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2 Direct Democracy: Designing a Living Constitution

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2.1 Introduction

In this chapter we analyze the competition between various interests to control the state, including the power to change its basic laws. We apply a comparative view to evaluate initiatives and referendums as mechanisms for institutional change. The reference standard is a purely representative democratic system (as is still dominant in most countries) in which members of parliament decide on constitutional issues such as basic rights, the scope of democratic decision-making and of market exchange, and the organization of the judiciary and federal structure of the country. Section 2.2 briefly describes direct democratic decision making in general, and lists where it has been applied. Section 2.3 analyzes the effects of providing for direct citizen involvement through initiatives and referenda. We focus on three aspects: (1) the difference induced in the principal-agent relationship between citizens and politicians, when citizens have agenda control via initiatives and can ask for a referendum on new legislation; (2) the process of direct democratic decision making; and (3) the protecting influence of referenda against the risk of overcentralization. Empirical evidence for all three aspects is provided in section 2.4. Section 2.5 discusses arguments for and counterarguments against direct democracy. Issues for designing a constitution that includes direct participation rights for the citizens, especially in the context of the European Union, are taken up in section 2.6. Last section 2.7 offers some concluding remarks.

Direct democracy fundamentally changes the *process* of political decision making. It is not only that politicians are more restricted to follow citizens' preferences, but the direct involvement of the people changes their motivation when they act as voters, taxpayers or fellow citizens (Frey 1997). This can explain systematic differences as to how

well aware of political issues people are, whether they can build up a relationship based on trust to public authorities, and whether they have a preference for, and gain procedural utility from, direct democratic participation rights as such.

The Proposal by the Convention of the European Union delivered in June 2003 presents a *unique chance to write a constitution for this century*, and for those to come.¹ It represents a rare window of opportunity for designing a constitution for one of the major political units of the world. It is very likely that few, if any, ground rules of such relevance can be written in the near future. The Convention could not start from scratch—no designers of any constitution ever can. In the case of the European Union there are various previous treaties, such as those of Maastricht, Nice, and Amsterdam, as well, of course, as the founding Treaty of Rome in 1956, that have to be taken into account. Nevertheless, the entry of ten new member states in 2004, as well as the likely future entry of five or so additional countries, should have allowed the Convention to draft pathbreaking new rules for the future European Union.

This opportunity was missed. The Convention understood its task quite differently, namely as an *exercise in compromise*. Granted, the Convention had a difficult task to fulfill. The new EU constitution has to meet with the agreement of all the member countries. So the support of the existing 25 members must be sought. This is no small task, considering that the interests of the nations can differ in a great many respects. Most important, two fundamentally different interpretations of the European unification clash with each other. The *first* interpretation sees the European enterprise as essentially an *economic* one. The Union is to guarantee *free trade* in terms of the movement of goods, services, labor, and capital. Political interventions should only serve to keep the borders open, to prevent trade distortions by subsidization, and other interferences distorting relative prices. The *second* interpretation sees the goal of the European enterprise as a *political* one. Europe is to move to “an ever closer union” (in the words of the former president of the Commission, Jacques Delors) and end up as a “United States of Europe.”

Accepting the “necessity” of a compromise, the focus should already today lie on the development of the European constitution in the future, namely on the question of *amending constitutions*. This chapter suggests that direct democracy should play a central role in every constitution’s amendment process.

2.2 Direct Democratic Decision Making and Its Diffusion

There are many different meanings, conceptions, and also misunderstandings about what “direct democracy” is. The two crucial features of the term “direct democracy” are discussed here.²

Referenda and Initiatives as Additional Rights

Direct democracy (or, more precisely, semi-direct democracy) does not substitute for parliament, government, courts, and all the other features known in representative democracies. Instead, it shifts the final rights in determining issues to the citizens. The extent of direct participation rights may vary, but they always include constitutional changes, normally by an obligatory referendum. Optional referenda and initiatives (allowing citizens to put issues on the political agenda) require a predetermined number of signatures by the citizens before they can take place.

