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## Direct Democracy and Public Policy

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### 1. Introduction

Direct democracy is a form of government in which citizens are directly involved in making laws. One important form is the *initiative* process. The initiative process allows ordinary citizens to propose a new law by collecting a specified number of signatures from their fellow citizens, and if enough signatures are collected, the entire electorate votes whether to approve the law. The most famous initiative was California's Proposition 13 in 1978 that capped property taxes and sparked a nationwide tax revolt; recent initiatives in the United States concerned same-sex marriage, marijuana legalization, and the minimum wage, and recent initiatives in Switzerland concerned United Nations membership, construction of mosque minarets, and immigration limits.

The other important form of direct democracy is the *referendum* process. A referendum is a vote of the electorate on a law that has been proposed and approved by the sitting government, where citizens have the option to reject the law. Referendums come in several flavors.<sup>1</sup> *Advisory referendums* are called by the government and, as the name suggests, are not binding on the government. Recent examples include national votes on whether to accept terms of a debt bailout in Greece in 2015 and whether to exit the European Union in the United Kingdom in 2016. *Mandatory referendums* are elections that

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<sup>1</sup> Following standard practice, and the Oxford English Dictionary, I use *referendums* as the plural rather than *referenda*.

are required in order to approve certain actions of the government. For example, 49 of 50 U.S. states require a referendum to amend their constitutions (Matsusaka 2005), 21 of 50 states require voter approval for bond issues (Kiewiet and Szakaly, 1996), and 17 of 26 Swiss cantons require referendums on new spending projects (Feld and Matsusaka, 2003). *Petition referendums* (also known as popular referendums, veto referendums, and optional referendums) allow citizens to challenge an action of the legislature by collecting a specified number of signatures, in which case the action is put to a vote of the people. Petition referendums are common at the subnational level in Switzerland and the United States. In Italy, petition referendums at the national level have been used to address issues such as abortion, divorce, the electoral system, and trade unions.

While direct democracy is often framed as a substitute for representative democracy, in practice the two forms of government are complementary; the initiative and referendum invariably appear as a supplementary feature of representative-based political systems.<sup>2</sup> Direct democracy can be seen as providing citizens with a “safety valve” or “last resort” in the event that elected officials do not respond to citizen preferences. The main concern with direct democracy is that it requires voters to be sufficiently informed to cast a wise vote. A large body of research shows that voters lack detailed knowledge about the propositions on which they vote. However, theory and evidence suggests that voters can accurately register their preferences in the voting booth without detailed information on a proposition if they have access to endorsements or recommendations from informed individuals or groups that they trust. (Lupia, 1994; Lupia and McCubbins, 1998; Lupia and Matsusaka, 2004).

Any attempt to assess the merits or demerits of direct democracy has to begin with an understanding of how direct democracy affects policy outcomes. There is now a large theoretical and empirical literature on this issue, which is the focus on this chapter. This

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<sup>2</sup> Representative democracy is largely replaced by direct democracy in the town meeting form of government. Because town meeting democracy is uncommon, it is not reviewed here.

chapter provides a fairly comprehensive review of the theoretical and empirical literature, and draws a number of conclusions about the effects of direct democracy on policy.<sup>3</sup>

## 2. Theory

Most theoretical work on direct democracy employs a spatial model, following the pioneering work of Romer and Rosenthal (1979a), which studied the mandatory referendum. The model was extended to include initiatives by Gerber (1996) and Matsusaka and McCarty (2001). Here I present a simple version of these models in order to illustrate the main insights.

A scalar policy  $x$  is to be chosen, with  $x = 0$  the status quo point. The actors are the voters, represented as a single agent (e.g. the median voter), and the government. The voters have a single-peaked utility function  $u(x)$  with an “ideal point” (peak) at  $x = V$ , and the government has a single-peaked utility function with an ideal point at  $x = G$ . In a world with no direct democracy, the government would choose its ideal point, and the policy would then be  $x = G$ . In a pure median voter world, the government would have the same preferences as the voters,  $G = V$ , the policy would be the median voter’s ideal point, and direct democracy would be irrelevant. However, both theory and empirical research suggests that such perfect alignment often may not occur.<sup>4</sup> When  $G \neq V$ , direct democracy can change the policy outcome.

