

When Voters Build Cities: How Direct Democracy is Shaping and Reshaping the American Landscape

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City, county and municipal propositions are often used to raise funds for new infrastructure projects. Although statewide initiatives have been widely studied,¹ local

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¹ See, e.g., John Matsusaka, *For the Many or the Few: The Initiative Process, Public Policy and American Democracy*. (2004); Arthur Lupia & John G. Matsusaka. "Direct Democracy: New Approaches to Old Questions." *Annual Review of Political Science*. 7:463-482 (2004); S. Bowler, T. Donovan, & CJ Tolbert, eds. *Citizens as Legislators: Direct Democracy in the United States* 191-208 (1998); Elisabeth Gerber, *The Populist Paradox: Interest Group Influence and the Promise of Direct Legislation*. (1999); D. Roderick Kiewiet & Kristin Szakaly, "Constitutional limitations on borrowing: An analysis of state bonded indebtedness." v. 12, no. 1 *Journal of Law, Economics and Organization* 62 (1996); Elisabeth Gerber, Arthur Lupia & Mathew D. McCubbins, "When does government limit the impact of voter initiatives? The politics of implementation and enforcement." 66 *Journal of Politics* 43 (2004); Mathew D. McCubbins, "Putting the State Back into State Government: The Constitution and the Budget." in *Constitutional Reform in California: Making State Government More Effective and Responsive* (Bruce Cain & Roger Noll, eds., 1995); Roger Noll & Bruce Cain, "Principles of State Constitutional Design." in *Constitutional Reform in California* (Bruce E. Cain & Roger G. Noll, eds., 1995); Shaun Bowler & Todd Donovan. *Demanding Choices: Opinion, Voting and Direct Democracy* (1998). For a review of California initiative use see Tracy Gordon. "The Local Initiative in California." Public Policy Institute of California. (2004)

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initiatives have not received nearly as much attention.² In this paper we discuss three major problems with using the initiative process to fund local infrastructure projects.

First, previous scholarship has pointed to serious concerns with the initiative process in general.³ Romer and Rosenthal showed how public agencies, such as local hospital or school districts, can make “take-it or leave-it” funding offers to the local populace that may leave voters with a Hobson’s choice, between over crowded schools or hospitals and a new bond measure.⁴ Voters do not have the ability to change the bond proposal to move it closer to their preferences; they have to choose either the status quo or the particular bond on the ballot. This type of decision-making confers substantial power on the agenda setter and may result in an outcome that is not congruent with the preferences of the median voter.

Second, Kousser and McCubbins have identified several common social choice problems that arise when sophisticated political actors manipulate the initiative agenda.⁵ One of the most pernicious of the problems they identify is that of sequential elimination agendas.⁶ Alternatives are offered one at a time, in a sequence. The core problem with sequential elimination agendas is that they do not allow citizens to compare directly all of the alternatives and, therefore, do not allow them to make tradeoffs among their options.

² For a notable exception, see Clayton P. Gillette. *Voting with Your Hands: Direct Democracy in Action*. (2004)

³ Elisabeth Gerber, Arthur Lupia, Mathew D. McCubbins & D. Roderick Kiewiet, *Stealing the Initiative: How State Government Responds to Direct Democracy* (2001)

⁴ Thomas Romer and Howard Rosenthal. “Political Resource Allocation, Controlled Agendas, and the Status Quo.” *Public Choice*. 33:27-43. (1978)

⁵ Thad Kousser and Mathew McCubbins. “Social Choice, Crypto-Initiatives and Policy Making by Direct Democracy.” *Southern California Law Review*, 2005.

⁶ Peter C. Ordeshook & Thomas Schwartz, *Agenda and the Control of Political*

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The typical problems created by sequential elimination agendas are further compounded by two aspects of bond measures: 1) limits on bond capacity created by state law, bond rating agencies or voter's (un)willingness to be taxed; and 2) presence of overlapping governmental authorities that can each propose bond measures to voters. For instance, voters may be under the tax authority of city, county, hospitals, schools, and in California, Community Facilities Districts to name a few. If there is also an overall limit on the amount of taxes that can be raised, whether the limit is imposed by the state, generated by the bond-rating agencies and bond market, or enforced by voter's unwillingness to pay higher taxes, then the various overlapping taxing authorities have an incentive to be the first movers in securing tax revenue, whether or not there is a specific need for the tax revenue at the time. The race for tax revenue can create a situation where bonds cannot be passed when they are needed and instead money is allocated to unneeded or unwanted projects that were approved at an earlier election (i.e., earlier in the agenda). At the very least, this disconnects the incentive for raising taxes from the need to use tax revenue.

