

The Effect of Local Initiatives on Government Spending*

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** PRELIMINARY **

Abstract

In this paper I use theory and data to show that the initiative process in cities increases local government spending. I theorize that this is due to the presence of interest groups who seek pork-barrel spending while operating in a low-information environment. The effect of statewide initiatives is shown in the context of a formal theory to have a surprising interactive effect with local initiatives. Statewide initiatives have a tendency to shift spending to local governments, but when those cities have access to a local initiative, the effect of the state-level institution is dampened because interest groups face greater budgetary constraints and therefore will be able to demand less additional spending. The statewide initiative, therefore, has a limited effect on aggregate spending when the local initiative is present, though it may influence the composition of spending. These theoretical relationships are explored empirically using data for approximately 750 cities in 2000.

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1 Introduction

In modern times government spending tends to be excessive due to common pool and other institutional problems (Primo forthcoming), and one institution that has the potential to act as a check on government is the citizen initiative, which allows voters to enact politics directly at the ballot box. It is well established (Matsusaka 1995; Matsusaka and McCarty 2001; Matsusaka 2004, 2005*b*), with few dissenters (e.g., Zax 1989; Marschall and Ruhil 2005), that in recent years the presence of a state-level citizen initiative has led to lower spending in those U.S states with such an institution. Similar results have been established for Swiss cantons (Feld and Kirchgassner 2001; Feld and Matsusaka 2003).

While there is an extensive literature on the state-level initiative, we know relatively little about the initiative process at the local level, especially in terms of its impact on local fiscal policy. Does the presence of a local initiative lead to less, more, or unchanged spending in cities? Does the effect of a local initiative depend on the presence of a statewide initiative process? The most extensive large-n work to date in the United States finds that initiative processes at both the local and state levels exert a positive influence on local spending (Matsusaka 2004). This finding is consistent with a smaller-scale study by Zax (1989) but conflicts with another small study which finds that the local initiative has no effect on spending (Farnham 1989). Others have found negative effects in local Swiss governments (Feld and Kirchgassner 2001).

This paper builds on the existing literature by proposing that the local initiative be considered as part of a larger institutional structure, thereby allowing for the possibility of institutional interactions. Specifically, the impact of the local initiative on local government spending may be contingent on the presence of a state initiative, just as the impact of a state initiative may be contingent on the presence of a local initiative.

To examine this possibility, I construct a simple game theoretic model of state and

local finance. In the model, a local government must select spending on a public good and a pork-barrel project, taking into account state spending mandates as well as the threat of a local initiative from an interest group desiring pork. The model generates several interesting insights into how the initiative process affects local fiscal policy. The most important result is that the effect of state and local initiatives is not additive. In other words, implementing a state-level initiative process when a local initiative process is already in place will have a different effect on spending than if implementation occurs in a city without the local initiative in place. I explore the implications of this model using data from the year 2000 in about 750 cities with a population greater than 25,000. The empirical results with respect to the interactions of institutions are mixed, but the spending-enhancing effects of the local initiative are strong.

2 Theory

2.1 The State Initiative

There is no reason to believe that direct democracy should always have dampening effects on spending or otherwise “improve” policymaking. After all, initiatives could be manipulated by interest groups who have extreme preferences relative to voters but are able to mount effective campaigns in an environment of uncertainty (Gerber and Lupia 1995; Matsusaka and McCarty 2001). At least two factors act as a check on this tendency at the state level. First, groups often do not have the resources to mount effective campaigns (Gerber 1999). Second, implementation often can be slowed in several ways, including court challenges (Gerber et al. 2001).

Of course, these checks may end up subverting the intent of an initiative that moves policy closer to the median voter, but on net the effect of the initiative should be positive

since such a scenario presumably would not make voters worse off than being in a non-initiative state. It is reasonable to expect, then, that on average the impact of the initiative process will be to move policy outcomes closer to the median voter's preferences, though certainly this will not always be the case. Empirical evidence on spending and taxation (Matsusaka 2004), abortion and the death penalty (Gerber 1999), and several other issues (Matsusaka 2006) shows a move toward the preferences of the median voter, but there is also work showing little effect of the initiative on policy outcomes generally (e.g., Lascher, Hagen and Rochlin 1996). Importantly, little systematic evidence indicates that the state-level initiative process on net makes voters *worse off*.