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<sup>3</sup> While I attempt to include all related research of which I am aware in this survey, there are some deliberate omissions. First, for the most part I have excluded working papers, on the principle that their findings have not yet undergone peer review. Second, I have excluded studies that only compare mean policy outcomes between jurisdictions with and without direct democracy, because theory strongly suggests that controls for preferences need to be included. Third, I have excluded studies that estimate the effect of the initiative using interaction terms but do not present estimates of the net effect of the initiative. Finally, I have excluded studies with findings that are known to be spurious based on subsequent research or that employ methods that have been shown to be problematic, on the principle that the author of a survey ought to approach the literature critically – helping the reader understand which studies are more or less compelling.

<sup>4</sup> For example, the pressure group models of Stigler (1971) and Peltzman (1976) show how policy responds more to preferences of organized groups; the Downsian model fails to produce convergence to the median when the issue space is multidimensional, there are more than two candidates, candidates are policy motivated, or there is a valence dimension; in the shirking models of Barro (1973) and Ferejohn (1986),

### A. Mandatory Referendum

Consider the preference configurations in Figure 1. With no referendum, the government chooses its ideal point  $x = G$ . When a mandatory referendum is in effect, the government makes a proposal  $x_G$  that must be approved by voters.<sup>5</sup> If the government's proposal is rejected, the policy reverts to the status quo, here  $x = 0$ . The voters will approve the government's proposal only if it yields higher utility than the status quo.

If Case 1a, any proposal in the region  $(0, x_{max})$  is preferred to the status quo. This acceptance zone is small enough to constrain the government: instead of proposing  $x_G = G$ , which the voters would reject, the government proposes  $x_G = x_{max}$ , which the voters accept. In Case 1b, the mandatory referendum has no effect: the zone is too wide (compared to the distance between  $V$  and  $G$ ) to constrain the government, and the government proposes its ideal point, which the voters accept. In Case 1c, when the government's ideal point is closer to the status quo than the voter's ideal point, again the mandatory referendum has no effect because the voter will accept the government's ideal point.

This example illustrates several properties of the mandatory referendum. First, although the referendum gives power to the voters, it does not enable them to bring policy all the way to their ideal point. Because the government retains control of the agenda, it can act strategically to keep the policy near its own ideal point. Second, although the referendum does not allow voters to fully control the outcome, in equilibrium the policy is (weakly) closer to the voter's ideal point than if a referendum was not required. Third, the referendum has an effect on policy even though no proposal is rejected in equilibrium. In Case 1a, the referendum restricts policy by the threat it exerts; the government moderates its proposal in order to avoid being rejected.

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elections put pressure on representatives to follow voter preferences, but not enough to eliminate all shirking.

<sup>5</sup> The petition referendum can be studied by assuming that the voter must pay a cost of  $c$  to trigger a vote on the government's proposal.

Finally, the model generates an important prediction concerning the direction of the policy effect. If the mandatory referendum applies to *new* taxes, spending, or borrowing, and the status quo is zero – that is, rejection of the government’s proposal results in no new taxes, spending, or borrowing – then the mandatory referendum (weakly) reduces the overall amount of taxes, spending, or borrowing. This implies that mandatory referendums on spending in Switzerland and on borrowing in the United States, will reduce overall spending and borrowing, respectively.

### *B. Initiative*

The initiative differs from the referendum in that it allows voters to make the proposals; it removes the government’s monopoly control of the agenda. This makes the initiative more effective in driving policy toward the voter’s ideal point.

