

Direct Democracy and Fiscal Gridlock: Have Voter Initiatives Paralyzed the California Budget?

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ABSTRACT

Does direct democracy make it impossible to balance public sector budgets? I address this question with evidence from California, where it is widely believed that voter initiatives have paralyzed the state budget process by locking in high spending while simultaneously prohibiting tax increases. A review of all initiatives approved since 1912 shows that no more than 32 percent of appropriations in the 2003–04 California state budget were locked in by initiatives and that initiatives placed only minimal constraints on the legislature’s ability to raise revenue. Moreover, it is likely that the legislature would have allocated much of the money to its dedicated purpose even if it had not been required to do so by initiative. Initiatives do not appear to be a significant obstacle to balancing the state budget in California.

DIRECT DEMOCRACY HAS EMERGED as a central part of American state and local government in the 21st century. The initiative and referendum are available in more than half of all states and cities now, and over 70 percent of citizens have access to these mechanisms at the state or local level. Yet direct democracy still attracts its share of critics who raise questions ranging in issue from whether voters are competent to decide complex policy questions to how it affects minority rights. The underlying concern is whether direct democracy leads to better or worse public policy. While opinions abound, rigorous empirical evidence on how direct democracy affects policy outputs is in short supply.¹

One of the more prominent criticisms of direct democracy raised recently is that initiatives place too many constraints on elected officials when it comes to public budgeting. The initiative and referendum have long been used to tie the hands of legislators through tax and expenditure limitations, referendum requirements on debt issues and tax increases, earmarking of funds to specific purposes, establishment of sin taxes and state lotteries, and so on. The fear

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is that by both locking in spending and restricting tax increases, initiatives may take too many decisions out of the hands of elected officials, making it difficult to balance the budget and bringing about fiscal gridlock.

Does direct democracy make it impossible to balance public sector budgets? To shed light on this question, I present a case study of the effect of initiatives on the state budget in California, where it is widely believed that initiatives have paralyzed the budget process. In early 2003, California faced a projected budget deficit for the oncoming fiscal year of approximately \$30 billion.² This staggering shortfall fueled the recall campaign that removed the incumbent governor, Gray Davis, from office and installed Arnold Schwarzenegger in his place. However, many observers blamed the budget crisis not on the governor, but on the voters themselves. These critics asserted that a series of popular initiatives had locked in spending and prevented tax increases, making it impossible for the governor and legislature to make rational budgeting decisions (Table 1). This opinion gave voice to a concern that had emerged among some scholars in the previous decade (Cain and Noll 1995).

The danger of initiatives bringing about fiscal gridlock is especially acute in California, where a successful ballot measure can only be repealed or amended by a direct vote of the people. All other states allow the legislature to amend initiatives after a period of time (Matsusaka 2004). If initiatives were to blame for the budget crisis in California, it would raise some troubling questions about direct democracy in general.³ On the other hand, if direct democracy is not to blame for the California budget crisis, it is unlikely to have such an effect anywhere.

Assertions that initiatives have paralyzed the California state budget tend to be based on an impressionistic view of the measures approved by the voters; I am not aware of any systematic study of the extent to which voter initiatives have constrained the California budget process. My purpose here is to provide, I believe, the first systematic accounting of the constraints placed on the California budget by initiatives. I review all 98 statewide initiatives approved by California voters since the process was adopted in 1912 and calculate the total constraints on appropriations and revenues that were in effect in 2003–04. There are some significant constraints, but fewer than is often claimed. At most, 32 percent of California's 2003–04 state spending was locked in by initiatives, and it seems likely that much of that money would have been spent for its dedicated purpose even if it had not been required by initiative. On the revenue side, initiatives have not placed any significant constraints on the three most important revenue sources for state government: income, sales, and corporate taxes. In short, I find that initiatives do

Table 1. Pundit Comments on Initiatives and the California Budget

“Whoever is elected governor is essentially running up against the same wall, a budget that is increasingly paralyzed by initiatives.”
—Leon Panetta¹

“A series of popular initiatives, stretching back 25 years to the famous Proposition 13, has put limits on the taxing power of the state and local communities, while other initiatives have mandated spending on schools, prisons and other projects. The net result: The governor and legislature have little room to maneuver in tough times.”
—David S. Broder²

