# Is Direct Democracy Good or Bad for Corporations and Unions?

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### Abstract

The initiative and referendum were intended to curtail the power of organized interest groups, yet business groups account for more spending on ballot measures than any other group by far. Does this mean that direct democracy has become a tool for corporations to buy favorable legislation? This paper reports four types of evidence suggesting that the answer is no: analysis of the content of the universe of state-level initiatives in the United States from 1904 to 2021 shows that antibusiness initiatives were more common than probusiness initiatives, analysis of contribution patterns for California ballot measures from 2000 to 2020 shows that business groups more often opposed than supported initiatives, abnormal stock returns on election days show that corporate contributors earned positive abnormal returns when initiatives failed and negative abnormal returns when they passed, and for all three types of evidence business groups fared better with ballot measures proposed by legislatures. I find similar results for unions.

## 1. Introduction

In 2020, Uber, Lyft, DoorDash, and other tech companies spent $205 million in a successful effort to persuade California voters to overturn a law prohibiting app-based drivers from working as independent contractors. In the same year, kidney dialysis companies spent $105 million to fight off a voter initiative that would have regulated staffing in their clinics, just 2 years after spending $110 million to defeat an initiative that would have regulated their prices, and pharmaceutical companies spent $110 million in 2016 against a measure capping their prices.[1] These enormous expenditures by deep-pocketed corporations play into a

I received helpful feedback from John de Figueiredo, Ran Duchin, Nolan McCarty, Anthony Orlando, Sam Peltzman, Steven Spadijer, Hye Young You, referees, and participants at the Midwest Political Science Association meetings and the University of Southern California Political Institutions and Political Economy workshop. Artem Joukov and Manita Rao provided excellent assistance. Preliminary evidence for some findings appear in chapter 15 of Matsusaka (2020).

[1] The measures were Proposition 22 in 2020 (application-based drivers), Proposition 23 in 2020 (dialysis clinic staffing), Proposition 8 in 2018 (dialysis prices), and Proposition 61 in 2016 (drug prices).

[*Journal of Law and Economics,* vol. 66 (February 2023)]
 0022-2186/2022/6601-0004$10.00

long-standing concern about the power of concentrated economic interests under direct democracy. In its report *Initiative and Referendum in the 21st Century* a blue-ribbon panel of the National Conference of State Legislatures (2002, p. 4) came down strongly against direct democracy, claiming it had "evolved from its early days as a grassroots tool" and had become "a tool of special interests."

If the initiative and referendum have in fact become tools for special interests, it would be a subversion of their purpose. The Progressives who initially promoted lawmaking by citizens—including a Democratic and a Republican president, journalists, academics, and civic activists—believed that direct democracy was the solution to the problem of interest groups. Giving voters the power to make laws directly would break what they saw as an unhealthy influence of special interests over elected officials. How direct democracy tilts the playing field is a matter of some importance since it is widespread in the United States—26 of 50 states and 82 percent of large cities allow initiatives and referendums—and where available, the stakes are substantial. Over $4.2 billion was spent on ballot measure campaigns in California alone during 2000–2020, far more than the $1.5 billion spent on races for the state's senate and assembly during the same period.[2]

The purpose of this paper is to provide an empirical assessment of how organized economic groups—mainly businesses, but also unions—fare under direct democracy: do they win or lose on balance? Economic theory lends some support to the Progressives' belief that direct democracy counteracts the power of organized interests. According to the economic theory of regulation pioneered by Stigler (1971), concentrated interests are better than the general public at delivering political pressure because they gain more individually and have a lower cost of organizing and managing free-rider problems. Business groups deliver pressure in several ways: campaign contributions to candidates and parties, lobbying, revolving doors, and participation in election campaigns. Most of these channels of influence are closed under direct democracy: there are no lawmakers to influence with contributions, lobby, or offer jobs down the line. The only channel is to persuade the electorate through mass campaign activities.[3]

This paper examines three types of evidence: content analysis of laws, campaign contributions, and stock market reactions to election outcomes. The content analysis involves examination of all 2,653 state-level initiatives in the United States, from the first one in 1904 through 2021, focusing on six industry clusters that have been the subject of the most proposals: agriculture; energy; banking, finance, and insurance; gambling; mining and timber; and tobacco. Based on reading the text of the proposed law, voter guides, and media accounts, a team of

[2] Descriptive information throughout is from Matsusaka (2020). For surveys of research on direct democracy, see Lupia and Matsusaka (2004) and Matsusaka (2005, 2018). Contributions to assembly and senate candidates are from FollowTheMoney.org (https://www.followthemoney.org). Fahlenbrach, Ovtchinnikov, and Valta (2021) report $7.55 billion in contributions for all statewide campaigns during 2003–18.

[3] From the perspective of the vote-maximizing model of regulation in Peltzman (1976) or the pressure group model in Becker (1983), direct democracy increases the cost of influence for business groups, which leads to less favorable policy choices in equilibrium.

researchers classified each initiative as helping or hurting the industry's bottom line (or ambiguous). One new descriptive fact is that a majority of proposed business-related initiatives would have hurt business interests (56 percent versus the 37 percent that would have helped them). Of those that passed, 28 percent were probusiness, while 62 percent were antibusiness. The antibusiness propensity also appears in samples restricted to initiatives that were more likely to be important, based on being mentioned in *New York Times* election coverage or involving high campaign spending.

Unlike initiatives, which come to the ballot by citizen petition, other measures originate from a state's legislature, such as constitutional amendments and bond issues. I find that 44 percent of ballot propositions sponsored by state legislatures would have helped business interests, while 43 percent would have hurt them, on net a more probusiness orientation than initiatives.

Content analysis paints a similar picture for unions, another important and organized economic interest group: 25 percent of proposed union-related initiatives would have helped unions, and 75 percent would have hurt them. Labor unions fared better with legislative measures, 30 percent of which were helpful versus 39 percent that were harmful (31 percent were not classifiable).

The second type of evidence comes from using campaign contributions to classify whether a proposition would have helped or harmed the donor. The data are the 446,000 contributions to California ballot measure campaigns over the period 2000–2020. Focusing on contributions of $100,000 or more, an amount suggesting that the contributor had a material stake in the outcome, I find that 60 percent of business contributions were defensive (given to the opposition campaign) compared with 40 percent in support. Similarly, union contributions were more often defensive than supportive, 54 versus 46 percent. The comparison with legislative propositions is particularly striking: less than 1 percent of business contributions to legislative propositions were defensive, and only 9 percent of union contributions were defensive.

The third type of evidence comes from stock returns associated with ballot measure elections. If an election outcome is not known with certainty, the final result is new information to investors, and the stock price response represents the capitalized value of that news. Focusing on corporations that made large contributions to California propositions during 2000–2020, I find a mean abnormal return of 1.5 percent associated with failure of an initiative and −1.4 percent associated with passage of an initiative, both statistically significant, which implies roughly speaking a net value of −2.9 percent on average for initiatives.

Stock market returns also indicate the extent to which contributions were intended to increase shareholder value. While the contribution analysis assumes that contributions were motivated by profit considerations, corporate-governance reformers argue that some corporate contributions are motivated to advance ideological goals of the managers, such as Nike's contribution in support of a gay marriage referendum in Washington, or to curry favor with influential politicians by supporting their pet issues (Torres-Spelliscy 2010; Whyte 2015). To explore this possibility, I calculate mean abnormal returns separately for propositions on which the corporation was on the winning versus the losing side. Corporations experienced a .71 percent mean abnormal return when a proposal they supported won or a proposal they opposed failed, lending support to the conclusion that contributions reflect economic interest. The abnormal returns associated with being on the losing side are not precisely estimated, in part because of the small number of observations.

The picture that emerges from all three very different types of evidence is that direct democracy is more often harmful than helpful to business and union interests. This lends support to the arguments of Progressives more than a century ago and suggests that direct democracy may be an effective tool for moderating the power of economic interests.

These findings extend our knowledge about the capture theory of regulation to lawmaking by citizens, complementing existing literature that exclusively focuses on lawmaking by representatives (Carpenter and Moss 2014). The poor performance of business groups and unions under direct democracy, compared with ample evidence of their influence under representative democracy, suggests that there are channels to influence representatives that are unavailable with initiatives. None of the three channels emphasized in the literature—campaign contributions, lobbying, and revolving doors—are available to influence ordinary voters. While democracy activists have concentrated on narrowing or closing those channels, the findings suggest that moving more regulatory decisions from the hands of representatives to voters could also reduce interest groups' influence.