The sequence of actions is: first, the government chooses a policy, and second, the voter at a cost of  $c > 0$  can choose to override the policy with an initiative at its ideal point. Consider the preference configurations in Figure 2. Suppose, for a moment, that the government were to choose its ideal point  $x = G$ . Then the voter would launch an initiative and override the policy if  $u(V) - c > v(G)$ . If the configuration is such that the voter would choose an initiative, then the government in anticipation would choose an accommodating policy that deters the initiative. Specifically, the government would choose  $x_1$  that solves  $u(V) - c = u(x_1)$ . If  $G < x_1$  then the government can choose its ideal point and the voter will not challenge it. In case 2a, where  $V < G$ , the equilibrium policy outcome is  $x = \min\{x_1, G\}$  when the initiative is available. The analysis is symmetric in Case 2b where  $G < V$ : the equilibrium policy outcome is  $x = \max\{x_2, G\}$ .

Several implications follow, some of which echo the analysis of the mandatory referendum. First, the initiative can effect policy, but it does not bring the outcome to the voter’s ideal point. The distance between the final outcome and the voter’s idea point is increasing in the cost of initiating a proposal. In practice, the cost of drafting a proposal and collecting signatures can be substantial, for example, well over \$1 million in California. Second, while the initiative does not give voters everything they want, it does bring policy closer to their ideal point than if the initiative was unavailable. Third, the effect of the initiative is indirect in the sense that policy changes come about not by voters approving

propositions but by the government adjusting policy in anticipation of a proposition. Empirically, this implies that the effect of the initiative cannot be inferred by examining only the propositions that appear on the ballot.

Finally, and in contrast to the mandatory referendum, there is no directional prediction concerning the effect of the initiative. In Case 2a, the final policy is (weakly) smaller when the initiative is available. In Case 2b, the final policy is (weakly) larger when the initiative is available. Thus, there is no theoretical reason to expect that, say, the initiative reduces taxes versus increases taxes. The direction of the effect depends on the relative ideal points of the government and voter. The dependence of the effect of the initiative on the relative ideal points of the key actors is important in assessing the empirical literature.

The model sketched here is simplified to illustrate certain basic forces. Some properties of the model are not robust to consideration of incomplete information about voter preferences (Matsusaka and McCarty, 2001). With incomplete information, the property of no initiatives in equilibrium, and that the initiative influences policy only by threat disappears. Furthermore, with incomplete information the initiative can cause policy to move away from the voter's ideal point.

### 3. Empirical Approaches

The literature's workhorse empirical model is a regression of the form

$$(1) \quad Y_{it} = \alpha + \beta D_{it} + \gamma X_{it} + e_{it},$$

where  $i$  indexes a jurisdiction (state, canton, city),  $t$  indexes time, and  $\alpha$ ,  $\beta$ , and  $\gamma$  are parameters to be estimated. The variable  $Y_{it}$  is a policy measure, such as the amount of government spending. The variable of interest is a dummy  $D_{it} = 1$  if jurisdiction  $i$  at time  $t$  has direct democracy available, and  $D_{it} = 0$  otherwise. The vector  $X_{it}$  includes control variables. The coefficient  $\beta$  is intended to capture the effect of direct democracy on policy, although in some cases it is better seen as simply the mean difference between jurisdictions with and without direct democracy, conditional on  $X_{it}$ . When the policy is represented by an indicator variable, such as permitting versus banning capital

punishment, logit or probit versions of (1) are often used. A few studies frame their analysis in terms of policy adoption, and estimate hazard models (also called “duration” or “event history” models).

Regression (1) presents several challenges that the literature has addressed in various ways. The regression assumes that the effect of the direct democracy is constant for every jurisdiction and every time. This is a strong assumption for two reasons. First, the implementing details of initiative and referendum laws vary across jurisdictions in a ways that could influence their impact. For example, jurisdictions might have different signature requirements, making it easier in some place to qualify measures for the ballot. This concern is fairly straightforward to address by conditioning the direct democracy effect on the institutional details of importance. For example, in Matsusaka (1995), the initiative is characterized by a dummy variable for availability and the dummy variable interacted with the signature requirement. Bowler and Donovan (2004) present an extensive analysis of institutional details pertaining to the initiative process.