“[D]irect democracy provisions of California’s constitution have rendered the state ungovernable. As a result of several voter initiatives, about 70% of state spending is earmarked in advance, limiting the discretion necessary to make trade-offs in a crisis.”
—Laura D’Andrea Tyson³

“Empowering the people sounds nice in theory; in practice, it makes it very hard for Sacramento politicians to balance the budget and take care of other state business.”
—*The Economist*⁴

“The accumulating effects of 25 years of initiatives—from the tax limitations of Proposition 13 in 1978, to Proposition 98, the school spending formula passed in 1988, to term limits (1990), to the latter-day ballot-box budgeting that mandates spending on everything from parklands to roads to after-school day care—have so hamstrung both state and local governments that elected legislators, county supervisors and school board members have become the handmaidens, not the leaders, of policymaking in California.”
—Peter Schrag⁵

1. Quoted in Jonathan Weisman, “Voter Initiatives Limit California’s Wiggle Room,” *Washington Post*, 14 August 2003, A01.

2. “Million-Dollar Recall,” *Washington Post*, 30 July 2003, A19.

3. “A New Governor Won’t Fix What Ails California,” *Business Week*, 22 September 2003, 24.

4. “An Unappetising Choice,” *Economist.com*, 6 October 2003. http://economist.com/agenda/displayStory.cfm?story_id=2117037 (March 31, 2005).

5. “Voter Early, Vote Often—But Vote on Everything?,” *Sacramento Bee*, 15 October 2003. <http://www.sacbee.com/content/politics/recall/story/7603249p-8544074c.html> (March 31, 2005).

not stand in the way of big spending cuts or big revenue increases, and these facts do not square with the claim that the California budget crisis was caused by voter initiatives. Even in the state where direct democracy is most binding, direct democracy cannot be blamed for causing fiscal gridlock.

INITIATIVES IN CALIFORNIA

The initiative is a policymaking procedure that allows any citizen to propose a law or constitutional amendment by collecting a predetermined number of signatures from fellow citizens on a petition. When the requisite number of signatures is collected, the measure is placed on the ballot and it becomes law if more votes are cast in favor of it than against it. Initiatives are different

from propositions placed on the ballot by the legislature, known as legislative measures or legislative referendums. I focus on initiatives in my analysis because they are the main source of controversy.

The initiative is a common institution in the United States, available in 24 of 50 states and about half of all cities. Fully 71 percent of the population lives in either a state or a city where the initiative is available. The initiative is also quite an old institution. It was first adopted by South Dakota in 1898, giving it a more venerable pedigree than universal women's suffrage, the federal income tax, and social security.

In most respects, California's initiative process is similar to that of other states (Matsusaka 2004). Statutory measures require a number of signatures equal to 5 percent of the vote cast in the last gubernatorial election (currently 373,816 signatures), and constitutional amendments require 8 percent (currently 598,105 signatures). Since all signatures must be collected within a 150-day period, initiative sponsors typically employ paid signature collectors. Measures are required to pertain to a single subject, but California courts have interpreted this provision liberally. One important feature of California's initiative that is not shared by other states is that adopted measures cannot be modified by the legislature; they can only be changed by the voters themselves. As a result, successful initiatives—even purely statutory measures—are binding on the legislature and governor.

A total of 288 statewide initiatives were voted on in California from 1912 to 2003, of which 34 percent passed.⁴ Of the successful measures, just over 50 percent had direct implications for either spending or taxes. Perhaps the best known measure is Proposition 13, approved by the voters in 1978, which capped property taxes at 1 percent of assessed value and prohibited assessment increases in excess of the inflation rate or 2 percent, whichever is lower.

CONSTRAINTS ON SPENDING

Constraints can take many forms. Expenditure can be locked in ("spend at least \$1 million on education") or capped ("spend no more than \$1 million on education"). Limits can be fixed ("spend at least \$1 million on education") or conditional ("spend at least 1 percent of the budget on education" or "spend at least \$1 million on education except during a recession year"). Restrictions can be absolute ("spend \$1 million on education") or flexible ("spend \$1 million on education unless the legislature decides otherwise by a 3/5 vote"). I concentrate on constraints that might make it difficult to balance the state budget, that is, appropriations that cannot be reduced and

revenue sources that cannot be tapped or increased. While I only examine constraints imposed by voter initiatives, the budget is constrained by other factors, such as federal and state constitutional provisions and federal mandates. I will consider these other constraints after describing those originating from initiatives.

