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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 the government budget? 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 at the same time prohibiting tax increases. A review of all initiatives approved since 1912 shows that no more than 32 percent of appropriations in the 2003-04 budget were locked in by initiatives, and initiatives placed only minimal constraints on the legislature's ability to raise revenue. Moreover, it seems likely that the legislature would have allocated much of the money to its dedicated purpose even if not 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 them at the state or local level. Yet direct democracy still attracts its share of critics, who raise questions ranging 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 recently is that initiatives place too many constraints on elected officials when it comes to 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 is that by locking in so much spending and also 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 really make it too difficult for officials to balance public sector budgets? To shed light on this question, I present a case study of the affect 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 in the vicinity of \$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. They asserted that a series of popular initiatives had locked in spending while preventing tax increases, making it impossible for the governor and legislature to make rational decisions (Table 1). These pundits were giving voice to a concern that had emerged among some scholars in the previous decade (Cain and Noll, 1995).

<TABLE 1 ABOUT HERE>

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 Yet the assertion that initiatives have paralyzed the budget seems 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 the budget process is constrained by voter initiatives.

My purpose here is to provide, I believe for the first time, a 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. 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, initiatives do not stand in the way of big spending cuts or big revenue increases and the 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 the most binding, direct democracy cannot be blamed for bringing about fiscal gridlock.

Initiatives in California

The initiative allows ordinary citizens to propose laws and constitutional amendments by collecting a predetermined number of signatures from fellow citizens on a petition. When the requisite signatures are collected, the measure is placed on the ballot and 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. I will focus on initiatives in this article since they are the main source of controversy.

The initiative is common in the United States. Twenty-four of 50 states and about half of all cities make it available. Fully 71 percent of the population lives in either a state or a city where the initiative is available. The initiative is 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 at the last gubernatorial election (currently about 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, but 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 through 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 budget,

that is, appropriations that cannot be reduced and revenue sources that cannot be tapped or increased. I only examine constraints imposed by voter initiatives. The budget is constrained by other factors, such as federal and state constitutional provision and federal mandates; I will discuss these other constraints after describing those originating from initiatives.

Constraints 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 how much debt is 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 appropriations (revenue is studied in the next section). To identify the 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 identified those 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 was otherwise ineffective for 2003-04. This left a list of initiatives with fiscal impact that were in effect in 2003.⁵ I then calculated how much money was locked in by each initiative 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 weakened that initiative, making the actual costs much lower than anticipated. Because I report the largest plausible amounts, the final numbers likely to overstate the true constraints from these initiatives.⁶ Details of the assessments are 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) that locked in \$30 billion for K-14 education in 2003-04.⁷ The next most costly measure was Proposition 10 (1998) that committed \$522 million to early childhood development. The impact of Proposition 99 (1988) (tobacco) was comparable.

<TABLE 2 ABOUT HERE>

In total, these initiatives locked in \$32.132 billion in state spending for the 2003-04 fiscal year. As noted above, this probably overstates the amount of money committed by initiatives. To put the figure in perspective, total state appropriations for the fiscal year were \$101 billion. Thus, voter initiatives locked 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 off the mark.

This figure of 32 percent gives an exaggerated impression of the true constraints because it is very likely the state would have appropriated much of the \$30 billion on education committed by Proposition 98 even without the initiative (the percent of the state budget devoted to education was fairly stable before and after Proposition 98

passed).⁹ A requirement to spend money that you would have spent anyway is only a constraint in name. Nevertheless, the legislature might have wanted to make cuts in education 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 a state responsibility of \$16 billion after accounting for property tax revenue. Thus, it seems reasonable to conclude that \$16 billion of education spending ($\$32 - \$16 = \$16$ billion) is the maximum real constraint from Proposition 98.¹⁰ If so, the overall spending commitment from initiatives would be 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 did impose material constraints on California's spending priorities. However, constraints of this magnitude, in themselves, are unlikely to create a sizeable budget deficit, especially since (as will be seen in the next section) initiatives do not significantly prohibit tax increases.