A more challenging issue when it comes to the initiative process is that theory predicts that the direction of the effect ( $\beta$ ) depends on the configuration of preferences. For example, if the government prefers more spending than the voter, theory predicts that the initiative reduces spending; while if the government prefers less spending than the voter, theory predicts that the initiative increases spending. Simply including measures of government and voter preferences in  $X_{it}$  does not solve this problem because it is their *relative* position that matters.

Another concern with approach (1) is that because availability of the initiative is not randomly assigned – jurisdictions choose whether to adopt the initiative and referendum – there is significant risk of spurious correlation. Regression (1) in effect considers direct democracy jurisdictions to have been “treated” and uses the other jurisdictions as the “untreated” control group. This yields valid causal estimates only if the conditional potential value of the treated and control group are the same. In less formal language, regression (1) produces causal estimates only if the direct democracy jurisdictions would have had the same policy as the non-direct democracy jurisdictions in the absence of the initiative. This is a general challenge when seeking to estimate the effect of institutions, and

it is compounded by the fact that most institutions change slowly over time, providing little time series variation in treatment assignment.

#### **4. Evidence**

##### *A. Fiscal Policy: Mandatory Referendum*

Research on the mandatory referendum focuses on contexts in which the status quo policy (new spending, new borrowing) is zero. In these cases, theory predicts that the outcome (spending, borrowing) will be lower when the mandatory referendum is in place than when it is not in place. The evidence almost uniformly supports this prediction.

With regard to government spending, three studies find lower spending in Swiss cantons when a mandatory referendum is required (Feld and Matsusaka, 2003; Funk and Gathmann, 2011, 2013). The difference is large: Feld and Matsusaka (2003) report 19 percent lower spending per capita for the median canton after controlling for other determinants of spending; Funk and Gathmann (2011) find 8 to 12 percent lower spending over a long period 1890-2000. In a sample of countries, Blume et al. (2009) find that government spending is 3.2 percent lower as a fraction of GDP when mandatory referendums are required. At the local level, two studies find lower spending in Swiss cities when a mandatory referendum is in place (Feld and Kirchgässner, 1999; Galletta and Jametti, 2015).

With regard to borrowing, three studies find that debt or deficits are lower in American states when voters must approve bond issues (McEachern, 1978; Bohn and Inman, 1996; Kiewiet and Szakaly, 1996). The magnitudes appear to be material: Kiewiet and Szakaly (1996) find that states with mandatory referendums have 10 percent less total debt per capita than other states.

Research has also found empirical connections between mandatory referendums on new spending and other policies. In Switzerland, mandatory referendums are associated with less borrowing in cities (Feld and Kirchgässner, 1999, 2001; Feld et al., 2011), less federal matching grants for cantons (Feld and Schaltegger, 2005), and more own source revenue in cities (Feld and Kirchgässner, 2001). Across countries, Blume et al. (2009) find less debt and welfare spending in countries with mandatory referendums on spending.



### *B. Fiscal Policy: Initiative*

While theory predicts that mandatory referendums reduce spending and borrowing, it does not produce an unconditional prediction for the initiative process. If voters are more fiscally conservative than legislatures, the initiative is predicted to drive down spending; while if voters are more fiscally liberal than legislatures, the initiative drives up spending. We might expect, then, to find initiative effects that vary across jurisdictions and time periods.

It is somewhat surprising, therefore, that most of the evidence shows that the initiative is associated with lower spending and taxes. The evidence for fiscal policy since the middle of the 20th century or so generally finds that state spending and taxes are lower when the initiative is available than unavailable. Several studies have shown this for American states (Matsusaka, 1995, 2004; Merrifield, 2000; Primo, 2006). The magnitude of the effect is about 5 percent, not enormous but material. A related pattern has been found for Swiss cantons: those with lower initiative signature requirements spend and tax less (Feld and Matsusaka, 2003; Funk and Gathmann, 2011). Researchers have found that these differences cannot be explained by different citizen ideology in initiative and noninitiative states or cantons. There are also many examples of initiatives during the period that were targeted at cutting spending and taxes, and Tolbert (1998) shows that initiative states were more likely than noninitiative states to adopt tax and spending limits.