Constraints may also vary over time. For example, the spending guarantees of Proposition 98 (1988) depend on how much was spent on education in the previous year, and the costs of a bond issue depend on the amount of debt currently outstanding. To make the research question concrete, I focus on a particular fiscal year, 2003–04, and measure the constraints in effect during that year’s budget deliberations.

Consider first constraints on state spending. To identify these constraints, I read through the ballot descriptions and arguments for and against each initiative approved by the voters since the process became available in 1912, and I identified those measures with a potential fiscal impact of at least \$1 million. I then eliminated any measures that had expired (such as a bond issue from the early 20th century that was paid off long ago), had been repealed or superseded by another measure, had been struck down by a court, or were otherwise ineffective for 2003–04. This left 15 initiatives with fiscal impact in effect in 2003.⁵ Next, I calculated how much money was locked in by each of these initiatives by reading through its statutory and constitutional provisions and consulting the current budget situation where relevant. When faced with uncertainty about the amounts involved, I took the largest reasonable number supplied by the nonpartisan Legislative Analyst. For example, the lock-in attributed to Proposition 21 (2000) on juvenile crime was the official estimate from the Legislative Analyst in 2000 (adjusted for inflation) even though courts have since weakened that initiative, making the actual costs much lower than anticipated. Because I report the largest plausible amounts, my analysis probably overstates the true constraints from these initiatives.⁶ Details of my assessments can be found in the appendix.

Table 2 lists the 15 initiatives that locked in state spending for the 2003–04 fiscal year and the amount committed by each. The initiative with by far the largest fiscal impact is Proposition 98 (1988), which locked in \$30 billion for K-14 education in 2003–04.⁷ The next most costly measure was Proposition 10 (1998), which committed \$522 million to early childhood development. The impact of Proposition 99 (1988), which set and earmarked tobacco taxes, was comparable.

In total, these initiatives locked in \$32.132 billion in state spending for the 2003–04 fiscal year. To put this figure in perspective, total state appropriations for the fiscal year were \$101 billion. Thus, voter initiatives locked

Table 2. Amount of California State Spending Required by Initiatives, 2003–04

Year	Proposition	Description	\$ Billions
1988	98	Education	30.000
1998	10	Early childhood development	0.522
1988	99	Tobacco tax (funds for anti-smoking, wildlife, research)	0.509
2000	21	Juvenile crime (for prisons)	0.428
1994	184	Three strikes and you're out (for prisons)	0.300
1990	116	Rail bonds (authorized \$1.99 billion)	0.131
2000	36	Drug treatment	0.120
1988	70	Natural resource preservation bonds (authorized \$776 million)	0.042
1990	117	Wildlife protection	0.030
1988	103	Auto insurance (administrative spending)	0.023
1988	97	Cal/OSHA	0.013
2002	50	Water projects bonds (authorized \$3.44 billion)	0.007
1974	9	Political reform (California FPPC administration)	0.003
1990	132	Gill net ban (enforcement spending)	0.002
1986	86	Toxic discharge (enforcement spending)	0.002
TOTAL			32.132

Note: The Appendix describes these measures and how these numbers were calculated.

in about 32 percent of the budget.⁸ The claim that 70 percent of the budget was earmarked in advance by initiatives (see Table 1) is far from accurate.

Furthermore, this figure of 32 percent gives an exaggerated impression of the true spending constraints initiatives imposed on the 2003–04 California state budget. It is likely that the state would have appropriated much of the \$30 billion on education committed by Proposition 98 even without the initiative; the percentage of the state budget devoted to education was fairly stable before and after Proposition 98 passed.⁹ A requirement to spend money that would have been spent anyway is a constraint in name only. Nevertheless, the legislature might have wanted to cut education spending in 2003–04, given the state's tenuous fiscal position. One way to get a sense of the upper bound on the amount of education spending that would have been at risk without Proposition 98 is to suppose that per pupil spending in California dropped to the level of the lowest state in the nation, a very implausible event. If cuts of such a magnitude had been implemented in 2003–04, education spending would have been approximately \$32 billion, leaving the state with the responsibility for \$16 billion, after accounting for property tax revenue. Thus, it seems reasonable to conclude that \$16 billion of education spending is the maximum real constraint from Proposition 98 (\$32 billion – \$16 billion = \$16 billion).¹⁰ If so, the overall spending commitment from initiatives in 2003–04 would have been no more than 16 percent of the budget.