Lastly, but perhaps most importantly, we find that voters can be faced with an information environment that precludes making reasoned choices at the ballot box. The Progressives, who originally supported bond initiatives as a means of self-government, relied on a faith in reason. That is, they believed that people when presented with reasons for a bond could choose the proper course of action based on the logic of the different appeals. Indeed, most states require arguments for and against ballot measures be

Outcomes, 81 AMERICAN POLITICAL SCIENCE REVIEW 179 (1987).

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presented with the ballot itself in the voter's guide. The presence of reasons is intended to allow voters to determine whether they should support or oppose a given bond measure.

But, for voters to make a reasoned choice and improve their welfare, they must have *correct* beliefs about the consequences of their vote.⁷ Occasionally, voters may be able to figure out the consequences of their vote on the basis of personal knowledge and experience, but they usually lack such knowledge or experience. In that case, voters must be able to learn from someone else – a knowledgeable, trustworthy endorser. They can then cast a reasoned vote, not relying on their own encyclopedic knowledge of a policy, but using cues provided by a knowledgeable, trusted endorser. If both personal knowledge and trusted endorsers are absent, however, then it is doubtful that voters can consistently make welfare-improving choices.

The paper proceeds as follows. In Section 1, we examine how bond initiatives can present voters with take-it-or-leave-it options and the consequences of such offers. In Section 2, we look at the presence of sequential elimination agendas within the context of California's Mello-Roos Community Facilities Districts. In Section 3, we demonstrate why a faith in reason and argument is misplaced and elucidate the conditions that allow voters to learn about the effects of an initiative. In section 4, we examine voter learning about bond propositions in Los Angeles, California. Section 5 studies the information environment for voters in Austin, Texas. In Section 6, we discuss infrastructure

⁷ Following Lupia and McCubbins we analyze whether the information environment enables voters to make decisions that improve their individual welfare. We do not consider the effect of these bond propositions on social welfare because that is a

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initiatives in San Francisco, where voters may have a greater ability to make reasoned decisions than we observe in the other cases. Finally, in Section 7, we conclude.

1. A Hobson's Choice for Voters

In this section we consider how the ability of bonding authorities to set the agenda of the local infrastructure process through the initiative and referenda process can lead to results not preferred by the median or pivotal voter. To make this point, we consider the circumstances surrounding a number of local bond propositions in San Diego County.

In November 2004, voters in seven communities of Northeast San Diego County approved Proposition BB, a general obligation bond of up to \$496 million for hospital, emergency care, and trauma center improvements for the Palomar Pomerado Health System. Proposition BB pays for most of a \$753 million building plan by increasing property taxes over the next thirty years by about \$17.75 a year for every \$100,000 in assessed valuation.

Not two years later, in June 2006, the Tri City Medical District (in Northwest San Diego County) hired the same political consultant used for Proposition BB and proposed Proposition F. This ballot measure would have authorized up to \$596 million in general obligation bonds to repair and improve its medical facilities. However, this measure failed, and in 2006 a similar proposition, Proposition T, also failed. Meanwhile, in the southeast corner of the county, the Grossmont Healthcare District won approval for Proposition G, which authorized a \$247 million bond for hospital improvements.

notoriously tricky subject that is difficult to investigate.

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The justifications for these bond measures were the same: to accommodate population increases, to expand emergency services, and to retrofit facilities for earthquake safety. Voters not only had to assess the need for such facilities, in the context of simultaneous or closely related votes in other districts about funding similar health infrastructure, but they also faced a difficult policy choice influenced by numerous economic and social considerations. For example, San Diego has the fewest number of emergency room beds per capita of any county in California.⁸ Emergency room bed capacity in San Diego County, however, increased six percent in the 1990s, and these beds experienced only “moderate visits per bed,” perhaps “due to the use of military medical facilities.”⁹ Moreover, every emergency room in San Diego County lost money in 1999-2000, with county-wide losses totaling nearly \$22 million.¹⁰ As a result, three San Diego emergency rooms closed in the 1990s, and more hospitals recommended the closure of their emergency rooms in 2005 and 2006. The simultaneous expansion of hospitals and emergency rooms in one district and the closure of emergency rooms in other districts further increase the complexity of financing healthcare facilities and locating them near populations that need them.