The empirical pattern suggests that during the time period covered by these studies (roughly 1960-2000) elected representatives favored more spending than voters wanted, and the initiative allowed citizens to constrain their representatives. This could happen if legislatures produce more spending than citizens would like due to externalities in the budgeting process, as suggest by large literature on fiscal externalities (Buchanan and Tullock, 1962; Weingast et al., 1981; Gilligan and Matsusaka, 1995, 2001; Bradbury and Crain, 2001; Baqir, 2002). Matsusaka (2004; chapter 6) discusses other factors that might have caused representative preferences to diverge from citizen preferences.

The one study that focuses on the earlier 20th century (Matsusaka, 2000) finds higher spending in initiative than noninitiative states. Matsusaka (2000, 2004) argues that in the early 20th century, legislatures were more fiscally conservative than voters because apportionment favored rural over urban interests by allocating upper house seats on a

geographic basis, and by not regularly reapportioning lower house seats to take into account population growth. The emerging urban majority wanted more spending on urban infrastructure, social insurance, and welfare programs, but were blocked by rural control of legislatures. In initiative states, urban voters were able to use the initiative to overcome the malapportionment of the legislature, and drive up spending. This finding reinforces the notion that initiative effects depend on the relative position of the government and citizens.

While the evidence for state/canton level spending since 1960 consistently shows less spending when the initiative is available, the evidence for local government spending is more complicated. Some studies find less spending in initiative than noninitiative cities (Switzerland: Feld and Kirchgässner (1999), Galletta and Jametti (2015); Western United States: Farnham (1990)) while others find more spending in initiative than noninitiative cities (Germany: Asatryan (2016) and Asatryan et al. (forthcoming); United States: Zax (1989), Matsusaka (2004), Primo (2010)).

Interpreting these patterns requires taking into account another finding in the literature: the initiative may be associated with a shift in spending from the state/canton level to local governments, sometimes referred to as “decentralization.” The pattern seems evident for the United States (Matsusaka, 1995, 2004) but is less obvious for Switzerland: Feld et al. (2008) find both positive and negative relations between initiative signature requirements and centralization depending on model specification, while Funk and Gathmann (2011) find low signature requirements associated with more centralization. These findings raise the possibility that voters may use state/canton initiatives to push spending to the local level. This complicates studies of the effect of local initiatives because there is a strong positive correlation between availability of the initiative at the state and availability at the local level: a positive connection between a city initiative and spending could be caused spuriously by an overlaying state initiative. However, Primo (2010) directly explores this issue by estimating a model of local government spending that controls for both state and local initiative availability in American cities; he finds that local initiatives are associated with more spending even after controlling for state initiatives. At this time, the varying patterns across cities lacks a convincing explanation.

Several studies have explored the connection between the initiative and categories of spending and revenue. Matsusaka (1995; 2004) finds more reliance on fees and less

reliance on taxes in American states and cities with the initiative process, compared to those without the initiative process. Feld et al. (2010) find more welfare spending in Swiss cantons where the initiative signature requirement is low. Lewis et al. (2015) find that initiative states spend less on “collective” than “particularistic” programs than noninitiative states. Other research shows that states pay their executive officers lower wages in initiative than noninitiative states (Matsusaka, 2008) and initiative cities pay their public employees less than noninitiative cities (Matsusaka, 2009).

### *C. Social Policy*

The literature on social policies is smaller than the literature on fiscal policies. It focuses on U.S. states and the initiative process. Policies are treated as dichotomous – a state either has a certain law or does not.