Finally, the evidence contributes to the corporate-governance literature on political spending. While several studies examine the connection between campaign contributions to candidates and corporate value, to the best of my knowledge there is no comparable evidence for ballot measure campaigns with the exception of Fahlenbrach, Ovtchinnikov, and Valta (2021). The fact that businesses spend enormous amounts on ballot measures is prima facie evidence that the stakes are large, but one might say this for contributions to candidates as well, and establishing a connection between contributions and firms' value has proved difficult.[4] While the evidence here does not establish a causal link between corporate spending and firms' value, it shows that corporations invest heavily in this activity and that the laws in question have a material effect on their value.

## 2. Institutional Background of Direct Democracy

Direct democracy in the most general sense is citizens passing laws directly, without the intermediation of representatives. In ancient Athens and Rome (and some modern towns in the United States and Switzerland), citizens gathered in a town meeting or assembly to discuss and vote on laws. The typical form of direct

[4] Fowler, Garro, and Spenkuch (2020) and Aggarwal et al. (2012) find no evidence that contributions to candidates increased firms' value. Stratmann and Verret (2015) provide indirect evidence, showing that firms active in politics experienced a positive abnormal stock return after the *Citizens United* ruling. See also Milyo, Primo, and Groseclose (2000).

democracy in the 21st century is the ballot proposition (or ballot measure or referendum): citizens go to the polls and vote to adopt or reject a proposed new law. Ballot propositions can be divided into several types.

*Initiatives.* Initiatives are proposals that citizens craft and qualify for the ballot by petition. Each city or state has a signature requirement, such as 5 percent of the votes cast in the previous gubernatorial election. Once the requisite signatures are collected and verified, the proposal appears on the ballot at an upcoming election. In most cases, a simple majority is enough for passage, but sometimes a supermajority or quorum is required.[5] States vary in whether they allow initiatives to propose statutes, constitutional amendments, or both. Similarly, cities vary in whether they allow initiatives on ordinances, charters, or both. The first American state to adopt the initiative process was South Dakota in 1898; the first cities were San Francisco and Vallejo in California in 1898. Outside the United States, Switzerland has allowed national initiatives since 1891, Uruguay since 1934, and Taiwan since 2003, to name some prominent examples.

*Veto Referendums, Popular Referendums, and Petition Referendums.* Veto referendums, popular referendums, and petition referendums also qualify for the ballot on citizens' petition. They differ from initiatives in that they propose the repeal of an existing law approved by the legislature instead of introducing a new law. Otherwise, the petitioning and approval processes are similar. States adopted the veto referendum around the same time that they adopted the initiative process; the first adopter was South Dakota in 1898.

*Legislative Propositions and Legislative Measures.* Legislative propositions and legislative measures are proposals placed on the ballot by the legislature. Most of these proposals are required by a state's or city's constitutional document. All but one American state requires voter approval of constitutional amendments, 24 states require votes on bond issues, and a few states require votes for chartering banks and moving the state capital. Occasionally, legislatures call advisory votes on a matter of public interest; the United Kingdom's Brexit referendum is a recent example. Occasionally a state may create a special commission empowered to put proposals on the ballot. In Switzerland, most cantons require voters' approval for new spending programs (Feld and Matsusaka 2003).

There are essentially no legal limits on campaign spending on ballot measures. Since the US Supreme Court's *Bellotti* decision in 1978 (*First National Bank of Boston v. Bellotti,* 435 U.S. 765 [1978]), governments may not limit campaign spending by individuals and groups on ballot measures, and many states did not limit spending even before *Bellotti*. The Supreme Court's much-debated *Citizens United* decision in 2010 (*Citizens United v. Federal Election Commission,* 558 U.S. 310 [2010]) thus had no effect on campaign spending on ballot measures.

The evidence on campaign contributions below is drawn from California. California is a natural focus for study because of its reputation as ground zero for

[5] At the state level, Florida (since 2006) and Illinois (if a quorum is not met) require supermajorities; Massachusetts, Mississippi, Nebraska, and Wyoming require a quorum. See Matsusaka (2004, app. 1).

direct democracy and its long history with the process. Interest groups are familiar with the process, and there is an established infrastructure for ballot measure campaigns, so we are observing direct democracy in its mature form. A potential limitation is that California may not be representative of other states. For example, as a Democratic-leaning blue state, business interests may start with a disadvantage.[6] Even if California is not representative, its size in the global economy makes understanding its regulatory policies of independent interest.

In California, an initiative requires signatures equal to 8 percent of the votes cast in the previous gubernatorial election for a constitutional amendment and 5 percent for a statute; veto referendums require signatures equal to 5 percent of the vote. For legislative proposals, a bond proposal or statute requires a majority vote in both the assembly and senate and the signature of the governor; a constitutional amendment requires a two-thirds vote in both chambers but not the governor's signature.

## 3. Evidence from Content Analysis of Initiatives, 1904–2021

The content analysis covers the universe of 2,653 state-level initiatives since the first one in 1904 in the 24 states that allow citizens to initiate proposals. Starting with a database maintained by the Initiative and Referendum Institute that describes each initiative, I identified every proposal related to six industries (excluding initiatives that would have impacted businesses in general, such as an increase in the sales tax). The six industry clusters are agriculture,[7] energy (including electricity, nuclear energy, and oil),[8] finance (including banking and insurance),[9] gambling,[10] mining and timber,[11] and tobacco.[12] There were 384 initiatives related specifically to these six industries. Coders classified each proposal as likely to help or harm the industry on the basis of the text of the measure, explanations and arguments in voters' guides, and media accounts. If the law was unclear (such as a proposal to remove an existing rate-setting formula for electricity that did not specify the replacement formula) or involved an intraindustry dispute in which some firms gained and others lost (such as a proposal to allow nontribal gambling companies to enter markets currently monopolized by tribal casinos), the

[6] California's dominance by the Democratic Party is more recent than sometimes recognized: for the period I study, the state had a Republican governor during 2003–11. Republicans held the governorship 24 of the preceding 36 years.

[7] Example initiatives are a limit on strikes by farmworkers, loans to farmers, a tax on sugar production, and a requirement to provide living space for pregnant pigs.

[8] Examples are permitting utilities to charge customers for abandoned power plants, requiring utilities to use renewable fuel sources, and taxing natural gas leases.

[9] Examples are regulating interest rates and auto insurance rates.

[10] Examples are authorizing casino gambling, allowing sports betting, and prohibiting betting on greyhound races.

[11] Examples are allowing cyanide in silver and gold mining, limiting hours worked in mines, and limiting timber harvesting.

[12] Examples are increasing or reducing tobacco taxes and banning smoking in public places.

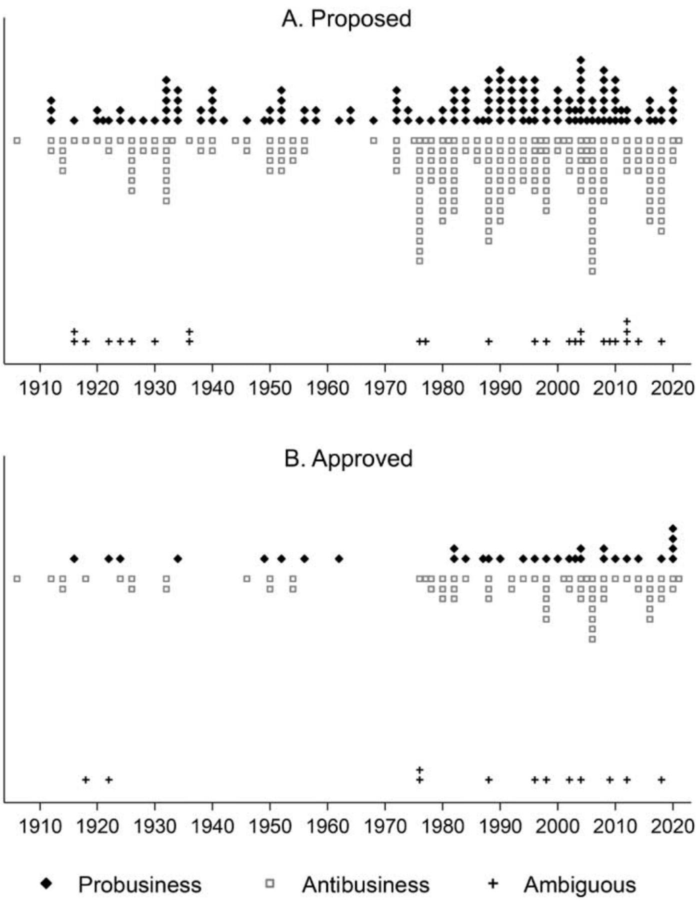


**Figure 1.** State-level business-related initiatives for the six industries, 1904–2021

coders classified it as ambiguous.[13] The Online Appendix describes the classification method, provides concrete examples (Table OA1), and lists the three most recent initiatives in each industry with their classifications (Table OA2).