The hospital bond measures discussed above were sponsored for several different reasons, but one of them was the need to retrofit buildings to comply with state-mandated seismic rules. According to an article in the *North County Times*, “In San Diego County

⁸ California Healthcare Foundation, *Emergency Departments in the Health Care System: Use of Services in California Counties*. (March 2003).

⁹ Ibid.

¹⁰ Office of Statewide Health Planning and Development. Hospital Financial Data Disclosure Report. (1999-2000).

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three public district hospitals — Tri-City, Grossmont and Palomar Pomerado Health, which has hospitals in Escondido and Poway — have floated large general obligation bonds to help rebuild their facilities in the name of compliance with new statewide seismic rules.”¹¹ In fact, in the campaign for Proposition F in the Tri City Medical District, the proponents of the bond depicted the area’s hospitals as being in danger of collapse and needing an injection of funds for repairs.¹² The CEO of the Tri-City Medical Center claimed that the medical center had to update 70 percent of its buildings by 2013 to meet new earthquake standards.¹³ One implication from the campaigns that the hospitals ran in support of the new bonds was that without them the new financing the hospitals would not comply with seismic regulations and would be forced to close. If these statements are true, the voters faced either raising taxes or a future that would lack hospitals.

The hospital campaigns are a clear example of a take-it-or-leave-it offer as analyzed by Romer and Rosenthal.¹⁴ Romer and Rosenthal find that the ability to make a take-it-or-leave-it offer confers tremendous power upon the person or group who controls the agenda by making the initial policy offer. In this example, the reversion point according to the bond supporters’ campaign is future closure of the hospital. Voters are therefore faced with a choice between two options: raise taxes to support the hospital or allow the hospital to close. Romer and Rosenthal find that the ability to make take-it-or-

¹¹ Paul Sisson. “Tri-City’s Prop. F failed for myriad of reasons.” *North County Times*. June 24, 2006.

¹² Paul Sisson. “Tri-City’s Proposition F campaign nears the \$1 million mark.” *North County Times*. June 2, 2006

¹³ *Ibid.*

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leave-it offers, such as the hospital boards did, can move policy away from the pivotal voter's policy preference and towards the agenda setter's preference. In these examples, voters cannot amend the bond proposal to ensure that it reflects the pivotal voter's preferences. Instead they choose between a world with the precise bond they are offered or no bond.

The hospital bonds throughout San Diego County are just one example of how making take-it-or-leave-it offers puts voters in the potentially unenviable position of choosing between two states of the world they do not prefer without the power to consider other alternatives. This problem can lead to infrastructure development that is considerably different than that preferred by the pivotal voter within a given tax jurisdiction.

2. Sequential Votes and the Rush to the Polls

In this section we consider how the combination of multiple, overlapping taxing authorities combined with some limit (regardless of its source) on taxes can create pernicious effects and misallocation of tax resources. Although all states have overlapping tax jurisdictions (city, county, fire, hospital, etc), Californians face the additional authority created by Mello-Roos Community Facilities Districts. We provide a brief overview of these districts because much less is known about them, and we then discuss the problems arising from overlapping tax authorities.

¹⁴ see Romer and Rosenthal (1978) *supra* note 4.