From a historical perspective, three main stages of democracy may be distinguished:

- Classical democracy, first developed in Athens and other Greek city-states. Participation rights were restricted to male citizens, thereby excluding a large number of the population, and extended only over a small area of a town. Yet the principles of democracy still revered and used today were developed there.
 - The French Revolution extended democracy over a large area. The principle of representation made it possible to introduce indirect political participation to the nation state.
 - Direct democracy combines these two earlier types of democracy by giving every citizen the right to decide on certain issues. The extreme (classical) form of having citizens decide on each and every issue is practiced nowhere today, but the number of issues on which citizens may vote varies widely between countries.
- Over the period 1990 to 2000, no less than 405 popular referendums on the *national level* were recorded (see Gross and Kaufmann 2002; Butler and Ranney 1994). More than half took place in Europe, namely 248 (and again half of them in Switzerland); 78 in America, 37 in Africa, 26 in Asia, and 16 in Oceania.³ In the decade before (1980 to 1990), there were only 129 national referenda. Up until August 2002

issues of European integration led to no less than 30 national referenda.⁴ There are a very large number of popular referenda at lower levels of government. In the German state of Bavaria, there were as many as 500 since its adoption. In Switzerland, there are thousands of referenda at all three levels of government: local, cantonal, and federal. In the United States, the initiative and referendum process is available to citizens in 24 states. Since 1904 when the first statewide initiative appeared on Oregon's ballot, approximately 2,021 measures have been placed on the voting agenda and many more referenda (Waters 2003).

Most democracies do not allow the general electorate to participate in taking important decisions. Nowhere (except in Switzerland and Liechtenstein) are popular referenda used in a regular and systematic way at the national level. In the United States, despite its many local popular decisions, and its frequent use in some states, such as California and Oregon, there is no referendum at the national level. Many important decisions shaping a country's fate for decades to come are not subject to a popular referendum. A telling example is Germany. The citizens had no say either with respect to the conditions for the integration of the former GDR or the dumping of the deutsche mark and introducing the euro. Directly democratic decisions are in many cases not taken seriously by the politicians in power. A revealing example is the Irish vote on the Nice Treaty of the European Union. The citizens rejected it in June 2001. Before the second vote on the issue, due to take place in August 2002, EU politicians made it clear that they would go ahead with the Treaty's program, regardless of whether the Irish vote be positive or negative (though unanimity within the European Union is required).

Referenda and Other Forms of Consultation of Citizens

Referenda are a right given to the citizens by the constitution. Government and parliament are bound by these rights: they are not free to ask the opinion of the citizens only when it suits them. This distinguishes referenda from plebiscites undertaken by governments to ex post sanction a decision already taken by them. With plebiscites, the citizens are not asked to decide on an issue, but only to express their support of the government. Referenda also fundamentally differ from opinion surveys, which are on the spot views of people, without any consequences for the government: they can choose to act in accordance with the results or disregard them. In contrast, when citizens have taken a deci-

sion in a referendum, the constitution obliges the government to put the corresponding policy into practice.

2.3 Working of the Direct Democratic Process

Direct Democracy against the Politicians' Cartel

Politicians against the Voters

Persons acting within the confines of the political system have incentives to exploit it to their advantage. Politicians are not "bad," or any worse than other persons, but they tend to be—as everyone else—self-regarding. They endeavor to further their own interests, which consist not only of material wealth but also of recognition and prestige.

In a democracy, politicians can use three main ways of gaining benefits at the citizens' expense, or "exploiting" the general population:

- Politicians may take decisions that they know to *deviate from the voters' preferences*. Political actors may do so because they have an ideology of their own, because they reap material and nonmaterial advantages by so doing, or because they have insufficient information. For instance, politicians systematically prefer direct interventions in the economy to employing the price system because regulations generally allow them to derive larger rents.
- Politicians secure themselves *excessive privileges* in the form of direct income for themselves or their parties, pensions, and fringe benefits such as cars and houses.
- Citizens' exploitation may take the form of *corruption*, namely of direct payments for special services provided to payers but not to others.