Whether 32 percent (or 16 percent) is a big or small number is in the eye of the beholder. It is clear that these initiatives imposed material constraints on California's spending priorities. However, spending constraints of this magnitude are unlikely to be solely responsible for a budget deficit of the size California faced in 2003–04, especially since initiatives did not significantly prohibit tax increases.

The evidence also challenges the initiative explanation for California's budget crisis in another way. While some commentators have painted a picture of the California budget collapsing under the weight of a flurry of initiatives, Table 2 shows that the problem (if it is a problem) is almost entirely the result of a single initiative, Proposition 98. Without Proposition 98, only 2 percent of the budget would have been locked in by initiatives, a number that most would regard as small. It seems unfair to issue a blanket condemnation of the initiative process based on a single outcome, especially since every political process (including the legislative process) is inherently imperfect and liable to make mistakes from time to time.

CONSTRAINTS ON REVENUE

A deficit can be closed by cutting spending, raising revenue, or some combination of the two. With the exception of Proposition 98, we have seen that voter initiatives placed few constraints on the California legislature's ability to cut spending in 2003–04. Yet even if 100 percent of spending was locked in by initiatives, a deficit could have been avoided if sufficient revenue had been raised. Consider now the constraints initiatives place on raising revenue.

Table 3 lists the main revenue sources for state governments nationwide and the constraints placed on them in California by initiatives. To put things in perspective, taxes are listed in the order of their importance for state governments nationwide (taxes comprise approximately 77 percent of states' general revenue from own sources, with the rest originating from charges for services and user fees).

Initiatives created no barrier to raising the California personal income tax (other than the requirement that rates be indexed) and only a modest constraint on raising the state sales tax (it cannot be applied to food), by far the two most important revenue sources for state governments. In fact, the five most important revenue sources were essentially unconstrained by voter initiatives. Two of the constraints on other revenue sources actually increased revenue; cigarette taxes were set at a minimum of 75 cents a pack, and Proposition 37 (1984) mandated a state lottery, creating a revenue source.

Initiatives did impose two obstacles to tax increases. Proposition 13 (1978)

Table 3. Initiative Constraints on Revenue Increases in California, 2003–04

Revenue Source	% Tax Revenue Nationwide ^a	Constraints	Initiative
Taxes			
Personal income	34.6	None	—
Sales (general)	32.9	Prohibited on food	Proposition 163 (1992)
Corporate income	6.2	None	—
Gasoline	5.8	None	—
Motor vehicle	3.1	None	—
Alcohol & tobacco	2.4	At least 75¢/pack	Proposition 99 (1988), Proposition 10 (1998)
Property	2.3	No more than 1%	Proposition 13 (1978)
Death & gift	1.5	Prohibited	Proposition 6 (1982)
Charges	—	None	—
Lottery	—	Required	Proposition 37 (1984)

a. The percentage of tax revenue raised from a particular tax by all state governments in 1999 (*Statistical Abstract of the United States, 2002*, Table 417, <http://www2.census.gov/prod2/statcomp/index.htm>). Tax revenue does not include revenue from charges and lottery.

set the maximum property tax rate at 1 percent of assessed value and limited assessment increases, and Proposition 6 (1982) essentially eliminated death and gift taxes. However, these taxes are relatively unimportant sources of revenue for state governments.¹¹

Thus, the central message of Table 3 is even clearer than that of Table 2: initiatives did not stand in the way of state revenue increases in California in 2003–04.¹²

WHAT ABOUT PROPOSITION 13?

Proposition 13 (1978) is often mentioned as a prime culprit for California's fiscal problems (Schrag 2004), yet it hardly figures into the preceding calculations. The proposition does not dedicate any funding so does not appear in Table 2, and its restrictions apply only to the property tax, which is not an important revenue source at the state level. While accurate, this paints a misleading picture of Proposition 13's impact on the California state budget. After Proposition 13 cut local (primarily county) property tax revenue by about half in the late 1970s, the state stepped in and made up most of the difference for several years. Thus, Proposition 13 indirectly drove up state expenditures, initially by about the amount of the property tax shortfall it caused.