Figure 1 presents the data. Figure 1*A* shows the initiatives that were proposed each year, distinguishing probusiness from antibusiness measures, and the number of initiatives that were ambiguous. For example, three probusiness initiatives and two antibusiness initiatives were proposed in 1912. A few patterns stand out. Antibusiness proposals were more common than probusiness proposals and con-

[13] Each initiative was coded by three researchers using the rubric in the Online Appendix (Table OA1) and then classified according to the majority view. Interrater reliability was high: coders agreed on whether a proposal would have helped or hurt or was ambiguous in 89 percent of cases, with $\kappa = .76$. When sources indicated significant spending on one side, that was also taken into account.

sistently so over time. Ambiguous initiatives were uncommon, indicating that intraindustry disputes were not the norm. Figure 1 also reveals a quickening of initiative activity in the late 1970s, part of a general (not just business-related) increase in initiative activity associated with California's famous Proposition 13 in 1978, which spurred a national tax revolt (for trends, see Initiative and Referendum Institute 2019). Figure 1*B* shows initiatives that voters approved. Across all topics, 59 percent of initiatives failed—and the failure rate for business-related proposals was even higher at 71 percent.

Table 1 shows the patterns by industry.[14] Five industries—agriculture, energy, finance and insurance, mining and timber, and tobacco—mostly played defense. Finance and insurance, mining and timber, and tobacco had a 0 percent success rate in advancing probusiness laws. The gambling industry is the exception: proposed and approved initiatives were usually probusiness. According to their content, many of these initiatives proposed to expand gambling, legalize it outright, broaden the type of games that could be offered, or allow it at more locations (such as riverboats). Often those impacted businesses were Indian tribes, which spent sizable amounts on initiative campaigns. Their campaign messaging sometimes emphasized combating poverty and alluded to past injustices, so voters may have seen them as social rather than business issues.

In assessing the overall tenor of initiatives, we face the problem of how to weight propositions that might vary in importance. The comparisons to this point, which count all initiatives equally, could be misleading if, among the group of truly important initiatives, most of them were probusiness. To gauge this concern, I identified a subset of initiatives that were as important according to two definitions: initiatives mentioned in the *New York Times* in either pre- or post-election roundups of ballot measures and initiatives with campaign spending above $10 million. This information is limited to 1986–2021.[15] The correlation between the two measures is .1, which suggests that they are capturing different aspects. Table 1 shows the number of pro- and antibusiness proposals among important issues, so defined. In terms of proposed laws, antibusiness initiatives outnumbered probusiness initiatives using both definitions. In terms of approved laws, antibusiness initiatives outnumbered probusiness proposals two to one using the *New York Times* definition and were equal according to the spending definition. Focusing on important initiatives does not change the basic message.

[14] Initiatives that involved two industries are reported under each industry but only once in the totals.

[15] The *New York Times* list was compiled from articles that previewed or reviewed ballot measures nationwide or region- or state-specific articles that highlighted key measures; these are available for most years during 1986–2020. According to this classification, 50 of 199 initiatives were important. Campaign spending is drawn from FollowTheMoney.org, which aggregates information from state sources and has data available from about 2002 (depending on the state) to 2021. No attempt was made to correct for the site's practice of attributing the full amount of a contribution to a joint campaign to each of the individual campaigns. Contributions were converted to 2020 dollars using the consumer price index. Of the 117 initiatives with available data on campaign contributions, 58 made the cutoff. The basic picture is similar for cutoffs other than $10 million and when expenditure is normalized by the number of registered voters.

**Table 1**
**State-Level Business-Related Initiatives in the United States**

| | Proposed Laws | | | Approved Laws | | |
|---|---|---|---|---|---|---|
| | Probusiness | Antibusiness | Uncertain | Probusiness | Antibusiness | Uncertain |
| Initiatives, 1904–2021 ($N = 2{,}653$): | | | | | | |
| Agriculture | 10 | 28 | 4 | 5 | 17 | 3 |
| Energy | 22 | 89 | 7 | 4 | 20 | 2 |
| Finance and insurance | 18 | 30 | 3 | 0 | 6 | 1 |
| Gambling | 86 | 11 | 13 | 23 | 2 | 6 |
| Mining and timber | 2 | 22 | 0 | 0 | 7 | 0 |
| Tobacco | 5 | 39 | 0 | 0 | 18 | 0 |
| All | 142 | 216 | 26 | 32 | 70 | 11 |
| | (37) | (56) | (7) | (28) | (62) | (10) |
| Important initiatives: | | | | | | |
| Mentioned in *New York Times* | 16 | 31 | 3 | 4 | 8 | 2 |
| Campaign spending >$10 million | 22 | 26 | 10 | 6 | 6 | 5 |
| Initiatives and legislative measures, 1980–2021: | | | | | | |
| Legislative propositions ($N = 2{,}093$) | 40 | 39 | 11 | 29 | 16 | 7 |
| | (44) | (43) | (12) | (56) | (31) | (13) |
| Citizens' initiatives ($N = 1{,}337$) | 89 | 139 | 15 | 24 | 51 | 8 |
| | (37) | (57) | (6) | (29) | (61) | (10) |
| Constitutional amendments, 1980–2021: | | | | | | |
| Legislative propositions | 31 | 13 | 9 | 24 | 7 | 6 |
| Initiatives | 36 | 30 | 8 | 11 | 11 | 3 |

**Note.** Percentages are in parentheses.

In addition to the question of whether initiatives tend to be pro- or antibusiness, it would be interesting to know how they compare to laws passed by legislatures. Unfortunately, counting and classifying the laws passed by each state legislature is beyond the scope of this paper. We can however examine the business orientation of the subset of laws passed by legislatures that went to the voters for approval. I manually collected information from official state documents about all legislative propositions since 1980 in initiative states, focusing on the six industries. This information is useful for describing the tenor of legislative measures, but such measures are unlikely to have been representative of the laws passed by legislatures that did not go to the voters.[16]

Table 1 summarizes these legislative measures and, for comparison, initiatives over the same time period. Legislatures placed many more propositions on the ballot than citizens did, yet fewer of them were business related (90 versus 243). Legislative measures were slightly more likely than initiatives to be probusiness (44 percent versus 37 percent), and legislative measures that became law were much more often business friendly than initiatives that became law (56 percent versus 29 percent). In short, business groups did better with proposals from legislatures than initiatives.

To get a sense of the business orientation of legislatures versus initiatives when legislating on similar topics, we can compare measures that proposed to amend the state constitution. Laws on certain topics require amending the constitution and constitutional amendments in these states must be approved by voters, so the set of legislative constitutional amendments captures most lawmaking by the legislature on those topics. Table 1 reports the business orientation of propositions considering only constitutional amendments. Amendments from the legislature were probusiness by about a three-to-one ratio in terms of proposed and approved laws. Initiative amendments were about evenly split between pro- and antibusiness measures. In terms of laws that required a constitutional amendment, legislative measures were more business friendly than initiatives were.

Labor unions, especially public employee unions, are another important organized economic interest group involved in state politics. To investigate how labor unions fared under direct democracy, I conducted an analogous content analysis of proposals related to unions, identifying all initiatives related to union rights, union elections, union dues, union political activities, strikes, right to work, and open and closed shops. It was straightforward to classify each law as prounion or antiunion.

Figure 2 shows the number of union-related laws that were proposed and approved. Union-related laws were much rarer than business-related laws. Most initiatives proposed laws that were unfriendly to unions (43 versus 14), and the laws that voters approved were antiunion on balance (13 to two). There were only 25 union-related legislative proposals during 1980–2021. Of these, seven were prounion and 18 were antiunion, with voters approving no prounion pro-

[16] Theoretically, the availability of initiatives changes the nature of the laws passed by the legislature by altering the options if bargaining breaks down (Matsusaka and McCarty 2001; Boehmke, Osborn, and Schilling 2015).