Almost all studies find that initiative states adopt more conservative social policies than noninitiative states. Gerber (1996, 1999) and Arceneaux (2002) study parental notification for abortion and an index of restrictiveness of abortion policies; Gerber (1999) and Boehmke (2005) study the death penalty; Schildkraut (2001) studies English as the official language; and Hume (2011) and Lewis (2011) study same-sex marriage. The one policy area that may or may not fit the pattern is tribal gaming, which initiative states are more likely to allow than noninitiative state (Boehmke and Witmer, 2004; Boehmke, 2005). Whether this pattern is an exception to the general conservative pattern for social issues, or whether voters view gambling as an economic rather than a social issue is not clear.

Research on social policies has employed fairly convincing proxies for citizen preferences – in most cases the studies have issue-specific public opinion data – so the conservative leaning of initiative states cannot be explained as a result of more conservative public opinion in those states.

Several studies have attempted to assess if direct democracy leads to worse outcomes for racial, ethnic, and other minorities. These studies employ research designs that shed some light on voting behavior, but are not well designed to estimate the effect of direct democracy on civil rights.

### *D. Election Rules and Government Structure*

Several studies examine the connection between direct democracy and election rules and government structure. These studies focus on the initiative and employ data from American states, with one exception that studies American cities.

For campaign finance, Pippin et al. (2002) report that initiative states have more restrictive campaign finance rules than noninitiative states in 1998, and the difference is statistically significant; while Matsusaka (2008) finds no material or statistically significant difference for a campaign finance index in 2005. Matsusaka (2006) finds that initiative states are more likely to use commissions for redistricting, but the difference is not statistically significant. Matsusaka (2008) finds that initiative states have more open voting and ballot access rules than noninitiative states in 2005, but again the difference is not statistically significant.

One pattern that is robust and almost certainly causal is that initiative states are more likely to impose term limits on elected officials than noninitiative states. Tolbert (1998) and Matsusaka (2006) find that initiative states are more likely than noninitiative states to impose legislative term limits, and Matsusaka (2008) finds the same pattern for executive term limits. The modern term limit movement began in 1990 with initiatives in California, Colorado, and Oklahoma; since then 21 of 24 initiative states adopted legislative term limits, and in every case, they were adopted by an actual initiative. In contrast, 2 of the 26 noninitiative states adopted legislative term limits during the same period. Term limits are precisely the sort of issue where the initiative process is expected to matter, because voter and legislator ideal points are likely to sharply differ on this issue.

## **5. Congruence between Policy and Public Preferences**

Theory suggests that the initiative should push policy toward the ideal point of the median voter and away from the ideal point of the government. A modest but growing literature focuses on this implication. In addition to its theoretical importance, the literature speaks to an ongoing policy debate over whether the initiative empowers special interest groups to the detriment of the electorate at large (Matsusaka, 2004). While direct democracy is intended to empower the people by providing a tool to override elected officials who become captured by special interests, some have suggested that voters can be misled by organized interest groups to vote against their interests.

Estimating whether the initiative process makes policy more or less congruent with public opinion presents some challenges in terms of methods. Some studies regress policy outcomes on a measure of voter preferences interacted with an initiative variable, and argue that a positive coefficient on the interaction term implies that policy outcomes are more congruent with preferences in initiative states. However, several articles have shown that one cannot draw conclusions about congruence from such regressions (Romer and Rosenthal, 1979b; Erikson et al., 1993, Ch. 4; Matsusaka, 2001).

The trend in the literature to date has been to estimate congruence directly by measuring whether a state's policy choice on a given issue conforms with majority opinion on that issue. Each state's policy is classified as either congruent or noncongruent with majority opinion, and differences between initiative and noninitiative states in congruence are estimated.