One way to factor these indirect effects of Proposition 13 into the preceding estimates would be to calculate the amount of this property tax backfill

and count it as another expenditure that the state is required to make (that is, add the amount to Table 2). A rough calculation of that amount follows. If property tax revenue in 2003–04 was about half of what it would have been without Proposition 13, the shortfall comes to about \$30 billion. However, this number needs to be adjusted downward. First, the majority of the state money to make up for property tax losses goes to education, and this is already included in the estimated fiscal impact of Proposition 98. After subtracting this education spending to avoid double-counting, the amount of the shortfall not already included in Table 2 is about \$15 billion. Second, since 1978, the counties have replaced a good deal of the revenue lost from Proposition 13 with user fees, charges, and special district assessments; a rough estimate of this amount is \$12.5 billion.¹³ Third, in 1992, voters approved a one-half cent sales tax increase for counties (Proposition 172) specifically to offset other revenue losses, such as those due to Proposition 13. This sales tax increase provided about \$2.5 billion in 2003–04. So the portion of the \$15 billion remaining for the state to make up due to Proposition 13 should be adjusted down by the \$2.5 billion from sales taxes and the \$12.5 billion that local governments raised on their own.¹⁴ The resulting revenue obligation for the state from these crude estimates is approximately zero. Even if my estimates are somewhat off target, Proposition 13's impact does not appear large enough to alter the overall picture that emerges from Table 2.

Finally, note that there is no legal requirement for the state to continue to fund the city and county services that were paid for by property tax revenue taken away by Proposition 13 (except education, as noted). The legislature may feel political pressure to continue these services, but, if so, any budgetary problems are caused by politics, not by initiatives. Initiatives rule out certain solutions to the budget problem, but they do not make it unsolvable.¹⁵

WHAT ABOUT LEGISLATIVE MEASURES?

The California budget is also constrained by propositions placed on the ballot by the legislature. Most states require legislatures to obtain voter approval for certain actions, such as constitutional amendments or bond issues. To assess the magnitude of the constraints imposed on the 2003–04 budget by legislative measures, I reviewed all such measures that were approved since 1990 and identified those with a fiscal impact. The most important measures were those that authorized a bond issue for a specific purpose. Bond issues commit the state to appropriate funds to service the debt. As of July 2003, the total general obligation debt for the state was \$27.6 billion. The estimated debt service for 2003–04 was \$2.6 billion (see Appendix). If we subtract

the \$181 million of this that arose from initiative bonds, we end up with a sum of about \$2.4 billion that was earmarked for debt service by legislative bonds. While this is not a small amount, it does not change the basic picture of the overall size of the direct democracy-based budget constraints faced by California's governor and legislature in 2003–04. Other than bond issues, I found no legislative measures that committed sizable funds or inhibited revenue increases.

DISCUSSION

Tables 2 and 3 list every voter initiative in California that earmarked state spending or restricted tax increases for the 2003–04 budget. At most, 32 percent of state spending was locked in by initiatives, but the vast majority of this dedicated spending was for education, most of which probably would have been appropriated without an initiative requiring it. Except for two taxes that are relatively unimportant to state governments (property tax and inheritance tax) initiatives placed no material constraints on the raising of revenue. Whether 32 percent is a large or small number is open to debate, but it is significantly smaller than some pundits have claimed (Table 1). In any event, to hold initiatives accountable for a budget deficit, they must prevent the legislature from both cutting spending and raising revenue. Unless both constraints are binding, the legislature has room to close a deficit if it has the political will to do so. I have shown that neither constraint is binding in California. Initiatives have removed some of the legislature's discretion, but, as a whole, they do not stand in the way of balancing the budget.¹⁶ Thus, the facts do not support the claim that initiatives caused the 2003–04 California budget crisis.¹⁷

My evidence only pertains to constraints arising from citizen initiatives. California's budget crisis may have been caused by budgetary constraints arising from sources other than the initiative. State spending is restricted by the United States Constitution (for example, prison spending can only be cut so much before prison conditions run afoul of the constitutional prohibition against cruel and unusual punishment) and the California Constitution (for example, the California Supreme Court has limited the state's ability to refuse to pay for abortions for MediCal recipients on constitutional grounds). Federal mandates and obligations created by previous actions of the legislature may also have reduced the legislature's room to maneuver.