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In 1982 the California State Legislature passed the Mello-Roos Community Facilities Act,¹⁵ which allows local governments to establish Mello-Roos tax assessment districts, also called Community Facilities Districts or CFDs, to finance public services and facilities in that area. The petition to create a CFD is established by either 1) a written request signed by two members of the legislative body (i.e. a local government or school district); 2) a petition signed by 10% of the eligible voters in the area; or 3) a petition signed by the landowners of 10% of the area in the proposed district. Following state-determined procedures, the governing body then adopts a resolution to establish a CFD and, if two-thirds of voters within the CFD area approve of its creation, then the CFD is established and has bonding and taxing authority.¹⁶ Once established, a Mello-Roos district can raise infrastructure funds for essentially any use that is neither an existing facility nor service. When a CFD is established, those who own land within it get to make the first move on setting the tax rate and infrastructure plans for the area included in the CFD, thereby allowing the current residents or landowners to affect the infrastructure and tax rates that all the future residents of the area will pay. Future residents may be able to add further bond obligations subject to the bond capacity limits, but they cannot stop paying previously-created obligations.

Voters can be subject to many different taxing authorities, of which CFDs are but one example. The ubiquity of CFDs in certain areas is demonstrated by the Poway School District. At the January 17, 2006 school board meeting, the members had six new

¹⁵ The law implementing the Mello-Roos Community Facilities is contained in Government Code section 53311.

¹⁶ Details of forming a Mello-Roos district can be found in Government Code Section

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items on their agenda, four involving CFDs. The members approved resolutions to form CFD No. 14, to study the need for bonded indebtedness in CFD No. 14, to declare the results of an election in CFD No. 14, and to authorize the levy of special taxes in CFD No. 14. During the meeting the board took time for public comment, but no members of the public took advantage of this opportunity. Essentially, all of the actions at this school board meeting involve making real estate and taxation decisions for a geographic area, not typically the work voters associate with school boards. This CFD is actually only one of the 26 different tax charges (mostly CFDs or improvement areas within a CFD) that the Poway District manages. The substantial involvement of school districts within CFDs makes them an important aspect of the infrastructure developments in many newer areas of California.

In Santa Cruz County, CFDs associated with school districts have used their power to annex new areas and thereby apply their existing tax rates to the newly annexed territory. This allows the CFD to increase its revenue base, which will eventually support infrastructure development. In June 2001 there were two elections by CFDs to allow different school districts within Santa Cruz County to annex adjoining territory. In one election there were eight voters and in the other there were eleven voters, in a county that had more than 145,000 registered voters in November 2000. The only individuals that can vote on being included into a CFD are property owners in the soon-to-be acquired area, not those in the rest of the area that is outside of the CFD.¹⁷ These elections happen

53318-53329.5

¹⁷ See Clayton Gillette. "Voting With Your Hands: Direct Democracy in Annexation," 78 *Southern California Law Review* 835 (2005) for a discussion of the rules associated with

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without much fanfare or aggressive campaigning from what we can determine, and it is questionable if they offer the conditions for learning to voters. Furthermore, these types of annexations happen across the state, not just in Santa Cruz.

Most voters in California will live in an area that is covered by multiple possible tax jurisdictions. Coordination, or more precisely the lack of coordination, between overlapping jurisdictions can lead to problems, as pointed out by the California Debt Advisory Commission¹⁸:

Mello-Roos financing also exposes an organizational weakness in the *collective response* of local governments serving developing areas; namely, there is often no coordination of the financial decisions of different local governments supported by the same group of taxpayers. In the absence of coordinated planning, taxpayers are vulnerable to onerous overlapping tax burden. This is especially problematic given the ease with which CFDs can be formed. Developing areas are typically served by the city or county government, one or more school districts, and often one or more special districts. Each of these local government units has the authority to approve the formation of CFDs and to levy special taxes on the same group of taxpayers. Though each special tax may be imposed in good faith and dedicated to worthwhile projects, the cumulative burden of the special taxes could prove excessive to the taxpayers.¹⁹

The Debt Advisory Commission points out that failed coordination can cause considerable problems with planning infrastructure build outs. The quotation above also suggests that taxpayers may eventually impose a de facto or de jure limit on taxation.

The imposition of such a limit implies that once taxes reach a certain level, new infrastructure funds will not be approved. Therefore, there is an incentive for taxing

incorporating residents into new political jurisdictions.

¹⁸ California Debt Advisory Commission. "Guidelines for Mello-Roos Financing."

Kathleen Brown. California State Treasurer and Chair. (1991)

¹⁹ Ibid. p. 2

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authorities to be the first movers in raising taxes so that they can ensure their projects are approved before the tax limit is reached. When bond proposals are considered one by one across jurisdictions outcomes may be inefficient and not preferred by the median voter of a given political area.

