Elisabeth R. Gerber, *The populist paradox: Interest group influence and the promise of direct legislation*. Princeton: Princeton University Press, 1999, xii + 171 pages $45.00 (cloth); $17.95 (paper).

Initiatives and referendums are increasingly important decisionmaking tools for democracies across the world. It is hard to believe that it took until 1999 to see the publication of a book on direct legislation with an explicitly rational choice approach. For this reason, if no other, public choice scholars should celebrate the arrival of Elisabeth Gerber's new book. Happily missing from this book are the long sections of its predecessors discussing whether voters are competent enough to evaluate ballot propositions or understand the possibly deceptive nature of campaign advertising. Here instead we find rational voters, optimizing interest groups, and equilibrium strategic behavior. This book is not the last word on direct democracy, but one can only hope that it will serve as a template for future research.

The book focuses on a venerable question, *Does direct legislation diminish or increase the power of business interests in the political process?* The first half of the book develops (sometimes formally, but more often verbally) a theory of interest group influence that turns on differences in group endowments of money and manpower. Business groups are presumed to be rich in cash but poor in personnel, and conversely for citizen groups. It is argued that money (used for campaign advertising) is more effective at generating popular opposition to a measure than in generating support. The reason for this—supported by some research—is that voters are risk averse and will vote down a measure if enough questions are raised about it. Comparative advantage arguments then suggest that business groups (compared to citizen groups) will be more active and effective in opposing measures, while citizen groups will be (relatively) better at actually passing their proposals.

The most interesting part of the book is Chapters 5-7, which documents the activities and effectiveness of various interest groups in the direct legislation process. (The reader who is pressed for time should skip straight to Chapter 5. The essence of the theory can be picked up along the way or in the introduction, and the discussion in Chapters 2-4 goes on too long.) The diversity of evidence that has been assembled is impressive. A survey reveals that business groups are more interested in signaling the legislature than actually passing new laws when they underwrite initiative campaigns. The most important findings come from a new data set containing spending by interest groups in eight states from 1988 to 1992 (unfortunately, almost all of it appears to come from a single state, California.) Business interests spent significantly more than citizen groups overall and, consistent with the comparative advantage argument, they allocated 74 percent of their funds to *opposition* campaigns, while citizen groups devoted 72 percent of their spending in *support* of propositions. As conjectured, the effectiveness of spending depended on whether it was used to promote or oppose an initiative. When business groups managed to outspend citizen groups, they were able to gain approval for their measures only 30 percent of time, but they were able to defeat hostile measures 60 percent of the time. Less dramatically, but in the same vein, when citizen groups outspent business groups, they were able to pass their measures about 46 percent of the time but were able to defeat hostile measures about 50 percent of the time. The message appears to be that business groups were able to use their cash resources to defeat hostile proposals, but not to gain approval for their own measures.

Gerber concludes that fears of the initiative process being dominated by narrow economic interests are exaggerated. The deep pockets of business groups are effective in blocking measures, but do not confer the power to change the status quo. This is the most reasonable interpretation of the evidence, but opponents of this view will be able to point out some shortcomings in the analysis. It seems strange, for example, to include unions in the “citizen interest group” category, and not in the “narrow economic interest group” category, especially since union spending appears to be the single largest component of the “citizen interest group” category. And the finding that campaign spending by business groups *reduces* votes in their favor at the margin suggests a serious endogeneity problem (analogous to the one that often appears when trying to measure the effect of incumbent spending in congressional elections.)

The broader question motivating the book is, *How do the initiative and referendum affect the competition between interest groups for resources*? By allowing groups to bypass the legislature and make proposals directly to the voters, initiatives change the agenda control in political decisionmaking, which should work to the advantage of some groups and the disadvantage of others. Theory does not tell us whether this shift in agenda control will help or hurt the voter—either can be the case depending on how information is distributed (see Matsusaka and McCarty, 1999)—but it does suggest that availability of the institution will affect policy outcomes.