My evidence also does not account for the possibility that the threat of initiatives might influence budget decisions in the legislature. Few politicians want to be seen as flaunting the expressed will of the people or to trigger

a new initiative. Politicians may feel as constrained by the threat of initiatives as by those that have been adopted (Gerber 1996). While the initiative certainly can affect policy even without a measure on the ballot, there is no systematic evidence that initiative threats prevent responsible budgeting. In fact, budget practices appear no less coherent when the voters participate directly than when politicians make all the decisions. All else equal, initiative states are no more or less inclined to borrow than noninitiative states; they cut spending and taxes in a way that keeps budgets balanced (Matsusaka 1995, 2004), and mandatory referendums on debt issues have only modest effects on the amount of debt outstanding (Kiewiet and Szakaly 1996).¹⁸

In short, this case study of California reveals that initiatives did not cause the state's budget crisis in 2003–04. This finding reinforces the conclusion of studies using aggregate data that initiatives do not bring about irrational, short-sighted budgetary policy. Voters have used initiatives to establish spending priorities and restrict the way money is raised, but these constraints have not paralyzed the California budget. While pundits have blamed the initiative for the state's budgetary woes, the initiative seems to be a scapegoat for the inability of California's elected officials to manage the competing demands for public funds in a period of declining revenues.

APPENDIX: ESTIMATING THE INITIATIVE'S IMPACT ON CALIFORNIA SPENDING, 2003–04

In this appendix, I describe how I calculated the amount of money locked in to the 2003–04 California state budget by initiatives, as reported in Table 2. References to the “Legislative Analyst's estimates” refer to the estimates provided in the *California Ballot Pamphlet*, published by the California Secretary of State prior to each election.

Proposition 9 (1974)—Political reform

The measure requires an appropriation of not less than \$1 million (adjusted for inflation) for the California Fair Political Practices Commission (CFPPC). The number in Table 2 is \$1 million adjusted for inflation since 1975 using the United States Census Bureau's Consumer Price Index. The CFPPC is typically funded in excess of the minimum requirement.

Proposition 86 (1986)—Toxic discharge

The number in Table 2 is the Legislative Analyst's estimated enforcement cost, adjusted for inflation since 1986.

Proposition 70 (1988)—Natural resource preservation bonds

The measure authorized \$776 million in bonds to purchase and maintain wildlife, coastal, and park lands. The outstanding general obligation debt on July 1, 2003, was \$27.607 bil-

lion, with an estimated debt service for 2003–04 of \$2.616 billion (Angelides 2003). Thus, the ratio of debt service to debt was 0.1 overall. I assumed the debt service for 2003–04 was equal to 0.1 of the \$419 million outstanding Proposition 70 bonds.

Proposition 97 (1988)—Cal/OSHA

The measure required the state to maintain its own Occupational Safety and Hazard (OSHA) program. The number in Table 2 is the amount the governor proposed for the Cal/OSHA Targeted Inspection and Consultation Fund (part of the Division of Occupational Safety and Health, which is part of the California Labor and Workforce Agency) in his January 2003 budget. This amount is presumably more than the minimum required expenditure.

Proposition 98 (1988)—Education

The measure guaranteed minimum state spending for K-14 education. The total Proposition 98 guarantee for 2003–04 was \$45.7 billion, of which \$15.7 billion was projected to come from local property taxes. The state meets part of its Proposition 98 obligations by diverting local property taxes to education through “educational revenue augmentation funds” (ERAF). These numbers are before the so-called “Triple Flip” scheme was adopted to repay deficit bonds. The numbers are from the Legislative Analyst’s *California Spending Plan 2003–04*. The original initiative was amended by a legislative measure, Proposition 111, in 1990.

Proposition 99 (1988)—Tobacco tax

The measure locked in spending equal to the revenue that flows into the Cigarette and Tobacco Products Surtax Fund from tobacco surtaxes. The governor’s proposed budget in January 2003 estimated revenue for this fund of \$522 million. From the 25 percent “unallocated” portion of the fund (that which is required to be spent on certain health and wildlife programs), 10 percent (\$13.05 million) went to the Habitat Conservation Fund (see Proposition 117 in 1990). To avoid double-counting, I subtracted this \$13.05 million for the Habitat Conservation Fund from the Proposition 99 total; the total appears as part of the total for Proposition 117.

Proposition 103 (1988)—Auto insurance

The measure regulated automobile insurance rates. The number in Table 2 is the Legislative Analyst’s upper bound estimate for state administrative costs, adjusted for inflation since 1988.

Proposition 116 (1990)—Rail bonds

The measure authorized \$1.99 billion in bonds for rail transportation. The number in Table 2 is 0.1 of the \$1.3 billion of outstanding bonds, which is an estimate of the debt service required in 2003–04. See the discussion of Proposition 70 (1988) for how I estimated this rate.