The competition for debt financing may also lead to a potentially unhealthy race in which low-priority projects attempt to secure financing in advance of higher-priority projects and thereby infrastructure development does not occur in an efficient manner.

Precisely this problem is recognized by the Debt Advisory Commission:

We recommend in the project evaluation guidelines to follow that the total tax burden in developing areas should not exceed two percent of the appraised fair market value of the property upon completion of all public and private improvements. It should be recognized, however, that such limitations can produce an unhealthy competition between local governments for available debt capacity, as each local government may be tempted to grab some of the debt capacity while it is still available. Cities and counties, which control the land use entitlement process, will have a leg up in this competition. The danger is that available debt capacity will be squandered on lower priority facilities which can be phased-in later, leaving the developing area without the resources to address immediate needs.

The Commission points out that when independent tax agencies rush to get their bonds approved before the limit for a given area is reached there is a very real possibility that the resulting combination of policies will be not be an outcome that anyone would voluntarily chose. As Ordeshook and Schwartz emphasize, “[A]s soon as the feasible agendas are allowed to include...sequential elimination agendas...sincere voting can lead practically anywhere [in the policy space].”²⁰ With the limits on tax capacity not only

²⁰ *see* Ordeshook and Schwartz *supra* note 6

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can policy end up far from where the median voter would prefer, but it may be impossible to reverse course because the tax capacity is already being fully utilized.

The initiative process clearly suffers from the pathologies of sequential elimination agendas under nearly any circumstances, but we believe the negative effects of such agendas are amplified when there are multiple bonding authorities rushing to obtain bond approval from voters before a tax limit is reached. The incentives for bonding authorities in these environments seem likely to lead to policy outcomes in which money is spent on the projects that are approved first and other, perhaps more beneficial projects, are then rejected as the taxing and bonding limit of a given district is reached. This can only incidentally lead to an efficient use of resources.

3. The Information Environment of Local Initiatives

The initiative process, especially at the local level, relies heavily on a belief in a citizen's capacity to discover and use information that allows her to determine the correct vote choice. Typically, there is very little public discussion of initiatives at issue in local elections, and few well-known political groups take positions on local issues.²¹

Depending on the municipality under consideration, the local news media may provide information to voters. The extent of media coverage and its ability to help voters make reasoned decisions vary considerably across the cases we consider in the remainder of the paper. Voter guides, produced at public expense, provide a list of reasons for and against and the corresponding rebuttals for each initiative. The existence of these guides and the

²¹ Elizabeth Garrett and Daniel A. Smith. 2005. "Veiled Political Actors and Campaign Disclosure Laws in Direct Democracy." *Election Law Journal* 4 (4) 295-328.

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presentation of arguments therein reflect a widely held faith in reason. The give-and-take of reasons is believed to produce enlightenment and welfare-enhancing decisions. The guides also provide the names of the authors of the arguments supporting and opposing the measure which may provide additional voting cues for readers depending on whether or not readers are aware. Below we discuss the theoretical conditions under which the these and other sources of information can help decision making and later discuss the contribution of many of these information outlets to the political environment in each of our case studies.

Merely providing reasons, however, is not sufficient for informed decision making, as modern advertising vividly illustrates. Marketers may offer reasons for consumers to purchase their products, but people need more than just reasons.²² The FTC found recently that nearly 55 percent of ads about weight loss products contained false statements. The advertisement for the “Fat Trapper,” for example, claims that the product, extracted from the shell of crustaceans, prevents the absorption of fat. This fallacious claim shows that just having reasons for an action is not enough, people also need to know that those who make statements are informed and trustworthy for a reasoned choice to occur.²³

Faith in reason is also common in the initiative context as voter pamphlets demonstrate. However, just as with the “Fat Trapper,” this faith is misplaced. Merely

²² *Deception in Weight-Loss Advertising Workshop: Seizing Opportunities and Building Partnerships to Stop Weight-Loss Fraud*. Federal Trade Commission Staff Report. December. (2003)

²³ Arthur Lupia and Mathew McCubbins. *The Democratic Dilemma*. Cambridge University Press. (1998)

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providing reasons in a voter's pamphlet is neither necessary nor sufficient for informed decision making. Reasons are not sufficient because they may simply be lies and provide no useful information to voters. Likewise, the presence of reasons is not necessary for informed choice because voters may be able make a reasoned choice from a statement by a trusted endorser without independently assessing the merits of the reasons themselves. The ability of voters to decide which way to vote comes down to the presence of a trusted endorser who can provide information about their electoral choices.