Politicians have a common interest to protect and extend these rents where possible. That means they have an incentive to form a *cartel* against the ordinary citizens. There is, however, a public good problem involved: an individual politician has an incentive to break out, if such action is positively sanctioned by the electorate. Such action can regularly be observed in democracies, but it is rarely of much consequence for the cartel. The politicians in many countries form a close-knit group of people clearly differentiated from the rest of the population. Their main contacts are within the group, so that the social disapproval of the few who dare to break out of the cartel is acutely felt and carries a

government and parliament, have little incentive and possibility of checking the exploitation of the citizens by the politicians. This applies particularly to the deviation from citizens' preferences; it may indeed be shown that courts of accounts, which necessarily have to focus on the formal correctness of politicians' and administrators' behavior, in some respects tend to widen the gap between what politicians provide and what the people want.

3. *Competition between parties* is the classical institution in representative democracies to prevent politicians from pursuing their own goals at the population's expense. Constitutions include various devices to further competition and make a coalition between the politicians more difficult. One is the division of power among the executive, legislative, and jurisdictional branches. Another is the establishment of two houses of parliament. Because of the many types of infractions existing, and the well-defined gains to be expected, these devices are rather ineffective in checking the interests of the *classe politique*.

An important constitutional device for stimulating the competition among parties is to guarantee, and to facilitate, the entry of new politicians and parties into the political system. While this certainly forces the established parties in a democracy to take better care of the people's wishes and to be more careful with regard to privileges and corruption, the effects tend to be short-lived. The previous outsiders quickly realize that many advantages are to be gained by tolerating the politicians' cartel, and even more by participating in it. The experience of many countries supports this theoretical proposition. An example are the "Green" parties, who at first fought against the political establishment, but within a surprisingly short time learned to take advantage of the taxpayers' money for their own purposes.

On the basis of these arguments, it is concluded that neither party competition, nor constitutional rules, nor courts, are particularly successful in reducing the possible exploitation of the general population by the politicians. It is not argued, of course, that the constitutional features elaborated are useless, but that they do not provide a sufficient safeguard against politicians' rent seeking. It is therefore desirable to search for, and to seriously consider, other constitutional means of fighting the politicians' cartel.

Referenda as a Constitutional Provision against the Politicians' Cartel A referendum, which allows all citizens the possibility of

high cost. Moreover the cartel is administered by the leaders of the parties so that in most countries and time periods, only a small number are involved, and the breakout of a politician is quickly and effectively sanctioned by the other members of the cartel, for instance, by restricting access to parliamentary positions (in particular membership of powerful commissions) or by reducing the monetary support provided by the state to the parties. Individual politicians find it equally hard not to be a part of the cartel because the leaders of their parties have many means at their disposal to control their politicians, including enforced resignation.

Constitutional Provisions against the Politicians' Cartel All the actors involved, in particular the voters, are well aware that there are strong and ubiquitous incentives for the politicians to form a cartel and to exploit the voters. In response, one finds three quite different forms of institutions in democratic constitutions designed to check such action:

1. *Rules prohibiting the (excessive) appropriation of rents by the politicians, the most stringent ones being to prevent corruption.* Obviously such rules are only effective if they cannot easily be circumvented and if they are well enforced. Such provisions are completely useless against the first type of exploitation mentioned, namely the systematic deviation from citizens' preferences. As the privileges accorded by the politicians to themselves are of an extremely varied kind and are difficult to detect (especially with respect to pensions), experience shows that politicians' rent seeking can thereby scarcely be prevented. With respect to corruption, only the most blatant cases are found out. It must be concluded that while such rules are of some use, they certainly are not able to prevent the exploitation of citizens to any significant extent.