Proposition 117 (1990)—Wildlife protection

The measure created the Habitat Conservation Fund to acquire land for parks and to protect wildlife. The fund was guaranteed \$30 million per year. Part of the money comes

from the “unallocated” part of the Cigarette and Tobacco Products Surtax Fund (see Proposition 99 in 1990), and the rest comes from the General Fund.

Proposition 132 (1990)—Gill net ban

The measure banned the use of gill nets off the coast of Southern California. The number in Table 2 is the Legislative Analyst’s estimated cost of enforcing the ban, adjusted for inflation since 1990.

Proposition 184 (1994)—Three strikes

The measure toughened sentences on repeat offenders. The number in Table 2 is 10 percent of the Legislative Analyst’s estimate in 1994. The original spending projections by the RAND Corporation used by the Legislative Analyst were predicated on universal application of the law. However, the California Supreme Court subsequently gave judges significant leeway to ignore the initiative, and the original estimates turned out to be much too high. A RAND study some years after the initiative passed noted that there is no evidence that any of the projected costs actually materialized (Greenwood et al. 1998). The RAND study argues for assigning no net costs to the measure, but I (rather arbitrarily) assume the true number is 10 percent of the Legislative Analyst’s estimate of \$3 billion per year. In real terms, state spending on corrections has increased by just under \$1 billion since 1994. My estimates assume that Propositions 184 and 21 (2000) required the state to spend an additional \$728 million, almost surely an overestimate of their impact.

Proposition 10 (1998)—Early childhood development

The measure increased the tax on tobacco products by 50 cents a pack and dedicated the money to a variety of uses, chief among them being early childhood development programs. The initiative locks in spending equal to the amount raised from the tobacco surtax for the California Children and Families First Trust Fund. I used the revenue estimate in the governor’s budget proposal of January 2003.

Proposition 21 (2000)—Juvenile crime

The measure toughened sentences for juvenile offenders. The number in Table 2 is the Legislative Analyst’s estimate of additional prison operating costs, adjusted for inflation since 2000, plus 0.1 of the estimated new construction costs (implicit debt service), not adjusted for inflation. Early indications are that the measure is having only a modest effect. For example, the number of juveniles serving time as adults declined after the measure passed, so this number is likely to be an overestimate of the measure’s true cost.

Proposition 36 (2000)—Drug treatment

The measure required probation and treatment for drug consumers rather than incarceration. It established the Substance Abuse Trust Fund to allocate money to counties to offset the cost of implementing the program. The measure appropriated \$60 million in 2001 and \$120 million per year thereafter (through the 2006 fiscal year) from the General Fund to the Substance Abuse Trust Fund.

Proposition 50 (2002)—Water projects bonds

The measure authorized \$3.44 billion of bonds for water projects. The number in Table 2 is 0.1 of the \$74 million of outstanding bonds, an estimate of the required debt service for 2003–04. See the discussion of Proposition 70 (1988) for how I estimated this rate.

ENDNOTES

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1. The facts in this paragraph and background information throughout the article are from Matsusaka (2004). For discussions of the arguments for and against direct democracy, see Lupia and Matsusaka (2004) and Matsusaka (2004, 2005).

2. Information on the 2003–04 California state budget here and throughout comes from *California Spending Plan 2003–04: The Budget Act and Related Legislation*, by the California Legislative Analyst, available at www.lao.ca.gov.

3. Indeed, two select state legislative committees in Florida recently considered revisions to that state's initiative procedures. The purpose, according to Florida Senate President Jim King, was to prevent the "Californication" of Florida through citizen initiatives that mandate services while restricting revenue, which leads to "fiscal oblivion" (Cotterell 2003; Ulferts 2003).

4. These numbers were taken from Waters (2003) and updated with information from the California Secretary of State's election Web site, <http://www.ss.ca.gov/elections/elections.htm>.

5. My search may have missed an initiative or two, but I am confident that no measure with any significant fiscal impact was omitted.

