments represent each state's range of scores over the 1982 through 2011 time period. The central tendencies for the respective states make sense, with conservative states generally falling toward the collective goods side of the continuum while liberal states tend to be located on the particularized benefit side.

3. Direct democracy and state policy priorities

Again, the question motivating this study is straightforward: Do direct democracy institutions affect policy priorities? We can formulate three specific, testable, hypotheses corresponding to the earlier findings from the research literature: First, there is the null model, in which the policy priorities of direct democracy states are not systematically different from those of other states. Second, the conservative bias hypothesis suggests that the policy priorities of direct democracy states should emphasize collective goods more than those of other states, even after controlling for other possible influences on priorities. Third, the congruence hypothesis holds that the correlation between public preferences and policy priorities should be strongest in direct democracy states.

Let us begin with some bivariate analyses. Here, our main independent variable is operationalized as a dichotomy: Does a state have the initiative petition or not? By this simple definition, 24 states have direct democracy institutions and 26 do not. Note that Mississippi adopted the initiative in 1992.

Looking across the entire 1982–2011 period, the mean policy priority score for states without direct democracy is −1.165. The

---

[1] Their analysis is, itself, based upon spending information obtained from *State Government Finances* (U.S. Bureau of the Census, 1983–2012a, 1983–2012b).

[2] The terms "particularized benefits" and "collective goods" have become increasingly prevalent in the research literature (e.g., Baron and Ferejohn, 1989; Kousser, 2005; Volden and Wiseman, 2007). But, it is important to recognize that these terms are descriptive labels used to identify the two policy clusters produced by the empirical analysis.