The evidence challenges the paralysis view in another way. While some commentators paint 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 is locked in by initiatives, a small number in anyone's book. It seems unfair to issue a blanket condemnation of the initiative process based on essentially a single

outcome, especially since every political process (including the legislative) is inherently imperfect and liable to make mistakes from time to time.

Constraints on Revenue

A deficit can be closed by cutting spending or raising revenue (or some combination of the two). We have seen that with the exception of Proposition 98, 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 be avoided if sufficient revenue was available. Consider now the limits on raising revenue that arise from initiatives.

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 order of their importance for state governments nationwide (taxes comprise about 77 percent of states' general revenue from own sources, with the rest coming mostly from charges for services and user fees).

<TABLE 3 ABOUT HERE>

As can be seen, initiatives created no barriers to raising the California personal income tax (other than a 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 actually

increased revenue: alcohol and tobacco taxes, the sixth most important revenue source, were set at a minimum of 75 cents a pack, and Proposition 37 (1984) mandated a state lottery, creating a revenue source.

Initiatives imposed two major obstacles to tax increases. Proposition 13 (1978) 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

The central message of Table 3 is even clearer than that of Table 2: initiatives do not stand in the way of revenue increases.¹²

What about Proposition 13?

Proposition 13 is often mentioned as a prime culprit for California's fiscal problems (Schrag, 2004), yet it hardly figures in the preceding calculations. The reason is that the proposition does not dedicate any funding so it 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. After Proposition 13 cut local (primarily county) property tax revenue by about half, 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 what it would have been without Proposition 13, the shortfall comes to about \$30 billion. However, this number needs to be adjusted down. First, the majority of the state money to make up for property tax losses goes to education and is already included in the estimated totals for Proposition 98. After subtracting this education spending to avoid double-counting, the amount of the shortfall not already incorporated 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 ballpark 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. The 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 should be adjusted down by the \$2.5 billion from sales taxes and the \$12.5 billion that local governments have raised on their own.¹⁴ The resulting revenue obligation for the state from these crude estimates is about zero. Even if my estimates are somewhat off target, Proposition 13's impact does not seem 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 then the budgetary problem is caused by politics not initiatives. Initiatives rule out certain solutions to the budget problem but 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 get a sense of the magnitude of the constraints imposed by legislative measures, I reviewed all such measures that were approved since 1990 and identified the ones with a fiscal impact. The most important were measures 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. This is not a small amount, but it does not change the basic picture of the overall size of the direct democracy-based constraints facing the governor and legislature. 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 2003-04. At most 32 percent of state spending was locked in by initiatives. The vast majority of 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 for state governments, on property

and inheritance, initiatives placed no material constraints on the raising of revenue. Whether 32 percent is a big or small number is open to debate, but it is quite a bit 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 cutting spending and from raising revenue. Unless both constraints are binding, the legislature has room to close a deficit if it has the political will to do so. The evidence indicates that both constraints are not 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

The evidence here only pertains to constraints arising from citizen initiatives. California's budget crisis may have been caused by noninitiative constraints. State spending is restricted by the U.S. Constitution (for example, prison spending can only be cut so much before prison conditions will 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.

The evidence also does not speak to 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 end up feeling constrained by the threat of initiatives as much as by the measures 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. Initiative states are no more or less inclined to borrow than noninitiative states, all else equal, they cut spending and taxes in a way that keeps budgets balanced (Matsusaka, 1995, 2004), and mandatory referendums on debt issues have 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 irrationally short-sighted budget policies. Voters have used initiatives to establish spending priorities and restrict the way money is raised, but these constraints have not paralyzed the California budget. Pundits have blamed the initiative for the state's budgetary woes, but 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

This appendix describes how I calculated the amount of money locked in by initiatives, 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. The number in Table 2 is \$1 million adjusted for inflation since 1975 using the U.S. Census Bureau’s Consumer Price Index. The Commission is typically funded in excess of the minimum requirement.

Proposition 86 (1986) – Toxic discharge

The number is the Legislative Analyst’s estimated enforcement cost, adjusted for inflation since 1986.