2.2 The Local Initiative

The local initiative is widely available; according to Matsusaka (2005a), the initiative process is present in about half of all cities in the United States. That said, the initiative is used infrequently. While national data is not readily available, Gordon (2004) conducted a meticulous study of local initiative use in California in the 1990s. California is a hotbed of the initiative process, second only to Oregon in 20th century initiative usage at the state level, so data from California establishes something like an upper bound on the usage of the local initiative. From 1990-2000, 450 initiatives were circulated at the state level, and 576 were circulated at the local level. While the latter number may sound high, there are nearly 500 cities in California, so the modal city had no initiative proposals during this time period. About 7% of local initiatives dealt with tax issues; the primary topic of initiatives at the local level is land use.

Gordon (2004) found that cities that used the initiative process at least once tended to spend no more or less than those who chose not to use the initiative, but they did tend to raise less revenues from their own sources. However, just looking at initiative use can

be misleading, in the same way that examining only instances of presidential vetoes is misleading. There are *anticipatory* effects of the initiative, just as with a presidential veto. In fact, if initiatives were costless and the environment was one of complete information, initiatives (and vetoes) would never be used but would still have an effect on legislatures and councils, since they would take into account the preferences of the relevant actors (e.g., local interests, presidents) before acting.

The relevant question for the purposes of this paper is whether the initiative is a viable option in a community. In fact, an institution need not directly influence spending matters to have an impact. McCabe and Feiock (2003) find that the presence of recall provisions acts as a check on local governments, leading to reduced spending. This connection requires one to assume that the recall is not used toward government-increasing ends, but the logic—that the initiative has threat value—holds regardless of whether the initiative is a positive or a negative force with respect to spending.

Local initiatives are a rarely-used tool, but they also operate in a low-information environment which is tailor-made for opportunistic interests. Therefore, the local initiative may serve as a tool for those who want to secure “personalized pork” targeted to a specific constituency. Even if the initiative is rarely used, its presence may advantage organizations like unions, those who want more expansive public services, and so on. It is unlikely that such a device would be used as a check on elected officials, since participation and voter information in local politics tends to be low.

On local initiatives, then, high-demanding interests will have an advantage. Local governments may account for this by reducing spending in other areas and offering some benefits to the interests to forestall an initiative. But, given the many constraints on local governments, they will be unlikely to make enough cuts to offset the increased project-based spending they must offer. Therefore, local initiatives will tend to lead to greater spending.

Recall that the state-level initiative has a negative influence on state-level spending.

Knowing this, state legislatures, realizing that demands can be placed on the local governments via unfunded (or partially funded) mandates, will be more likely to shift spending to local governments when faced with a constraining state-level initiative. This sort of activity keeps programs alive but shifts the burden in a relatively quiet way, and therefore is less likely to lead to (local) voter complaints. Therefore, the state-level initiative should have the effect of increasing local spending; this is consistent with what Matsusaka (2004) finds. Local governments may be able to counteract some of these mandates, but it is unlikely that they will be able to counter all of them.

What happens, though, when these two institutions are considered in tandem? While often analyzed separately, local fiscal decision making is dependent on the actions of the state and federal, as well as local, governments. State and federal governments have the ability to impose mandates on local spending, as well as provide local governments with aid. Thus, there is a strategic interaction between these levels of government, with the decisions at higher levels influencing decisions at lower levels, and vice versa. For instance, if the federal government knows that a state has an effective spending limit in place, it may alter the nature of the mandates it shifts to the state government.

In what follows, I focus on how state-level initiatives influence local-level decision making. What has previously been overlooked is that the presence of local and state initiatives might interact as part of the strategic interplay between the state and local governments. Primo and Snyder (2007) show that if the government provides both a (possibly congested) public good and pork-barrel projects in the presence of deadweight costs of taxation, then an increase in the demand for pork-barrel spending will have the tendency to decrease public goods spending, increase pork provision, and increase spending overall. The intuition is that an increase in demand in one good, while demand in another good remains constant, should increase demand for the composite good. Put another way, increased benefits with unchanged costs leads to greater spending. This logic can be used

to understand the interplay of institutions in the initiative process.