2. *The establishment of special courts, with the task of preventing citizens' exploitation.* All democratic countries know some institution of courts of accounts, but it may well be shown that they fulfill their role only to a limited extent. They are obviously the less effective, the more directly they depend on the politicians they are supposed to control. In this respect it does not help much if the members of the court of accounts are elected and must answer to the parliament (instead of to the government) because the cartel includes politicians inside and outside the government. Even courts of accounts, formally independent of

participating, meets the crucial requirement that it gives decision-making power to people *outside* the politicians' cartel. The individuals making the decision are not integrated into the *classe politique*, and they avoid the control of politicians. In an *initiative* the demands are explicitly directed against the political establishment represented in parliament and government. Initiatives allow putting issues on the political agenda that members of parliament prefer not to discuss. *Optional* and *obligatory* referenda serve more of a controlling function because, if successful, they overrule the decisions taken by the executive and the legislative bodies.

A popular referendum (in the widest sense of the word) can only serve its purpose if the *classe politique* cannot block it. In many countries the Supreme Court or, even worse, the parliament, has the power to decide whether a referendum is admissible. The criteria appear to be purely formal, but in fact the members of the *classe politique* have a considerable number of possibilities and incentives to forbid referenda threatening the position of the politicians' cartel. Often vague concepts, based on what *they* consider to be the "raison d'état," are employed. In other countries, such as Switzerland, almost no such possibility exists, and therefore issues may be brought to the vote that are not desired, and are sometimes even strongly disliked, by the politicians.

Empirical evidence shows that referenda can break the cartel among the politicians by getting through constitutional provisions and laws totally against the interests of the *classe politique*. The following cases refer to Switzerland, the referenda nation par excellence. The first two cases concern important historical episodes (Blankart 1992).

CASE 1 During the nineteenth century the house of representatives (*Nationalrat*) was elected according to the majority rule. The largest party greatly benefited from that throughout seven decades, the Radical-Democratic Party secured a majority of the seats. When the idea was raised that the elections should follow proportional representation in order to allow small parties to enter parliament, the then *classe politique* among the executives and jurisdiction strongly rejected this proposal for obvious reasons of self-interest. Nevertheless, in 1918, the corresponding referendum was accepted by the majority of the population and the cantons. In the subsequent elections the Radical-Democratic Party lost no less than 40 percent of their seats.

CASE 2 Until the Second World War, Urgent federal laws (*dringliche Bundesbeschlüsse*) were not subject to (optional) referenda. In order not

to have to seek the people's approval, and in order to pursue policies in their own interests, the *classe politique* in the government and parliament often declared federal laws to be "urgent," even if that was not in fact the case. In 1946 an initiative was started with the objective of preventing this disregard for the interests of the population. Again, the executive and legislative bodies urged the voters to reject the initiative, which was clearly one of self-interest. However, the initiative was accepted by the voters, and the politicians are now forced to take the citizens' interests into account when they decide on federal laws.

The history of Swiss voting provides many more examples of such clashes between the opinions of the leaders and the citizens. The politicians have to make great efforts to endorse as quickly as possible any movements originating from outside the cartel. Sometimes it is established parties (but usually at the fringes of the cartel), or associated interest groups, that initiate referenda. If this strategy is to be successful, the politicians have to at least partially take into account the population's preferences, and have to reduce the extent of their rent seeking. The *institution* of referendum in this case leads indirectly to the desired outcome that the cartel of politicians has less leeway.⁵

Politicians are well aware that the institution of popular referendum severely restricts their possibility of "exploiting" the citizens/taxpayers, and they therefore oppose introducing elements of direct democracy.

Referenda as a Process

It would be mistaken to consider a referendum just to be a vote. Indeed two important stages before and after the vote need to be considered.