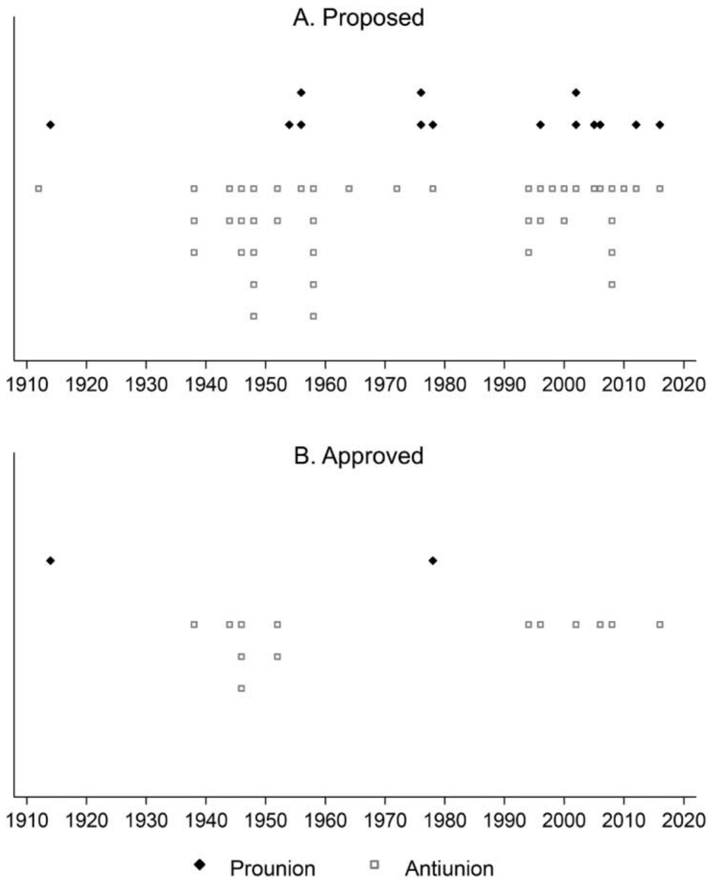


**Figure 2.** State-level union-related initiatives, 1904–2021

posals and six antiunion proposals. Direct democracy did not produce a flow of union-favorable laws, and it appears that unions fared better with legislative measures than citizens' initiatives.

## 4. Evidence from Contributions to California Ballot Measures, 2000–2020

The content analysis indicates that business groups and unions were historically on the defensive in initiative campaigns. A limitation of that empirical strategy is its focus on proposals that target a particular industry because it excludes proposals of a more general nature, such as a sales tax or expansion of a state health care program that might affect all businesses. In this section I use contribution patterns to reveal underlying interests. The working assumption is that if a group made a sizable contribution in support of a measure, it stood to benefit from the measure's passage, and conversely if it opposed the measure (this assumption is contested; see below).

### *4.1. Definitions and Descriptions*

The analysis covers all statewide propositions in California from 2000 to 2020. Data sources are described in the Online Appendix. The 195 propositions consisted of 117 initiatives, 12 veto referendums, and 66 legislative measures. Voters approved 38 percent of initiatives, approved 76 percent of legislative proposals, and repealed five of the laws challenged by veto referendum.

California defines any person or group receiving contributions of $2,000 or more in a calendar year to qualify, pass, or defeat a ballot measure as a "ballot measure committee" and any person or group spending $1,000 or more as an "independent expenditure committee." A typical ballot measure might attract five to 10 committees, some have none at all, and a highly contested proposal might involve more than 20 committees. Committees are required to file quarterly reports disclosing contributions and expenditures. For any contribution of $100 or more—monetary or in-kind—the committee must report the name and address of the donor. As mentioned above, California law places no limits on contributions or spending on ballot measure campaigns. I recorded all contributions over the period (more than 446,000 items) from records maintained by the California secretary of state. Total contributions were $4.2 billion.

For each ballot measure, I aggregated all contributions by a given contributor to produce a total contribution amount by that individual or organization for the measure. For committees that encompassed more than one proposition, such as a committee supporting both Proposition 1 and Proposition 2, a contribution was apportioned equally across the campaigns, so $100 given to the aforementioned committee would be treated as a $50 contribution to Proposition 1 and a $50 contribution to Proposition 2. Henceforth, when I refer to a contribution, I mean this aggregated amount; there were 339,506 such contributions.

The analysis focuses on contributions of $100,000 or more, an amount that suggests that the contributor had a real stake in the outcome (the findings are robust to lower and higher thresholds, as discussed below). There were 3,067 contributions of $100,000 or more across the propositions, accounting for $3.8 billion in total. Campaign contributions were highly concentrated among a few big spenders: while only .9 percent of contributions were $100,000 or more, they accounted for 90 percent of the dollars raised.

I manually classified each contributor as a business, union, individual, or other using the contributor's name and address in the raw data. "Business" includes corporations, partnerships, trade associations, and groups like chambers of commerce; I also included tribes because their contributions were almost always in support of their gambling operations. "Union" comprises mostly public employee unions, such as the California Teachers Association, but also includes mixed private and public unions such as the Service Employees International Union and largely private-sector unions such as the Teamsters. "Individuals" should be understood as wealthy individuals, persons willing and able to write a check for $100,000 or more, not small contributors. Wealthy individuals spanned the ideo-

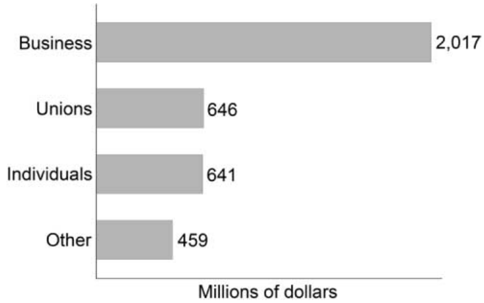


**Figure 3.** Large contributions to California ballot measure campaigns, 2000–2020

logical spectrum, from libertarians such as Charles Munger to progressives such as Thomas Steyer. The "other" category includes activist organizations such as the American Civil Liberties Union, Humane Society, Howard Jarvis Taxpayers Association, and Sierra Club; political parties and candidate-controlled committees; and nonprofit organizations such as hospitals, museums, and universities. Figure 3 shows contributions for the four categories. Business groups accounted for \$2.0 billion, nearly half of the total, with labor unions and wealthy individuals each accounting for about 15 percent.

Nine propositions, all of them initiatives, raised more than \$100 million. Topping the list, with \$255 million, was Proposition 22 (in 2020), which allowed application-based drivers to work as independent contractors, overriding a recent law passed by the legislature. Supporters, mainly technology firms, accounted for over 90 percent of the money. The second most expensive measure, with contributions of \$152 million, was Proposition 87 (in 2006), which proposed spending \$4 billion on alternative energy, financed by a tax on gas and oil. It failed. Its sponsor was Stephen Bing, heir to a real estate fortune, who contributed \$50 million in support. Funding to oppose Proposition 87 was led by oil companies Chevron (\$38 million) and Aera Energy (\$33 million). The third most expensive measure, Proposition 8 (in 2018), which would have limited the price of kidney dialysis services, racked up \$132 million, most of it in opposition, including \$67 million from DaVita and \$34 million from Fresenius Medical Care. DaVita's contribution was the largest single contribution to a ballot measure campaign ever. Voters turned it down.

### *4.2. Propensity to Oppose Propositions*

Figure 4 shows the propensity of business groups and unions to contribute money against initiatives and legislative measures. One key finding is that 60 percent of business contributions were in opposition (defensive), meaning that business groups were trying to fight off hostile proposals more often than they were trying to acquire favorable legislation. The pattern is similar for unions, which made a majority of their initiative contributions in opposition (54 percent). The

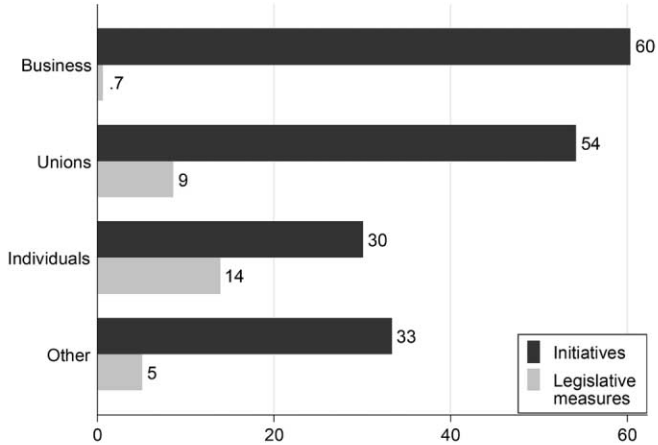


**Figure 4.** Percentages of California ballot measure contributions in opposition, 2000–2020

evidence again does not support the idea that initiatives are primarily tools for business groups to acquire favorable legislation.[17]

One explanation for the high rate of defensive spending by business groups and unions could be that initiative proposals were bad in some objective sense, so that any reasonable person would have opposed them. If so, one would expect individuals and other groups to have opposed them as well, but that is not what happened. Wealthy individuals and other contributors made about two-thirds of their contributions in support.