Before turning to a formal model of the budget process, it is worthwhile to consider the intuition for the expected interaction between these institutions. A local initiative in the United States, for reasons articulated above, will tend to increase spending by advantaging interests that want to see spending increases enacted. A state-level initiative on its own will increase local spending because constrained state governments will shift spending to local governments. But, if a state-level initiative shifts spending to local governments, then this will hinder the ability of local interests to secure as much spending for pork. Therefore, if a statewide initiative is present, the effect adding a local initiative will be dampened relative to if no state-level initiative is in place. Similarly, if a local initiative is present, then the effect of adding a state-level initiative on total spending will be dampened because local governments will shift spending away from pork and toward mandated spending. In the next section, I establish these relationships formally and then discuss them in greater detail.

3 The Model

3.1 Actors and Preferences

This model builds on the work of Primo and Snyder (2007). Assume that there are N individuals residing in a city, all of whom have identical preferences for a public good X . Formally, the per capita benefit of a public good of size X can be represented by a utility function, $b(X)$, where $b'(X) > 0$ and $b''(X) < 0$. Further, a fraction of city residents, $0 < k < .5$ receive linear utility from a distributive, “pork-barrel” project; the total size of the project is represented by Z . The interest (termed a “ k -group”) could be a union, a group of parents who want to see more spending on libraries, and so on. Assume that the city budget is determined by a single decision maker who maximizes collective welfare,

captured by $Nb(X) + Z + (X + Z + .5)^2$. The cost function reflects the deadweight costs inherent in generating revenue. Because of the deadweight costs of taxation, it costs more than a dollar to raise a dollar for pork, so pork is always inefficient to provide. The efficient outcome is $Z^* = 0$ and X^* that solves $Nb'(X^*) = 2X^* + 1$.

3.2 Path of Play

A stylized version of the budget process proceeds as follows:

1. The state legislature sets a spending level. In a state with a citizen initiative, the spending level is set to S . In a state without the citizen initiative, the spending level is set to S' , with $S' > S$. The difference, $S' - S$, is denoted M . M is the amount of government services that state leaders want to see provided but they are no longer provided by the state. These programs are shifted to the local governments via mandates. (It is possible that the entire difference will not be sent down to the local level for funding, but this has no effect on what follows.)
2. A city decides on local spending which funds a public good X and possibly a pork-barrel project Z . The local government may also be required to spend M , if it is located in an initiative state. The deadweight costs of taxation will have the effect of increasing the cost of providing public goods, pork, and mandates.
3. Once the local government sets spending, the k -group proposes an initiative calling for pork-barrel spending, Z , which passes due to the low-information environment. The local government takes the interest's likely action into account in setting spending, thereby giving the interest group no incentive to propose an initiative in equilibrium.

Several assumptions are implicit in this framework. First, the state does not take into account the effect of its decision on the local governments. If it did, fewer mandates might

be placed on the local government, but it is unlikely that the mandates would disappear entirely. States burden localities with many spending requirements, so this assumption is reasonable. Because the state is not modelled as a strategic actor, I am not using this model to make claims about the effect of initiatives on total state and local spending.

Second, the initiative proposed by the interest group will always be successful. This assumption hinges on the fact that local elections are typically low-information events, thereby advantaging the proposers.

Third, I assume that interest groups will never demand lower spending, since to do so would draw those groups harmed by the cuts into the debate.

Fourth, I assume that there are no corner solutions in the models that follow, in the following way: members of the k -group will always propose some pork if the city does not do so first, and public goods are always provided. In addition, M is never so large that it completely crowds out pork-barrel spending.

3.3 Equilibrium Outcomes

To work out the implications of this framework, start at the end of the game and move forward. First, consider the behavior of the interest group if an initiative is present. It maximizes, given the decision of the local government, $Z - k(X + Z + M + .5)^2$ with respect to Z , where $M = 0$ if a state-level initiative is not present and $M > 0$ if it is present, and X is the amount of the public good offered by the city. Let Z be an object of choice because the interest can always increase Z beyond whatever the city chooses, and because pork is inefficient, the city will never offer pork needlessly when it moves.

Taking first-order conditions, $Z^* = \frac{1}{2k} - X - M - .5$. Rearranging, this gives $Z^* + X + M = \frac{1}{2k} - .5$. This is an important finding because it implies that the sum of public goods, mandates, and pork is a constant. Therefore, the amount of pork the interest

group provides is directly tied to the amount of mandates and public goods previously authorized before the initiative stage is reached, and any additional mandate or public goods spending will crowd out pork 1:1. Therefore, in cases where the local initiative is present, the city government will treat this relationship as a constraint. If it spends too little in total, the interest group will “make up the difference” at the initiative stage.