The Pre-referendum Process

The constitutional setting determines to a large extent which issues are put on the political *agenda* and which are prevented from appearing. In representative democracies, politicians are often skilled at not letting problems, which are to their disadvantage, be discussed in the democratically legitimized institutions. As has been shown, both theoretically and empirically, agenda setting power has a significant effect on voting outcomes.⁶

An important feature of referenda is the *discussion process* stimulated among the citizens, and between politicians and citizens.⁷

Pre-referendum discussions may be interpreted as an exchange of arguments among equal persons taking place under well-defined rules. This institutionalized discussion meets various conditions of the "ideal discourse process," as envisaged by Habermas (1983). The relevance of discussion for politics induces citizens to participate, depending on how important the issue in question is considered to be. The experience of Switzerland shows indeed that some referenda motivate intense and far-reaching discussions (e.g., referenda on whether to join the European Economic Space with a participation rate of almost 80 percent, compared to an average of roughly 40 percent). Other referenda considered to be of little importance by the voters engender little discussion and low participation rates (as low as 25 percent). This variability in the intensity of discussion and participation overrides the much studied "paradox of voting" (Tullock 1967; Riker and Ordeshook 1973).

The main function of the pre-referendum process is certainly to raise the level of information of the participants (for empirical evidence, see the next section). It may moreover be hypothesized that the exchange of arguments also forms the participants' preferences. What matters most is that this preference formation can be influenced by, but not controlled by, the *classe politique*.⁸

A further important aspect of the referendum process is going beyond outcome considerations. Citizens may benefit from the process as such, as it is well established that people have a preference for participation in decision making because it enhances individuals' perception of self-determination (e.g., Pateman 1970; for an extensive survey, see Lane 2000, ch. 13). With regard to direct democracy, Cronin (1989, p. 11), for example, notes, that "giving the citizen more of a role in governmental processes might lessen alienation and apathy." Moreover the political discussion induced by initiatives and referendums generates a common understanding for different political opinions and positions. This strengthens the social contract based on consensus and motivates people to go beyond acting out of narrow self-interest. Participation possibilities are thus considered an important source of perceived procedural fairness, shaping individual behavior.

Post-referendum Adjustments

In a referendum a political decision is formally made, but this does not necessarily mean that the politicians and the public administration take the appropriate action to implement it. In fact there is substantial vari-

ation on how they react to winning referendums and in particular to initiatives (Gerber et al. 2001, 2004; Bali 2003). Initiatives that are drafted in order to overcome inaction of the government or the parliament often face opposition from the latter actors in the post-referendum process. The groups who launch and support winning initiatives are not authorized to implement and enforce them. They must rather delegate these tasks to the members of parliament or the administration. The position of the initiators is relatively stronger if they are linked to a political party represented in the legislature or if they can rely on an existing and permanent infrastructure. It is most difficult (or impossible) to oversee the implementation and enforcement of initiatives for ad hoc groups and committees that disband after the ballot. The costs for the legislatures and the bureaucrats to oppose winning initiatives in the post-referendum process thereby are the higher, the more legitimate the constitution is taken to be in a political system. The politicians may in particular fear of not being reelected by the voters if they undermine citizens' democratic rights. However, ultimately the extent of implementation depends on whether the constitutional rules are voluntarily obeyed by the persons in power.

The question of which side gets a majority in a referendum is not the only thing that matters. A referendum also clearly reveals how the population feels about the matter, and where and how large the minorities are. Groups dissenting from the majority are identified; their preferences become visible and become part of the political process (see Gerber 1997). This makes it more likely that particular parties start to champion their cause in order to win additional support, and for referenda to take place in particular regions.

Switzerland again provides a suitable example. In 1989 a popular initiative demanded that the Swiss Army be completely disbanded. Many Swiss considered this to be an attack on one of the almost "sacred" institutions of the country. The *classe politique* was totally against the initiative, and the generals threatened that they would retire if the initiative was not overwhelmingly rejected (they spoke of a percentage of no-votes between 80 and 90 percent). The referendum outcome was a surprise to everybody, because one third of the voters (and a majority among the young voters eligible for military service) voted for the dissolution of the army. After a short period of shock, several parties suggested changes in the army which were implemented within a short time—changes which, before the referendum, were considered by everyone to be impossible to achieve.