6. On the other hand, there is a sense in which the figures in Table 2 might be underestimates. If an initiative mandates, say, the purchase of land for a park, the state may have to appropriate funds in the future for park maintenance and management. I include ongoing costs in my estimates for the crime initiatives (Propositions 184 and 21) but not for the others. To get a sense of how much money may have been omitted in this way, first observe that only three initiatives in Table 2 led to significant investment in durable goods: Proposition 70 (natural land), Proposition 116 (rail), and Proposition 50 (water systems). Proposition 50 projects were just getting off the ground in 2003–04, making their maintenance expenditures negligible. Proposition 70 and Proposition 116 authorized a combined \$2.775 billion. If annual depreciation and operations were 10 percent of the initial investment, the implied annual cost would be about \$278 million. This amount is probably an overestimate because many of the purchases authorized by these propositions do not depreciate. For example, part of the rail bond money went for purchasing rights of way and easements. Furthermore, because the state is not obligated to maintain and operate the rail systems, local governments would be expected to cover most of the operating costs.

7. This initiative locked in a total of \$45.7 billion for K-14 education. A projected \$15.7 billion was anticipated to come from local property taxes, leaving the state responsible for the remaining \$30 billion.

8. One could also estimate the proportion of General Fund expenditure that was locked in by initiatives. Three initiatives affected only bond funds (Propositions 70, 116, and 50) and three affected primarily special funds (Propositions 99, 117, and 10), with a total commitment of \$1.241 billion. Therefore, the amount of General Fund spending committed by initiatives was \$30.891 billion, or 44 percent of the \$71 billion General Fund for 2003–04. Again, this figure is driven almost entirely by the requirements of Proposition 98. I believe it makes more sense to benchmark against total expenditures since the walls between the General Fund and bond and special funds have been rather porous in practice.

9. Spending for K-12 education ranged from 31 to 34 percent of the state budget from 1979–80 to 1988–89, even during the recessions of the early 1980s. These numbers were calculated from *Chart C-1, Program Expenditures by Fund*, maintained by the Budget Operations Support Unit of the California Department of Finance, available at http://www.dof.ca.gov/HTML/BUD_DOCS/Backinfo.htm.

10. Per pupil spending for public school students (K-12, measured in average daily attendance) in 2002–03 was \$7,523 in California and \$5,287 in Utah, which had the nation's lowest spending. California's spending would have been 70 percent of its actual 2003–04 level if it matched Utah. This information is from Table H-16 of the *National Education Association's Rankings & Estimates: Rankings of the States 2003 and Estimates of School Statistics 2004*, available at www.nea.org.

11. Property taxes comprise 27 percent of the combined revenue of state and local governments in the United States (United States Bureau of the Census 2003, Table No. 440). Therefore, even if initiative revenue constraints were measured in terms of those on all taxing authorities in the state, almost three-quarters of revenue originated from sources that were unconstrained in California in 2003–04.

12. Proposition 98 (1988) requires that education receive at least the same share of General Fund revenue as it received in 1986–87. In principle, this could be a revenue constraint because a share of any new revenue might have to be reserved for education spending. However, this was not a factor for the budget under examination because education spending exceeded the minimum share for 2003–04.

13. I estimated this figure as follows: Local revenue from charges in California was \$25 billion in 2001–02, which roughly doubled in real terms in the 10 years after Proposition 13 was approved. Based on this, my estimate in the text assumes that half of the \$25 billion in revenue from charges was a response to Proposition 13. Data were obtained from United States Bureau of the Census (various years).

14. The property and sales tax revenue information in this paragraph was taken from *California Spending Plan 2003–04: The Budget and Related Legislation*, by the California Legislative Analyst, available at www.lao.ca.gov.

15. Based on the idea that counties are an administrative arm of the state, another approach to assessing the impact of initiatives on budgeting would be to consolidate the state and county budgets into one unit of observation and measure how it has been constrained. Such an approach would show spending constraints to be less than 32 percent since initiatives have not locked in significant additional county expenditures.

16. Even written constraints may not be binding since apparently clear initiative provisions have been evaded by elected officials. For example, for many years the governor and legislature diverted revenue from the Cigarette and Tobacco Products Surtax Fund that

Proposition 99 (1988) had dedicated to anti-smoking education and spent it on health care (Gerber et al. 2001).

17. Whether the spending and financing priorities established by initiatives are wise—a question that I consider primarily a matter of opinion and preference—is a different issue entirely.

18. On the other hand, there is evidence that fiscal constraints affect the cost of borrowing as spending and borrowing limits tend to reduce interest rates while tax limits tend to increase interest rates (Poterba and Rueben 1999). The net effect of these constraints on the California budget in 2003–04 is unclear.

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