When the local government acts, it anticipates the behavior of the interest group. It maximizes $Nb(X) + Z + (X + Z + .5)^2$ with respect to X and Z subject to the constraint that $\frac{1}{2k} = Z + X + M + .5$. Taking first-order conditions gives $Nb'(X^*) = 1$ and $Z^* + X^* + M + .5 = \frac{1}{2k}$. (Recall that interior solutions are assumed for X and Z here.)

When the local initiative is not available, the local government maximizes the same function, except without any constraint, leading to a first-order condition that $Nb'(X^*) = 2(X^* + M + .5)$, since $Z^* = 0$ (i.e., pork is not provided). Using these first-order conditions, I next discuss the effects of state and local initiatives.

Case 1: Neither a state nor a local initiative is present.

In this case the local government maximizes the locality’s net benefits, given $M = 0$, and selects the optimal level of the public good, which solves $Nb'(X^*) = 2X^* + 1$. No pork is provided.

Case 2: Only the state initiative is present.

In this case the local government maximizes the locality’s net benefits, given $M > 0$, and selects the optimal level of the public good such that $Nb'(X^*) = 2X^* + 2M + 1$. Therefore, when the state initiative is present, X^* is smaller than in Case 1, as the cost of X has risen due to the deadweight costs of taxation. I assume that benefits are not declining so rapidly that a mandate of M leads to a reduction in X greater than this amount. Because interior solutions are assumed, spending must therefore be increasing as a result of the state-level initiative, since M does not completely crowd out X .

Case 3: Only the local initiative is present.

Here the interest group proposes pork spending, Z^* , as given above. The local government acts, anticipating the behavior of the interest group. It maximizes $Nb(X) + Z + (X + Z + .5)^2$ with respect to X and Z subject to the constraint that $\frac{1}{2k} = Z + X + .5$. This constraint accounts for the fact that whatever portion of spending is not allocated by the local government will go toward pork when the interest moves. The local government chooses a higher-than-efficient level of the public good in order to crowd-out the anticipated pork proposal by the interest group, but this crowding out will not be complete. Spending is significantly greater than in the baseline case. The intuition is that the interest group fixes the amount of total goods that will be provided. The local government then selects the optimal mix, given this constraint. If the local government does not select goods up to this amount, the interest group will adjust accordingly when selecting Z .

Taking first-order conditions gives $Nb'(X^*) = 1$ and $2Z^* + 2X^* + 1 = \frac{1}{k}$. Assuming interior solutions for Z and X , it is clear that spending will be higher than in Case 1 because (a) the public good will be larger than optimal and (b) $Z^* > 0$. The public good is larger because $b''(X) < 0$, implying that a larger X is needed to satisfy the first-order condition in Case 3 relative to the first-order condition in Case 1. Cases 2 and 3 are compared below.

Case 4: Both the local and the state initiatives are present.

This situation is identical to Case 3, except that $M > 0$. Because of this, total spending will be unchanged from Case 3, since $X + M + Z$ is a constant. Moreover, adding M to the analysis gives first order conditions of $Nb'(X^*) = 1$ and $2Z^* + 2X^* + M + 1 = \frac{1}{k}$. Note that the first-order condition for X is unaffected here. This implies that the effect of adding a state initiative when a local initiative is already present is to shift spending away from pork

and toward spending mandates. The net effect on spending is 0.

In this case, increased mandates crowd out some pork but have no effect on public goods provision. There is no change in spending, compared with the scenario where only a local initiative is in place. The intuition is that the local government knows that the amount of spending is fixed to some constant. Given this, if the legislature picks the same level of the public good, then it can force the interest group to reduce its pork levels.

It is now possible to compare Cases 2 and 3. Note that X^* is the same in Cases 3 and 4 and is greater than in Case 2. Further, notice that total additional spending, in the form of positive Z and M , is the same in both Cases 3 and 4. Therefore, Z_3^* in Case 3 and $Z_4^* + M$ in Case 4 must be the same value. Since M is assumed to be the same whenever a state initiative is allowed, this implies that (a) pork is crowded out by mandates and (b) spending is greater in Cases 3 and 4 than in Case 2.