Chapter 7 investigates whether direct legislation does in fact matter for policy. The empirical strategy recognizes that we cannot measure the effect of direct legislation simply by studying the measures that have passed and failed, because the threat of an initiative alone can cause a change in policy. The natural approach, then, is to look for policy differences between initiative and non-initiative states (about half of the states provide for the initiative) after controlling for other determinants of policy. The most convincing evidence pertains to capital punishment and abortion policies (estimates are reported for some other policies, but they do not control for preferences or other determinants of policy, and therefore are not too informative.) After controlling for voter ideology and demographics, initiative states are shown to be more likely to adopt the death penalty and require parental notification when minors request abortions. Together with evidence on fiscal policy in Matsusaka (1995), this forms a picture of direct legislation as shifting political power toward conservative interest groups, at least in the last few decades.

Gerber wants to draw a stronger conclusion from her estimates, namely, that direct legislation leads to policy outcomes that better reflect the preferences of the median voter. The case for this is at best circumstantial because the results do not provide a direct measure of the distance between actual policy and the one preferred by the median voter. The inference is based on a set of logit regressions estimating the probability a state adopts the death penalty, and parental consent requirements for abortions. A close look at the abortion estimates reveals that initiative states were more likely to have parental consent requirements when the voters were strongly in favor of them, but also when the voters were not generally supportive. The simplest explanation seems to be that direct legislation shifted power to groups that favored parental consent laws, not that it promoted median voter outcomes. In any event, the evidence that direct legislation has a systematic effect on policy is compelling and important, and therefore should be of interest even to those readers who are unconvinced about the correspondence with median voter outcomes.

While the book represents a genuine step forward from its predecessors, its failure to exploit the related public choice literature is disappointing. Since the book is fundamentally concerned with alternative decisionmaking institutions, it seems strange that Buchanan and Tullock (1962) and the literature spawned by the *Calculus of Consent* are entirely ignored. The lack of interconnections with the influential interest group theories of Stigler (1971), Peltzman (1976), and Becker (1992) represents another lost opportunity. One lesson from the associated empirical literature is that interest group competition often involves business groups competing against each other (for example, see Kroszner and Stratmann, 1998). Recognition of this literature might have led the book away from its somewhat anachronistic view of policy formation as a battle between narrow business interests and broad public interests.

This book is essential reading for scholars interested in direct legislation, and will surely find a home on the bookshelf of every one. By providing a rational choice framework to think about direct legislation and a set of provocative empirical results, this book also deserves the attention of public choice scholars who are thinking about decisionmaking institutions in general. And perhaps it will encourage those scholars who think of democracy solely in terms of representative government to take a closer look at the increasingly important practice of direct democracy.

By John G. Matsusaka, Department of Finance and Business Economics, Marshall School of Business, University of Southern California, Los Angeles, CA 90089-1427

REFERENCES

Becker, G.S. (August 1983). A theory of competition among pressure groups for political influence. *Quarterly Journal of Economics* 98: 371-400.

Buchanan, J.M. and Tullock, G. (1962). *The calculus of consent: Logical foundations of constitutional democracy*. Ann Arbor, MI: University of Michigan Press.

Kroszner, R.S. and T. Stratmann (December 1998). Interest group competition and the organization of Congress: Theory and evidence from financial services political action committees. *American Economic Review* 88: 1163-1187.

Matsusaka, J.G. (June 1995). Fiscal effects of the voter initiative: Evidence from the last 30 years. *Journal of Political Economy* 103(3): 587-623.

Matsusaka, J.G. and McCarty, N.M. (1999). Political resource allocation: Benefits and costs of voter initiatives. Working paper. University of Southern California and Columbia University.

Peltzman, S. (August 1976). Toward a more general theory of regulation. *Journal of Law and Economics* 19: 211-40.

Stigler, G.J. (Spring 1971). The theory of economic regulation. *Bell Journal of Economics and Management Science* 2: 3-21.