Figure 4 also shows the defensive contributions for laws proposed by the legislature. All groups were favorably disposed toward legislative measures. Only .7 percent of business contributions for legislative measures were defensive, and only 9 percent of union contributions were defensive. As mentioned in Section 3, because legislative propositions are not representative of all laws passed by the legislature, we cannot draw conclusions about the overall pro- or antibusiness propensity of initiatives versus legislatures from this comparison. A more apples-to-apples comparison can be made for laws that amend the constitution—because they can be passed only with approval of the voters, the data include the universe of such laws. Estimating the percentages for constitutional amendments produces similar patterns: business contributions were 54 percent opposed for initiatives and 1 percent opposed for legislative measures; union contributions were 48 percent opposed for initiatives and 15 percent opposed for legislative

[17] The picture is similar as a proportion of dollars rather than contributions. For initiatives, 66 percent of dollars contributed by business groups and 51 percent contributed by unions were in opposition, compared with .2 percent (business) and 11 percent (union) for legislative proposals. Using a $55,000 cutoff, defensive business contributions were 59 percent for initiatives and .4 percent for legislative proposals. With a $250,000 cutoff, the values were 68 percent for initiatives and 0 percent for legislative proposals. The percentages for unions were also similar using these alternative cutoffs.

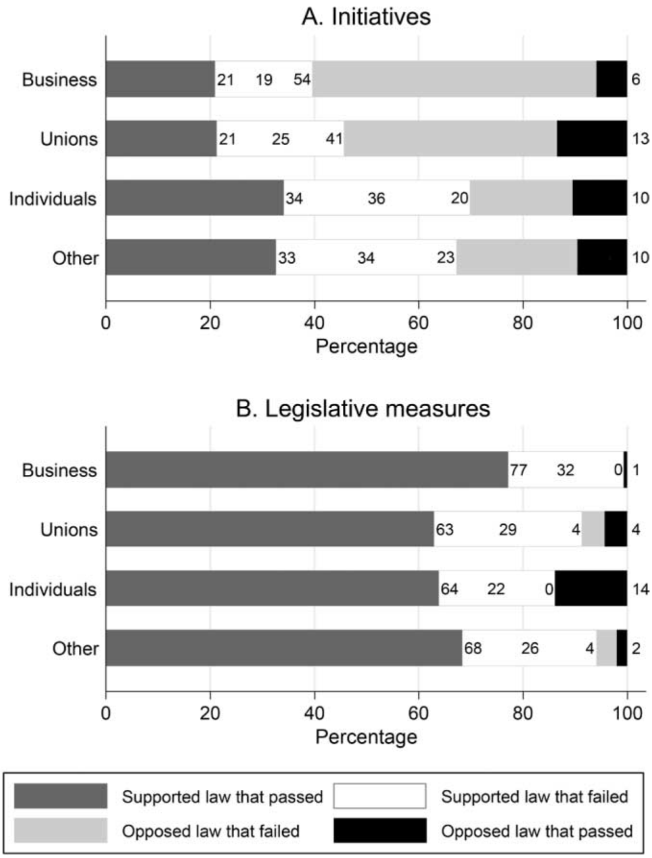


**Figure 5.** Election outcomes and large contributors

measures. At least for legislation that required a constitutional amendment, the legislature was much more probusiness.

Although business groups and unions viewed the majority of initiatives as potentially harmful to their interests, many of those initiatives failed and thus did them no damage in the end. To assess the final outcomes for business groups and unions, Figure 5 shows the orientation of the propositions that passed and failed. Figure 5*A* focuses on initiatives. On the plus side for business groups, 21 percent of their contributions went for favorable laws that passed, compared with 6 percent of their contributions against unfavorable laws that passed. Similarly, 21 percent of union contributions supported favorable laws that passed, compared with 13 percent against unfavorable laws that passed. Both groups were more likely to end up with a favorable law than an unfavorable law, making initiatives look much better from their perspective. However, in assessing the impact of initiatives, we also need to consider the money spent fending off hostile proposals that

**Table 2**
**Business and Union Contributions by Proposition Topic**

| | Business Groups | | Unions | |
|---|---|---|---|---|
| | Opposed | Supported | Opposed | Supported |
| Economic issues | 1,221 | 641 | 51 | 253 |
| Government issues | 21 | 89 | 70 | 57 |
| Politics | 6 | 18 | 120 | 14 |
| Social issues | 4 | 16 | 13 | 9 |

**Note.** Values are for all California ballot propositions, 2000–2020.

failed, because the most common outcome was a failed proposition. The amounts spent on failed initiatives were substantial: business groups spent $1.1 billion opposing compared with $586 million supporting initiatives, and unions spent $281 million opposing and $268 million supporting initiatives. Even if they managed to defeat an unfavorable law, they were worse off for having had to fight it.

Figure 5*B* provides a comparison using legislative measures, and again the picture is quite different from that for initiatives. Business contributions for legislative measures were associated with passage of a favorable law 77 percent of the time and with passage of an unfavorable law less than 1 percent of the time. The analogous percentages for union contributions were 63 percent versus 4 percent. Both groups had a much higher frequency of good outcomes with proposals originating in the legislature than with citizens' initiatives. Interestingly, business groups also fared better with the legislative proposals than the other contributor types.[18] If Figure 5 is estimated using only ballot measures that sought to amend the constitution, which I argue above is closer to an apples-to-apples comparison, the patterns are broadly similar. In particular, for business contributions in support of initiatives, 26 percent were associated with passage of a favorable law, and 6 percent were associated with passage of an unfavorable law; for contributions in support of legislative measures, 77 percent were associated with passage of a favorable law, and 1 percent were associated with passage of an unfavorable law.

To examine the types of laws that business groups and unions consider important, Table 2 reports large business and union contributions by topic. Economic issues are primarily taxes and regulation; government issues concern administration and procedures, such as the state budget process; politics involves elections and voting; and social issues include matters such as same-sex marriage and the death penalty.[19] The preponderance of business spending—$1.2 billion opposed and $641 million in support—was related to economic issues. Even so, business groups did not constrain themselves to economic issues—they spent $110 million

[18] Values for businesses and unions in Figure 5 are qualitatively similar using contribution cutoffs of $55,000 or $250,000 instead of $100,000. For example, with a cutoff of $250,000, the fractions of business contributions associated with passage of helpful versus harmful laws are 14 percent and 5 percent, respectively, for initiatives and 84 percent and 0 percent for legislative proposals.

[19] Contributions of $40 million on miscellaneous topics are excluded. Contributions formally in support of a veto referendum are classified as opposed because a yes vote is to reject the proposal.

on proposals intended to alter government processes, $24 million on proposals to reshape elections and voting, and $20 million on social issues. These contributions attempted to influence a broader set of issues than envisioned by conventional theories of political regulation.[20]

To better understand the nature of business contributions that were not directly targeted at core business functions, Table 3 lists the initiatives with $1 million or more in business contributions that actually became law. Interestingly, initiatives seeking to help business groups through favorable regulation were not the norm. There were only a few such cases; perhaps Proposition 35 on engineering contracts, Proposition 11 on ambulance services,[21] and Proposition 22 on application-based drivers. Two initiatives delivered benefits through a government spending program: Propositions 50 and 51 on construction bonds.[22] But several initiatives had only indirect connections to business performance, such as Proposition 22 on the division of state and local tax revenue and Propositions 39 and 26 on the process for increasing taxes or issuing debt, or no obvious connection to business interests, such as Proposition 8 on same-sex marriage. The prevalence of contributions to "nonbusiness" ballot measures raises the question of whether they were intended to increase firms' value or might instead have been advancing the personal agendas of managers, an issue addressed in Section 5.