Proposition 70 (1988) – Natural resource preservation bonds

Authorized \$776 million in bonds to purchase and maintain wildlife, coastal, and park lands. Outstanding general obligation debt on July 1, 2003 was \$27.607 billion. Estimated debt service for 2003-04 was \$2.616 billion (Angelides, 2003). The ratio of debt service to debt was thus 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, 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). The numbers are before the so-called “Triple Flip” scheme adopted to repay deficit bonds. 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. Of the 25 percent “unallocated” portion of the fund (this is money that 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 the \$13.05 million that goes to the Habitat Conservation Fund from the Proposition 99 total; it 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, 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 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 is 10 percent of the Legislative Analyst's estimate in 1994. The original spending projections by the RAND Corporation that were 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 Proposition 184 and 21 in 2000 alone 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 cent a pack, and dedicated the money to a variety of uses, chief among them 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 followed 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 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

I am grateful for comments from Shaun Bowler, Elizabeth Garrett, Christopher Mooney (editor), Jaffer Qamar, and three anonymous referees. USC provided financial support.

1. These 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 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, while this was written, two select committees in Florida 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, leading to "fiscal oblivion." See Cotterell (2003) and Ulferts (2003).
4. These numbers were taken from Waters (2003), 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 park lands, the state may have to appropriate funds in the future for land 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 be 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 so maintenance expenditures for them would be negligible. Proposition 70 and Proposition 116 authorized a combined \$2.775 billion. If annual depreciation and operations were 10 percent of initial investment, the implied annual cost would be about \$278 million. This is probably an overestimate because many of the purchases do not depreciate. For example, part of the rail bond money went for purchasing rights of way and easements. Furthermore, the state is not obligated to maintain and operate the rail systems so local governments would be expected to pick up 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 fraction of General Fund expenditure that is locked in by initiatives. Three initiatives affected only bond funds (Propositions 70, 116, 50) and three affected primarily special funds (Propositions 99, 117, 10), with a total commitment of \$1.241 billion. The amount of General Fund spending committed by initiatives was then \$30.891 billion. This comes out to 44 percent of the \$71 billion General Fund for 2003-04, and again it is driven almost entirely by Proposition 98. However, I believe it makes more sense to benchmark against total expenditure since the walls between the General Fund and bond and special funds are rather porous.
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 student expenditure for public school students (K-12, measured in average daily attendance) in 2002-03 was \$7,523 in California and \$5,287 in Utah (the lowest state). So California spending would be 70 percent of its current 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 (*Statistical Abstract* (2003, Table No. 440)). So even if revenue constraints are measured in terms of all taxing authorities in a state, almost three-quarters of the revenue originates 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 channeled to increased education spending. However, education spending exceeded the minimum share for 2003-04, so this was not a factor for the budget under examination.

13. I made this estimate as follows. Local revenue from charges was \$25 billion in 2001-02. Local revenue from charges roughly doubled in real terms in the 10 years after Proposition 13 was approved. Based on this, the ballpark estimate in the text assumes that half of the \$25 billion in revenue from charges was a response to Proposition 13. Data from *Governmental Finances*.

14. Property and sales tax revenue information in this paragraph were taken from the California State Board of Equalization.

15. Another approach to assessing the impact of initiatives on budgeting, based on the idea that counties are an administrative arm of the state, would be to treat the

consolidated state and counties budgets as the unit of observation and measure how it is constrained. Such an approach would show spending constraints 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. There is evidence, however, 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 California in 2003-04 is unclear.

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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

Notes:

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

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

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

⁴ “An Unappetising Choice,” Economist.com, October 6, 2003, available at http://economist.com/agenda/displayStory.cfm?story_id=2117037.

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

Table 2. Amount of California State Spending Appropriated 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 how these numbers were calculated.

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

Revenue Source	% Tax Revenue Nationwide	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)

Note: "% Tax Revenue Nationwide" is 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, available at <http://www2.census.gov/prod2/statcomp/index.htm>). Tax revenue does not include revenue from charges and lottery.