Referenda and the Protection of Federalism

The institution of citizens directly deciding on an issue and the decentralization of decision making are closely connected. On the one hand, federalism is an *alternative* means for better fulfillment of the voters' preferences: individuals tend to turn away from unsatisfactory jurisdictions, while they are attracted to those caring for the people's preferences at low cost. The possibility to vote with one's feet (Tiebout 1956; see also Buchanan 1965; Hirschman 1970) tends to undermine regional cartels by politicians.

Federalism is, at the same time, *facilitating* effective referenda rather than substituting them. In small communities much of the knowledge needed for informed political decision making is acquired in everyday life. The citizens are well aware of the benefits and costs of particular public programs (see also Mueller, chapter 8 in this volume). As taxpayers they have to carry the burden, provided that there is a sufficient amount of fiscal equivalence (Olson 1969, 1986).

It is crucial for the beneficial functioning of federalism that the constitution explicitly assigns competence to spend money, *as well as* to levy taxes, to all the different levels of the state. However, this is not enough, because politicians oppose federal competition as it restricts them in following their own interests. Therefore subcentral governments try to form tax and expenditure cartels that are protected by the central government. As a result there is a tendency toward government centralization beyond the point where citizens benefit the most (e.g., Blankart 2000). The problem of overcentralization also exists for other reasons (see Eichenberger 1994; Vaubel 1994) and is difficult to control. Rather than protect the federal system in the United States, the Supreme Court allowed a broad interpretation of activities assigned to the federal level that led to substantial centralization (Niskanen 1992). A referendum system, in contrast, is the constitutional provision that is most likely to protect a decentralized government.⁹

2.4 Empirical Evidence on the Consequences of Direct Democracy

Direct democracy changes the political process in three important ways, compared to a purely representative democracy, as was argued in the last section: (1) Due to a restriction of established politicians' power, an *outcome* of the political process can be expected that is closer to the citizens' preferences. (2) The participatory character of direct

democratic decision making provides incentives to voters to inform themselves about political issues, and changes their relationship to authorities and fellow citizens. The referendum *process* might thus be a source of procedural utility. (3) Direct democracy affects *institutional* change, and protects rules that favor the citizens; in particular, it is a safeguard against the risks of overcentralization.

In order to substantiate these hypotheses, systematic empirical analyses are necessary. A number of studies exist for both Switzerland and the United States (e.g., for surveys, see Bowler and Donovan 1998; Eichenberger 1999; Kirchgässner, Feld, and Savioz 1999; Gerber and Hug 2001; Matsusaka 2004). The two countries are particularly suited for comparative empirical analyses because direct democratic rights are developed to a very different extent at the level of Swiss cantons and US states respectively. While we briefly mention a wide range of results, some particularly important findings are presented in greater detail.

Effects on Policy Outcomes

In order to study whether direct democracy makes a difference to the outcomes of the political process, a natural starting point is to begin with public expenditures and revenues. Fiscal decisions are the central activities of most governments, and policy priorities are to a large extent formed in the budgeting process.

In a study covering the 26 Swiss cantons and the years between 1986 and 1997, Feld and Kirchgässner (2001) measure the effects of a mandatory fiscal referendum on aggregate expenditure and revenue. In 217 cases of the totally 312 annual observations, cantons adopted a mandatory referendum on new expenditure above a given threshold. It is found that expenditure and revenue in cantons with fiscal referendums are lower by about 7 and 11 percent respectively, compared to cantons that do not have this institutional provision.¹⁰ In a sample of 132 large Swiss towns in 1990, the same authors replicated their test for the mandatory referendum on budget deficits. In cities where a budget deficit has to be approved by the citizenry, expenditure and revenue, on average, are lower by about 20 percent, while public debt is reduced by about 30 percent. With an extended panel data set from 1980 to 1998, the effect of the mandatory expenditure referendum is analyzed, taking the spending threshold into account (Feld and Matsusaka 2003). At the median threshold of 2.5 million Swiss francs (SFR),