Contribution data can also be used to characterize the orientation of individual propositions. I classified a proposal as business related if it attracted at least $1 million in business contributions and, if so, classified it as probusiness if at least 80 percent of business money was in support, antibusiness if at least 80 percent was in opposition, and ambiguous otherwise. According to this scheme, 88 initiatives were business related. Only 20 of them were defined as business related according to the content analysis.[23] One reason for the difference is that the content analysis focuses on only six industries; the data on contributions show substantial spending by other industries, especially technology, pharmaceuticals,

[20] The story is similar for unions. Most union money went toward economic issues, such as construction bonds, but unions spent a substantial amount on noneconomic issues, particularly proposals related to government processes and elections. The heavy union spending on political issues was driven by two initiatives that sought to prevent unions from using dues for political purposes.

[21] Proposition 11 was a response to a court ruling that California labor law potentially prohibited ambulance drivers from being on call during breaks, a standard practice. Ambulance companies asked the legislature to amend the law, but the legislature declined, apparently at the request of its labor union allies who sought to use the ruling as a bargaining chip in contract negotiations. American Medical Response, the nation's leading medical transportation company, took the issue directly to the voters, who, backed by widespread support from major newspapers, approved the measure by a 60–40 margin.

[22] These bond measures were supported by construction and engineering companies that stood to gain from working on the projects. Proposition 51 was opposed by Jerry Brown, the sitting Democratic governor, who generally was an advocate of public projects: "I am against the developers' $9-billion bond. It's a blunderbuss effort that promotes sprawl and squanders money" (Mason 2016).

[23] One initiative was classified differently by the two methods. Proposition 8 (in 2018), to repeal a gas tax increase, was classified as favorable to the oil industry by the content analysis but antibusiness according to contributions because of heavy spending against it by the construction industry. Only six proposals had mixed support, with significant business spending on both sides.

**Table 3**

**Approved California Initiatives with Total Business Contributions of $1 Million or More, 2000–2020**

| | | Contributions ($Millions) | | |
|---|---|---|---|---|
| | | Supported | Opposed | All |
| Probusiness propositions: | | | | |
| 35 (2000) | Allows governments to contract with private companies for engineering services | 5.8 | 0 | 17.8 |
| 39 (2000) | Reduces voter approval rate required to issue bonds for school facilities | 4.7 | .25 | 35.2 |
| 50 (2002) | $3.44 Billion bond issue for water projects | 1.2 | 0 | 6.0 |
| 64 (2004) | Limits private lawsuits to enforce state competition laws | 7.8 | 1.3 | 18.5 |
| 22 (2010) | Prohibits the state from capturing revenue dedicated to local governments | 1.2 | 0 | 7.8 |
| 26 (2010) | Requires a legislative supermajority and voter approval for certain taxes | 8.4 | .2 | 17.5 |
| 51 (2016) | $9 Billion bond issue for school buildings | 6.1 | 0 | 11.9 |
| 52 (2016) | Requires voter approval for the state to divert funds from hospitals | 4.5 | 0 | 25.2 |
| 55 (2016) | Extends temporary income tax surcharge | 25.1 | 0 | 56.9 |
| 64 (2016) | Legalizes recreational marijuana | 1.1 | 0 | 21.8 |
| 11 (2018) | Requires private-sector ambulance employees to remain on call during breaks | 30.2 | 0 | 30.3 |
| 22 (2020) | Permits application-based drivers to work as independent contractors | 205.5 | 0 | 225.9 |
| Antibusiness propositions: | | | | |
| 2 (2008) | Requires minimum living space for farm animals | 0 | 5.6 | 19.3 |
| 25 (2010) | Removes the supermajority requirement for the legislature to pass a budget | 1.0 | 7.9 | 21.4 |
| 56 (2016) | Increases tobacco taxes | 13.1 | 70.9 | 103.3 |
| Mixed propositions: | | | | |
| 8 (2008) | Prohibits same-sex marriage | 1.2 | .9 | 88.9 |
| 30 (2012) | Increases income and sales taxes | 7.7 | 5.6 | 89.0 |

**Note.** Contributions include those of $100,000 or more.

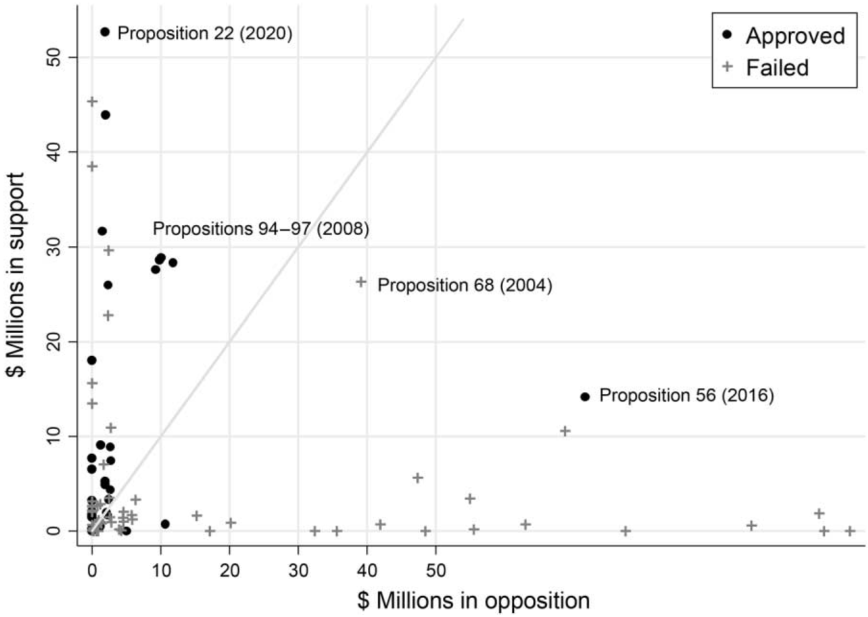


**Figure 6.** Large business contributions by California proposition, 2000–2020

health care, and construction. The content analysis also differs by covering only laws targeted at a particular industry, thereby excluding proposals with cross-industry effects such as an increase in the corporate income tax. Similarly, while the contribution data identify 62 propositions as union related, the content analysis flags only two as union related, which indicates that most issues of concern to unions extend beyond the regulation of unions.

Finally, the data on contributions can be used to cross-check an interesting feature of the content-based classifications: the rarity of initiatives in which business groups faced off against each other (I classified these as uncertain). Figure 6 plots total spending for and against by business groups on each of the 88 California propositions in which business spending was at least $1 million (Proposition 22 with $205 million spending in support is plotted off scale). Contests between business groups appear near the 45-degree line, while one-sided contests are near the axes. For most initiatives, business spending was disproportionately on one side: two-thirds of them had no business spending on one side, and of the remaining cases, three-quarters had a spending ratio for one side greater than three-to-one. A few cases did pit business groups against each other. Proposition 68 would have allowed racetracks to operate 30,000 slot machines and thus compete with tribal casinos; track operators spent $27 million in support, and tribes spent $41 million against it. Propositions 94, 95, 96, and 97 involved gaming compacts with four tribes that attracted a combined $115 million in support from tribes and $36 million against from nontribal gambling companies. These cases would have been flagged as uncertain in the content analysis. Proposition 56 proposed an increase in tobacco taxes, with revenue dedicated to health care services; it attracted $71 million in opposition from tobacco companies but also $13 million in support from the California Association of Hospitals and Health Systems, a hospital trade group—an interindustry battle, albeit somewhat unequal. In short, initiatives were seldom venues for business groups to contest with other business groups.

## 5. Evidence from Stock Market Returns

Another way to assess how corporations fare under direct democracy is by examining how their stock prices move following the passage or failure of ballot measures. If a proposition helps a company, its stock price should increase if the proposal passes and decline if it fails, and prices should move conversely for harmful propositions. While Section 4 uses managers' decisions regarding campaign contributions to identify a company's interests, the stock market evidence here uses the third-party assessments of investors. Looking at stock returns also allows us to evaluate the assumption that contributions reveal corporate interests. This assumption is often challenged by corporate-governance activists who argue that because of agency problems, corporate spending serves the ideological interests of managers and not the financial interests of shareholders (Bebchuk and Jackson 2010).

Still focusing on California propositions during 2000–2020, I identified all large contributions made by publicly traded American corporations, tracing contributions of subsidiaries back to the parent; calculated the company's stock return from a date shortly before to a date shortly after the election; and subtracted the expected market return over the same period.[24] This cumulative abnormal return (CAR) is a conventional measure of the value consequence of the election's outcome under the efficient-market hypothesis. The market's reaction is relative to its expectation, so if a proposition was expected to pass, the realization of its passage would not move prices; to the extent that election outcomes were anticipated, then, the abnormal returns are biased toward 0.