Matsusaka (2010) calculates congruence across 10 issues in the American states in 2005. Public opinion on each of the 10 issues is collected from the American National Election Studies survey that provides state-level opinion information. Interestingly, overall congruence is only 59 percent, meaning that across all 50 states and 10 policies, the prevailing law reflects majority opinion only 59 percent of the time. While this might seem like a sizeable number, note that if policies were selected by flipping a coin without any regard to voter preferences, congruence would be 50 percent. So for these issues, congruence is only 9 percent greater than if policies had been chosen at random. More to the point of this survey, congruence was 18 to 19 percent higher in initiative than noninitiative states.

Lax and Phillips (2012) consider an even larger set of policies. Rather than work with directly observed opinion survey evidence, they impute state-level information from national surveys using multilevel regression and post stratification methods. They find a similar level of congruence overall: 49 percent. They do not provide a direct comparison between congruence in initiative and noninitiative states, but do present a regression of congruence on a variety of institutional variables, one of them being availability of the initiative process. The coefficient on the initiative variable is small and statistically insignificant. However, this finding should be interpreted with caution because the regression also include term limits as a control variable. The coefficient suggests that term

limit states are 15 percent more likely to choose congruent policies than non-term limit states. The problem is that, as discussed above, the term limit states are almost the same as the initiative states, and the initiative was a primary determinant of whether a state has term limits or not, so the term limits variable seems like a proxy for the initiative variable. If we interpret the term limits variable as capturing the initiative effect, we can conclude that initiative states are about 15 percent more likely to adopt congruent policies, similar to the finding in Matsusaka (2010).

More evidence is needed, but the extant findings lend support to a core implication of the benchmark theoretical model, that the initiative moves policy toward the ideal point of the median voter. It suggests that policy differences between initiative and noninitiative states – for example, in terms of taxes – are likely to reflect that initiative states are choosing tax policies more consonant with voter preferences than noninitiative states.

## **6. Causality**

Much of the literature does not meet modern standards for causal inference, in the sense of randomized treatments and convincing control groups. This is not because researchers are unaware of these issues. Indeed, issues of causality have been a central concern in the literature, and much effort has been made to control for factors that might confound causal inference. The study of direct democracy faces a challenge common to the study of institutions in general, that institutions are endogenous – people choose their institutions with an eye toward bringing about certain outcomes – and they move slowly over time. For example, in the United States, the initiative status for most states has been fixed for more than 100 years.

Several recent studies have offered estimates of the connection between direct democracy and policy that use more convincing causal methods. These findings tend to confirm the patterns discovered in earlier research.

One notable example is Funk and Gathmann's (2011) study of Swiss cantons over 1890-2000. The long time series allows employment of canton fixed effects. They also use the ease of modifying the canton's constitution and initiative use in neighboring cantons as instrumental variables for availability of direct democracy, and present some evidence that the instruments satisfy the exclusion restriction. While a significant step forward in

estimating causal effects, the use of a long time series forces the model to assume that the effect of direct democracy is fixed across time. This is plausible for the mandatory referendum, but less obvious for initiative, as discussed above.

Another promising line of research uses quasi-experimental variation in initiative availability to estimate causal effects. For example, Asatryan (2016) and Asatryan et al. (forthcoming) exploit the fact that initiative signature requirements for German cities are based on population; one can then estimate initiative effects using regression discontinuity methods around the breakpoints, for example, comparing cities whose population falls just short or just exceeds a given signature threshold. Much of that research is unpublished, so is not covered in this review, but it holds the promise to provide more compelling causal estimates. At the same time, these studies so far are isolated to fairly narrow environments, such as German cities in the last 10 years or Spanish cities in the last 5 years, and rely for identification on variation in the implementation details (e.g. signature requirements) rather than variation in overall availability of direct democracy. Because theory tells us that the effects of direct democracy are likely to be conditional on the particular configuration of preferences at a given time and place, these findings might not be generalizable to the most prominent instances of direct democracy, state-level initiatives in the United States, federal and canton initiatives and referendums in Switzerland, and national referendums across the globe.