spending per capita is reduced by 1,314 SFR, namely by 18 percent for an average expenditure level of 7,232 SFR (compared to cantons that either have an optional financial referendum or no referendum on new public expenditure).¹¹ The difference in overall spending significantly varies between cantons, applying a low threshold of 0.5 million SFR (25th percentile) and a high threshold of 15 million SFR (75th percentile). For the former, expenditure is estimated to be lower by 1,389 SFR, while for the latter the reduction is 845 SFR. Moreover it is found that the mandatory financial referendum has less effect when it is easier for citizens to launch an initiative for a new law or to change an existing law (measured by the signature requirement). Thus there is a substitutive relationship between the two institutions with regard to their consequences on cantonal fiscal outcomes.

Very similar results are found for analyses across US states (Matsusaka 1995, 2004). In a panel from 1970 to 1999, including all states except Alaska, the effect of the initiative right is estimated on public expenditure, as well as on revenue. The institutional variable (a dummy variable) captures any type of initiative, whether it is statutory or for a constitutional amendment. After controlling for the average income in the state, federal aid, population size and growth, the percentage of metropolitan population, and whether it is a southern or western state, initiative states, on average, have lower expenditure, as well as lower revenue, than non-initiative states. States with the initiative spend \$137 less per capita than states that do not provide the initiative, *ceteris paribus*. They also raise less revenue, \$117 per capita compared to non-initiative states. Both effects are about 4 percent, compared to average expenditure and revenue respectively. The effects are, however, significantly different when the signature requirements to launch an initiative are taken into consideration. States with a 2 percent requirement are estimated to levy \$342 less taxes and fees per capita than non-initiative states (for the modal signature requirement of 5 percent, revenue is 6 percent lower and expenditure is 5 percent lower; Matsusaka 2004, ch. 3). These effects reflect robust results that can be assigned to the referendum process and not, for example, to the ideology of a state's electorate. Controlling for roll call voting of state senators, as a proxy for voters' conservatism, does not change the results in a substantive manner; if anything, the effects for the institutional variable increase (Matsusaka 2004, ch. 3).

Often these kinds of results are interpreted as clear evidence that direct democracy produces favorable outcomes for the citizens. How-

ever, they mainly provide clear evidence against a simple median voter world, in which representatives implement the preferred expenditure and revenue levels of the median voter, and referendums and initiatives would have no effect.¹² It could well be that low expenditure and revenue levels mainly serve some well-organized interests (e.g., rich people) that rely less on public services. Therefore the efficiency in the provision of public goods has to be analyzed.

The cost efficient use of public money under different institutional settings can be directly studied for single publicly provided goods. In a careful study on waste collection, Pommerehne (1983, 1990) finds that this service is provided at the lowest cost in Swiss towns that have extended direct democratic participation rights and choose a private contractor. If the services are provided by the town instead of a private company, costs are about 10 percent higher. Efficiency losses are about 20 percent in purely representative democratic towns (compared to direct democratic ones). The average cost of waste collection is the highest in towns that rely on representative democratic decision making only, as well as on publicly organized collection (about 30 percent higher than in the most efficient case).

A hint on the efficiency of public services comes from a study that relates fiscal referendums to economic performance in Swiss cantons (Feld and Savioz 1997). For the years 1984 until 1993 a neoclassical production function is estimated that includes the number of employees in all sectors, cantonal government expenditure for education including grants, as well as a proxy for capital based on investments for building and construction. The production function is then extended by a dummy variable that identifies cantons with extended direct democratic participation rights in financial issues at the local level. Total productivity—as measured by the cantonal GDP per capita—is estimated to be 5 percent higher in cantons with extended direct democracy, compared to cantons where these instruments are not available.

Based on an aggregate growth equation, Blomberg et al. (2004) analyze to what extent public capital (utilities, roads, education, etc.) is productively provided and whether there is a difference between initiative and non-initiative states in the United States. Data on gross state product, private and public capital, employment and population, are for 48 US states between 1969 and 1986. They find that non-initiative states are only about 82 percent as effective as states with the initiative right in providing productive capital services, meaning approximately