The sample size is limited because many business contributions were not made by publicly traded corporations. After dropping the observations of private companies, trade groups, tribes, subsidiaries of foreign companies, companies that contributed to multiple propositions on the same ballot, and companies that were missing other data required to calculate returns, 279 observations remain, which account for $655 million in contributions. The mean contribution was $2.4 million.

[24] Expected returns were calculated using the Fama-French four-factor model over a 100-day window ending 50 days before the event. Returns were winsorized at 5 percent in the tails. The findings are similar using the market return and winsorizing at 1 percent and 10 percent.

### 5.1. Overall Impact of Direct Democracy

The first question is how ballot propositions in aggregate impacted corporations. This gets at the issue of whether direct democracy is good or bad for business overall. To answer this question, I do not distinguish between measures that companies supported versus opposed but rather calculate the net effect across all propositions. Table 4 reports the mean abnormal returns for initiatives that failed and passed over 3-day, 7-day, and 11-day windows. In all three cases, the CAR was positive when an initiative failed and negative when it passed. For the [−1, 1] window, the mean CARs of 1.46 percent for failure and −1.41 percent for passage are statistically significant at the 5 percent level or better and statistically significantly different from each other at the 1 percent level.

Figure 7 shows the CARs in event time, running from 10 days before to 10 days after the election. The initiatives that failed show essentially no movement in market values until the election, after which the return makes a permanent adjustment upward of nearly 2 percent. The initiatives that passed show a temporary run-up a few days before the election, with a cumulative return 10 days later of about 0, although the estimates are rather noisy.

Returning to Table 4, I conduct several robustness exercises. First, I show the CARs after expanding the sample to contributions of $55,000 or more, and then I restrict the sample to contributions of $250,000 or more. The findings are qualitatively the same: the mean CAR associated with failure was between 1 and 2 percent and statistically significant, and the mean CAR associated with passage was negative but less precisely estimated. I also restrict the sample to close elections, defined as those in which the margin of victory was less than 10 percent. The idea is that if the election was a landslide, it was probably anticipated by investors, and the value consequences were already incorporated into stock prices. The sample sizes drop substantially, but the findings do not change much.[25]

Table 4 also reports the same information for legislative proposals. The caveat about legislative propositions not being a representative sample of all laws handled by the legislature continues to apply, and here the number of observations is a severe constraint, so I include these values mainly for completeness. The only hint of a robust finding is perhaps a positive mean CAR associated with the passage of legislative measures.[26]

[25] I also calculated mean cumulative abnormal returns (CARs) after deleting the November 2000, 2008, 2016, and 2020 elections in which party control of the presidency changed; the mean CAR remained positive for failed initiatives and was statistically insignificant for initiatives that passed.

[26] Another way to assess the value consequence of proposals would be to estimate the abnormal return on the day that the market first became aware that a proposal would be put to a vote. Unfortunately, it is not clear what that day is. I collected information on the date that the secretary of state certified a proposal for the ballot. The estimated abnormal return around this date was consistently 0, probably because certification was anticipated due to the lengthy preceding petition period or a legislative process.

**Table 4**
**Contributors' Election-Day Cumulative Abnormal Returns for California Ballot Measures, 2000–2020**

| | All Events | | | | | | Contribution | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | >\$55,000 | | >\$250,000 | | Election Margin < 10% | |
| | CAR [−1, 1] | *N* | CAR [−3, 3] | *N* | CAR [−5, 5] | *N* | CAR [−1, 1] | *N* | CAR [−1, 1] | *N* | CAR [−1, 1] | *N* |
| Initiatives: | | | | | | | | | | | | |
| Failed | 1.46** | 171 | 1.43** | 171 | 1.96** | 171 | 1.33** | 186 | 1.49** | 112 | 1.52** | 94 |
| | (.27) | | (.42) | | (.55) | | (.25) | | (.33) | | (.35) | |
| Passed | −1.41* | 62 | −.49 | 62 | −.46 | 62 | −1.09* | 70 | .13 | 13 | −1.78+ | 19 |
| | (.57) | | (.87) | | (1.03) | | (.53) | | (1.49) | | (.95) | |
| $CAR_{Failed} - CAR_{Passed}$ | 2.87** | | 1.92* | | 2.41* | | 2.42** | | 1.36 | | 3.31** | |
| | (.63) | | (.96) | | (1.17) | | (.59) | | (1.52) | | (1.02) | |
| Legislative measures: | | | | | | | | | | | | |
| Failed | 1.40 | 8 | −2.53** | 8 | −2.51 | 8 | 2.19* | 14 | 1.63 | 2 | 5.17* | 3 |
| | (1.22) | | (.68) | | (2.31) | | (.87) | | (2.26) | | (.80) | |
| Passed | 1.45* | 16 | 3.34* | 16 | 3.70* | 16 | 1.27** | 24 | 2.36 | 3 | 2.11+ | 6 |
| | (.64) | | (1.46) | | (1.70) | | (.45) | | (2.74) | | (.86) | |
| $CAR_{Failed} - CAR_{Passed}$ | −.05 | | −5.86** | | −6.21* | | .92 | | −.74 | | 3.06* | |
| | (1.37) | | (1.61) | | (2.87) | | (.98) | | (3.56) | | (1.18) | |

**Note.** Cumulative abnormal returns (CARs) are reported for companies that contributed \$100,000 or more. Expected returns are calculated from a Fama-French four-factor model and expressed as a percentage. Standard errors are in parentheses. The event date is election day. Abnormal returns are winsorized at the 5 percent level in the tails.

+ Significant at the 10% level.
* Significant at the 5% level.
** Significant at the 1% level.

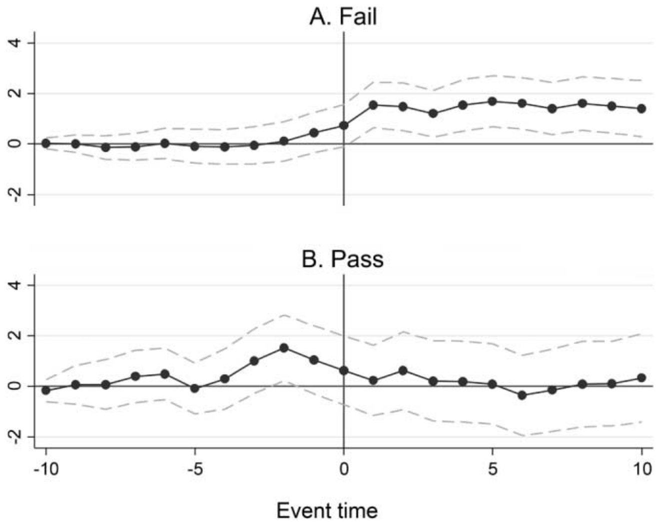


**Figure 7.** Contributors' cumulative abnormal returns for initiatives

### *5.2. Winning versus Losing*

Another question is how corporations fared when propositions they supported passed versus failed, and conversely for propositions they opposed. This gets at the issue of whether corporate spending advances shareholders' interests, as value-maximizing theory suggests, or dissipates corporate wealth in pursuit of management's preferred political causes, as some governance reformers suggest (Torres-Spelliscy 2010; Whyte 2015). If contributions are being made in pursuit of shareholders' interests, a company's stock price should rise if the outcome it supports prevails and fall if the outcome it supports fails.

Table 5 reports the findings for three contribution-level cutoffs pooling initiatives and legislative measures. When corporations won (supported a measure that passed or opposed a measure that lost), the mean CAR was significantly positive, ranging from .68 percent when smaller contributions are included to 1.36 percent for the largest contributions. When corporations lost, the mean CAR was positive but not reliably different from 0 (note the small sample sizes). This provides some evidence that corporations contributed based on whether a proposed law would increase or reduce shareholder value.

In unreported results, I also found that the positive return from being on the losing side largely came from the failure of propositions that were opposed. Fahlenbrach, Ovtchinnikov, and Valta (2021) studies abnormal returns for corporations that contributed to ballot measure campaigns across 26 states during the period 2003–18 and finds a similar pattern. Over a [0, 1] window, the study finds a mean CAR of .37 percent associated with the failure of opposed initiatives and −.46 percent associated with opposed initiatives that passed, both statisti-

Table 5

**Contributors' Election-Day Cumulative Abnormal Returns for Winning and Losing Outcomes**

| | Contributions > \$100,000 | | Contributions > \$55,000 | | Contributions > \$250,000 | |
|---|---|---|---|---|---|---|
| | CAR | *N* | CAR | *N* | CAR | *N* |
| Outcome supported wins | .71** | 241 | .68** | 270 | 1.36** | 124 |
| | (.24) | | (.22) | | (.32) | |
| Outcome supported loses | .82 | 38 | 1.15* | 49 | .13 | 16 |
| | (.61) | | (.51) | | (1.10) | |

**Note.** Cumulative abnormal returns (CARs) over a [−1, 1] window are reported for companies that contributed \$100,000 or more. Expected returns are calculated from a Fama-French four-factor model, winsorized at the 5 percent level, and are expressed as percentages. Standard errors are in parentheses. The data include all corporate contributions to California ballot propositions during 2000–2020 that meet the size cutoff.