Because this is a complicated set of relationships, additional intuition is useful. If $M = 0$, then Z “absorbs” what M would have cost and it must be the case that non-public goods spending is the same regardless of whether a state initiative is present. Since X^* is highest whenever a local initiative is present, then it must be the case that total spending is greater whenever a local initiative is present than in the state-initiative-only case.

To put it another way, imagine that a state initiative is in place, and a local initiative is then enacted. It must be the case that the local initiative weakly increases spending, since the local government will want to increase X^* to counter the interest group’s intention to propose positive Z . Now, though, suppose that the state initiative is eliminated. Spending is unchanged. This, of course, implies that spending in the case of a local initiative is greater than in the case where a state initiative is in place.

3.4 Summary

Two sets of findings emerge from this model. The first relates to the impact of the initiative on total local spending. The model suggests that both local and state initiatives lead to greater local spending. Importantly, these effects are not additive. In a state where a local initiative is already present, adding a state-level initiative will have no effect on total spending, though as I note below it influences the distribution of spending. In a locality where a state initiative is present, adding a local initiative will increase spending, but not by as much as it would in a state where the initiative was not present. In short, then, spending is highest when either a local or both a local and state initiative is present, it is lowest when neither institution is present, and falls somewhere in between when just a state-level initiative is present.

The second set of findings relates to the distribution of spending. State-level initiatives, by placing mandates on local governments, crowd out public goods and pork spending, but this effect varies depending on whether a local initiative is in place. When no local initiative is in place, mandates crowd out public goods spending (since pork is not provided), so that the level of public goods is inefficiently low. When a local initiative is in place, state mandates crowd out pork-barrel spending, leaving public goods spending at its inefficiently high level. (Recall that the local government wants to increase public goods spending in response to the threat from the interest group and thereby provides an inefficiently high level of public goods.) Table 1 summarizes these findings.

4 Data Analysis

I use data from the 2000 fiscal year and focus attention on approximately 750 of the largest cities in the United States with a population greater than 25,000. All data is taken from the Bureau of the Census, except data on the presence of the state and local initiative

process, which was made available by the Initiative and Referendum Institute at the University of Southern California.

The analysis uses OLS regression adjusting for clustering within state. The dependent variable is total local spending. As a robustness check, I also measure spending without education included, since many cities fund education as part of separate governmental units. Independent variables include the following: local income; federal, state, and local aid; total population; percent with a college degree; percent elderly; percent urban; and percent school-aged. All financial data is measured in per capita dollars. Summary statistics are presented in Table 2.

Three initiative variables are required, given the theory: the presence of a state initiative; the presence of a local initiative; and the presence of an interaction term of these two variables. Based on the model, the effect of the state and local initiative should be positive, but that the interaction of the two should be negative. Moreover, the magnitude of the state-level initiative should be the same as the interaction term, but of the opposite sign.

To see this, let the size of spending when no initiatives are present be 0. Let the size of spending when just a state initiative is present be 1. Let the size of spending when just a local initiative is present be 3. This ordering draws from the model. From the model, we also know then that the size of spending when both types of initiatives are present must also be 3. Let the coefficient on the state initiative be β_1 , on the local initiative be β_2 , and on the interaction term be β_3 . Then $\beta_1 = 1$. This also requires that $\beta_1 + \beta_2 + \beta_3 = 3$ and that $\beta_2 = 3$. This implies that $\beta_3 = -1$.

As is clear from Table 2, the local initiative is present in most cities in the sample, and the presence of both types of initiatives occurs in about half of the sample. Teasing out the effects of the initiatives is complicated by the fact that in only 17 of 736 cases is a state-level initiative present while a local initiative is not available.

5 Results

The econometric results are presented in Table 3. In both specifications, cities with the local initiative option spend considerably more than their non-initiative counterparts. The effect of the state initiative is also positive in both specifications, and the variable interacting these two institutions is, as predicted, negative.

The magnitude and statistical significance of the initiative coefficients is influenced when spending less education is used as the dependent variable instead of total spending. The three variables are not jointly significant when total spending is the dependent variable. Perhaps because the alternative measure is less noisy, all three initiatives variables are statistically significant at the .10 level or better, and they are jointly significant at the .10 level, when I use spending less education as the dependent variable. In addition, the coefficient on the interaction term is nearly opposite that of the state-level initiative, as predicted. However, the magnitude of the state initiative coefficient is larger than the local initiative coefficient in the second specification, contrary to expectations. One reason why the state-level initiative and interaction terms are so sensitive to specification is that there are few observations where we observe no local initiative but a state initiative.