## **7. Summary**

A casual glance at the literature on direct democracy and policy might lead one to conclude that the findings are mixed and contradictory. As with most research areas, some puzzles and apparent contradictions remain to be ironed out, but this overview of the literature suggests that a number of conclusions can be drawn based on robust evidence:

1. Not all forms of direct democracy are the same. Both theoretically and empirically, the mandatory referendum and the initiative have different effects. Aggregating the two institutions into some sort of “direct democracy index” or drawing inferences from one form about another should be avoided.

2. Mandatory referendums on new spending or new borrowing are predicted to restrict spending and borrowing, a prediction consistently supported by the empirical literature.
3. In theory, the initiative pushes policy toward the ideal point of the median voter. The evidence on congruence is not extensive, but supports the view that policies in initiative states are more likely to conform to the majority view than policies in noninitiative states.
4. There is no prediction about the unconditional directional effect of the initiative on policy. The effect of the initiative depends on the relative position of the voters and the government. Thus, there is no reason to expect the initiative to have an unconditional directional effect that is constant over time or over space.
5. Even so, for the post-1960 period, the initiative appears to have operated in a “conservative” direction. Policies in initiative states and cantons have tended to be more fiscally and socially conservative than policies in noninitiative states and cantons.
6. The effect of the initiative is not reliably conservative at all times and places. In the early 20th century and in some American and European cities, the initiative appears to have induced more fiscally liberal policies.



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**Figure 1**

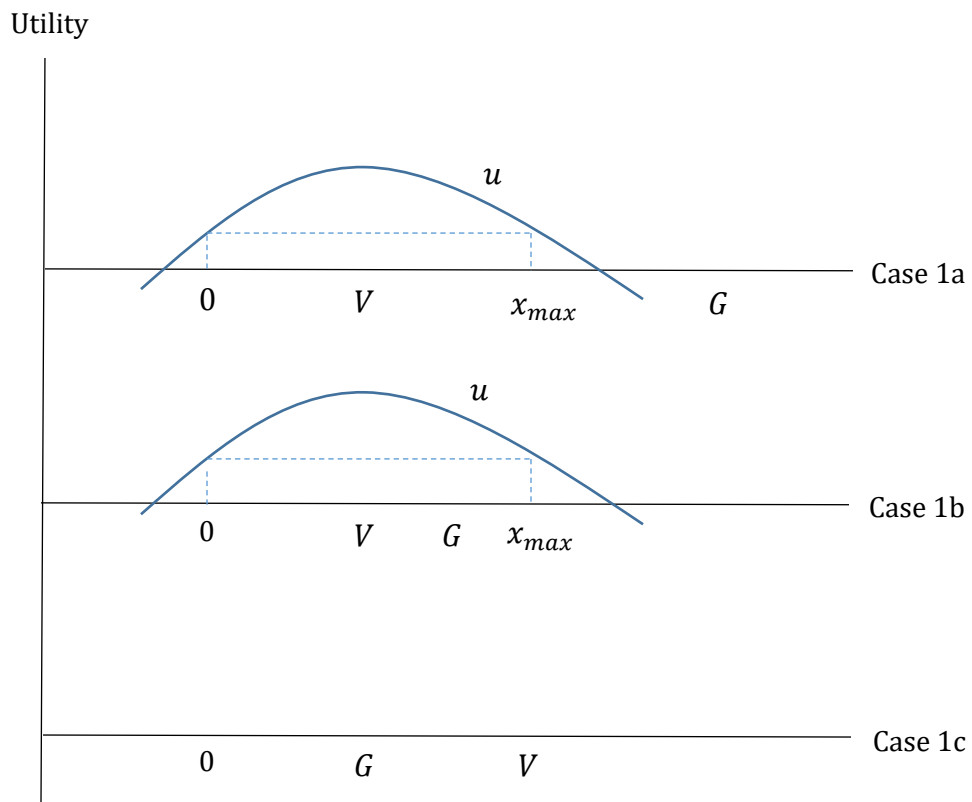




Figure 2