* Significant at the 5% level.

** Significant at the 1% level.

cally significant, but for supported initiatives, it finds smaller and statistically insignificant returns.[27]

To further gauge the impact of ballot propositions, I examine the price impact on the competitors of contributing firms. For each contributing company, I identified all other firms in its four-digit Standard Industrial Classification industry and estimated their abnormal returns.[28] There are more than 2,500 observations, giving a larger sample size.

Figure 8 shows abnormal returns for competitor firms, conditional on whether the original contributor's favored outcome won or lost. For outcomes supported by the contributor, competitors experienced a mean CAR reaching 1.8 percent, statistically different from 0. For outcomes opposed by the contributor, the mean CAR hovers around 0 and is never statistically significant; the large standard errors reflect the scarcity of observations in this category. There is less evidence than we would like, but what we have suggests that the effects of propositions were shared across other firms in the industry. This would be the case, for example, of a tax on tobacco products that hurts all tobacco companies. It is not consistent with the idea that propositions were designed to transfer rents to the contributor from its competitors or vice versa. This squares with the earlier observation that initiatives only rarely involved intraindustry battles.[29]

[27] The positive CARs associated with being on the losing side are almost entirely from supported proposals that failed (only five opposed proposals passed). It is possible that contributions in support were less motivated by value creation than contributions in opposition. This must remain speculative without more observations.

[28] If a company appeared as a comparator for more than one proposition on a ballot, it was deleted. Because the number of comparators varied widely across proposals (21 to 504), I weighted each observation by the inverse of the number of comparators for that proposition, outcome, and orientation.

[29] In contrast, when corporate lobbyists managed to secure favorable legislation from Congress, competing firms suffered a decline in their market value (Neretina 2019).

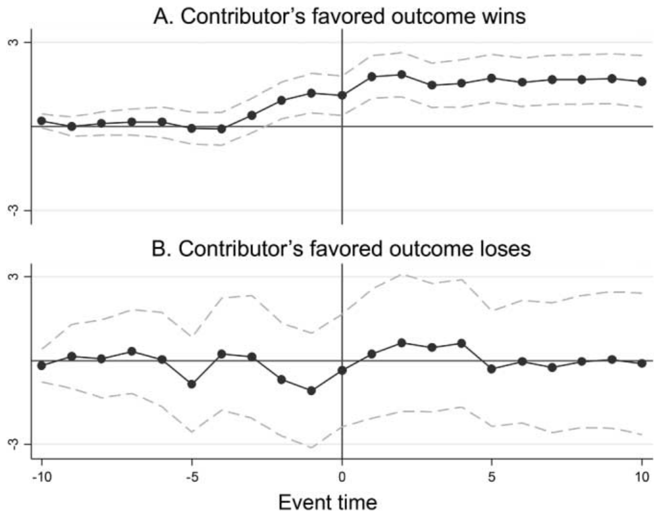


**Figure 8.** Competitors' cumulative abnormal returns

## 6. Discussion and Implications

Business groups are by far the largest financiers of ballot measure campaigns. On the face of it, this suggests that direct democracy might provide a congenial venue for business groups to advance their interests. However, this paper provides three distinct types of evidence that suggest that initiatives offer an unfriendly lawmaking environment for business groups. First, content analysis of state-level initiatives in the United States since 1904 shows that business-related laws proposed by citizens were usually hostile to business groups. Second, analysis of campaign contributions in California shows that business groups usually spent to defeat initiatives, not to gain approval for favorable legislation. And third, analysis of election-day stock returns reveals that contributing firms typically experienced a loss in value when initiatives passed and an increase in value when they failed. While none of these pieces of evidence are conclusive, together they introduce a new set of facts that seem informative for normative debates about direct democracy.

How can these findings be squared with the dominance of business spending in ballot measure campaigns? There appear to be two answers. First, most business spending is defensive in nature, devoted to defeating initiatives. Even when successful, these are costly victories because they dissipate resources without improving the legal status quo. Business groups would have been better off if the initiative had never been proposed. Second, even though business groups have deep pockets, buying favorable legislation is more difficult than sometimes believed. Examples like Proposition 22, for which the mobile application industry spent \$205 million in a successful effort to rewrite California law, are exceptions, not the rule. More common are probusiness initiatives that failed, often at great cost;

of the 10 California initiatives with the most business contributions in support, only three passed. Money matters, but only to a point.[30]

The findings lend support to the arguments of the Progressives who originally pushed for the adoption of initiatives and referendums in the early 20th century as a way to curtail what they saw as excessive business influence over government officials. Adding initiatives to traditional representative democracy seems to tip the playing field back toward the interests of ordinary citizens and away from organized interest groups.

In terms of the central thesis of regulatory research—that business interests usually win in political competition—the evidence suggests that this may depend on the arena in which interests compete more than has been recognized previously. Nothing akin to capture emerges when citizens make the laws; if anything, the situation is the reverse—citizens use the process to capture benefits from businesses through taxes or regulations that transfer rents from companies to taxpayers, consumers, or the general public.[31] If "[t]he essential commodity being transacted in the political market is a transfer of wealth," as Peltzman argues (1976, p. 212), under direct democracy that commodity is typically a transfer away from businesses.

Why do organized interest groups seem to be less effective at influencing policy under direct democracy than under representative democracy? Regulatory research identifies several levers that business groups can pull when dealing with elected officials, the main ones being contributions to reelection campaigns, lobbying, and revolving doors. None of these channels are available when an issue is decided by a public vote. The only lever available in ballot proposition elections is mass-media campaign spending, which seems to be a tool with limited effectiveness.

Finally, the evidence speaks to the ongoing debate over the regulation of corporate political spending. Some corporate-governance activists, motivated by a belief that managers use corporate contributions to advance their personal ideological agendas, have called for regulations requiring disclosure of campaign contributions, requiring shareholders' approval of corporate campaign spending, or in the extreme banning it entirely (Torres-Spelliscy 2010; Whyte 2015). Both Congress and the Securities and Exchange Commission have drafted rules along those lines.[32] The fact that businesses spend enormous amounts on ballot mea-

[30] Three field experiments find that campaign activities increase votes (Gerber et al. 2011; Kendall, Nannicini, and Trebbi 2015; Rogers and Middleton 2015), but the effects are modest. Stratmann (2006) and de Figueiredo, Ji, and Kousser (2011) provide mixed evidence using observational data. It is commonly believed that spending against a measure is more effective than spending in support of it (Lowenstein 1982). See also Stratmann (2005).

[31] For example, a tax on cigarettes transfers wealth from shareholders of tobacco companies to taxpayers. Restrictions on drug prices transfer wealth from shareholders of pharmaceutical companies to consumers. Requirements to adopt humane animal farming practices transfer wealth from owners of farm companies to the general public (paid in higher costs, presumably received in the form of psychic benefits associated with better treatment of animals).

[32] In Congress, two senators introduced the Shareholder Protection Act of 2021, which mandates disclosure and shareholders' authorization of political spending (Posner 2021). In his confirmation hearings in March 2021, the new chair of the Securities and Exchange Commission expressed an interest in spending disclosure (Warmbrodt 2021). Three judges in the *Bellotti* decision said they

sures is prima facie evidence that the stakes are large, but one might say this about contributions to candidates as well, and finding a connection between those contributions and firms' value has proved difficult. Ansolabehere, de Figueiredo, and Snyder (2003, p. 105), in a survey of research on money in politics, argue that "campaign contributions should be viewed *primarily* as a type of consumption good, rather than as a market for buying political benefits." The evidence here shows that corporate contributions are aligned with shareholder value: when corporations spend money to defeat an initiative, their value increases if it fails and decreases if it passes.

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would allow restrictions on spending if it had no effect on the "economic life" of the company and in particular if it was for political or ideological purposes. See Prabhat and Primo (2019) for the value consequences of disclosure and approval for UK corporations.

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