Turning to other variables in the analysis, local, federal, and state aid influence spending in a statistically and substantively significant way, indicating the presence of a very strong “flypaper effect” where an additional dollar of aid leads to well over one dollar of additional spending. As in most finance models, higher-income cities spend more on public services, and cities with more population tend to spend more as well. Well-educated cities spend more, as well, as do cities with widespread poverty, though the effect of education is not statistically significant. The elderly and school-aged populations both exert a negative influence on spending, though the percent elderly variable is not statistically significant.

From this analysis, I conclude, consistent with previous work, that aid to cities drives

spending up, as does the presence of a local initiative. That impact, however, is tempered by the presence of a statewide initiative, which exerts its own independent effect on spending.

6 Conclusion

This paper demonstrates the importance of considering the interaction among institutions in an analysis of government spending patterns (Primo forthcoming). I have shown with a formal theory that the effect of state and local initiatives is not additive. Specifically, local initiatives have a positive influence on local spending, but state-level initiatives lead to greater local spending only when a local initiative is not already in place. Both types of initiatives influence the distribution of spending.

An empirical analysis using data from about 750 cities in 2000 shows that spending in local governments is indeed increasing when a local initiative is present, and that the effect of state-level initiatives is “cancelled out” by an interaction term when a local initiative is already in place.

Of course, more work remains to be done. We still know relatively little about how the initiative shapes spending priorities in local governments. One problem with pursuing this question is that local governments spread responsibilities across many distinct units, such as water authorities, counties, sewer districts, school districts, and others, so getting an accurate measure of relative spending in these areas is a challenging task.

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Table 1: The Effect of Initiatives on Local Government Spending

		Local Initiative	
		Yes	No
State Initiative	Yes	Pork provided	No pork provided
		Inefficiently-large public good	Inefficiently-small public good
	State-mandated spending present	State-mandated spending present	
	Total spending highest		
No	No	Pork provided	No pork provided
		Inefficiently-large public good	Efficiently-sized public good
	No state-mandated spending present	No state-mandated spending present	
	Total spending highest	Total spending lowest	

Table 2: Summary Statistics

	Variable	Mean	Std Dev	Min	Max
	Local Spending	1,481.25	977.19	2.63	7389.92
Local Spending	Less Education	1,334.28	767.21	2.63	7026.19
	Income	21,965.28	6,954.86	9,762.00	65,507.00
	Federal Aid	44.60	68.54	0	1,085.40
	State Aid	248.38	376.10	0	3,064.26
	Local Aid	28.38	64.45	0	712.85
	State-Level Initiative	.58	.49	0	1
	Local-Level Initiative	.79	.41	0	1
	State x Local Initiative	.56	.50	0	1
	Population (thousands)	131.43	371.26	25.14	800.83
	% College	34.21	12.69	8.21	78.48
	% Poverty	12.73	6.97	1.34	43.23
	% School-aged	28.52	4.26	15.17	45.06
	% Elderly	12.02	4.26	2.90	33.20

Note: All financial data is in per capita dollars; N=736.

Table 3: Regression Results

Variable	Model 1	Model 2
Income	.026*** (.0085)	.025*** (.0088)
Federal Aid	2.28*** (.66)	2.87*** (.68)
State Aid	1.56*** (.068)	.50*** (.09)
Local Aid	1.77** (.77)	1.52** (.59)
State-Level Initiative	76.08 (206.06)	251.23* (137.62)
Local-Level Initiative	208.11* (119.95)	157.52** (72.88)
State x Local Initiative	-92.39 (212.61)	-255.64* (142.80)
Population	.29*** (.031)	.34*** (.04)
% College	.57 (4.85)	1.73 (4.04)
% Poverty	26.41*** (4.23)	27.29*** (38.59)
% School-aged	-37.31*** (8.44)	-31.13*** (72.73)
% Elderly	-15.21 (9.13)	-11.32 (69.88)
Constant	1067.19** (420.60)	933.85*** (333.72)
R ²	.63	.41

OLS regression with standard errors adjusted for clustering by state; N=736.

The dependent variable in Model 1 is total local spending.

The dependent variable in Model 2 is total local spending less education spending.

* indicates $p < .10$; ** indicates $p < .05$; *** indicates $p < .01$.