Consider the reasons provided by the proponents in the voter pamphlet in November 2001 regarding the Alpine Fire Protection District:

The current fire station built over 50 years ago has leaky roofs and an overloaded electrical system. There is insufficient space for modern firefighting apparatus, new paramedic equipment and facilities for female firefighters. It fails to meet earthquake standards and does not allow for decontamination after hazardous calls.

Funds set aside for a new fire station are not adequate.

Every penny from Proposition A will stay in Alpine and may only be used for fire safety and paramedic programs.²⁴

²⁴ Information comes from: <http://www.smartvoter.org/2001/11/06/ca/sd/meas/A/> accessed on July 10, 2006

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The sponsors of the above statement included: a publisher of a local newspaper, the president of the firefighters association, the president of the chamber of commerce and a board members of the local fire protection district. This statement is the only information provided in the voter pamphlet, which suggests that the proposition itself did not garner enough attention to motivate opponents of the bond. Advocates of a faith in reason believe that voters can determine from the information provided how they should vote. The statements in the pamphlet are supposed be sufficient for voters to determine whether or not the bond is a worthwhile use of resources or they should conserve their tax resources for use another time. If we instead focus on the statement as an endorsement, then the critical question is whether the speaker's have common interests with voters or whether the conditions for trust are present. For some voters who can identify the interests of these individuals and infer that the speaker is telling the truth, the statement may facilitate learning. However, if voters do not have a way to determine if the speaker is telling the truth, then how can voters assess the validity of these claims without independent knowledge? And how can they be confident of the speaker's credibility?

Another example of a situation where it seems difficult for voters to utilize the information provided to make a reasoned decision occurred in 2000 in Cajon Valley in San Diego County.²⁵ Voters in Cajon Valley had to decide whether or not to support a \$75 million bond for school infrastructure. In the voter pamphlet there was a statement by

²⁵ Details can be found: <http://www.smartvoter.org/2000/11/07/ca/sd/meas/X/>

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the County Counsel that provided basic details about the use of the money and the likely interest rates on the bonds. There was also a statement in favor of the proposition by a group of authors who explained more about the projects that the bond would support (i.e. upgraded libraries, new books, new school construction, etc). The authors of the statement include the President of the East County Latino Association, Past President of the Mother Goose Parade, a real estate broker, a businessman and the pas president of the El Cajon Historical Society. Finally, there is a tax rate statement that describes the likely tax changes to property owners in the district. Both of these examples, and countless others we found, suggest that often the reasons provided for or against a bond proposition seem quite limited. Presumably, every bonding authority in the country could provide four sentences about why they need more money from taxpayers. Therefore, how do voters sort through the different statements? An advocate of faith in reason must believe that voters trust the speaker who provides the reasons (otherwise the reasons may be false) and that the voters have some framework for deciding whether or not the reasons justify a yes or no vote. The framework has to provide voters with a way to decide between past, present and future policy decisions and where their tax dollars are best allocated. Even if voters are capable of figuring out all of these tradeoffs, it is not clear if the actual reasons provided to voters are sufficient to justify a faith in reason. As we argue later in this paper the key to voters making reasoned decisions is the presence of a credible endorser, not the provision of reasons to voters.

Some advocates of a faith in reason may respond to these concerns with the claim that the process of providing reasons fosters deliberation among citizens, which equips

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them to make competent choices concerning ballot measures. However, McCubbins and Rodriguez demonstrate that allowing participants in a deliberation experiment to share reasons for their decisions does not improve their ability to determine the correct answer to a math problem.²⁶ In the experiment, subjects in the treatment group received both a recommended answer and a reason for the recommendation, but subjects who received reasons did no better than subjects in the control condition who did not receive reasons. This test suggests that reasons add nothing to an endorsement that is not otherwise credible. The deliberation experiments also illustrate that the existence of reasons is not sufficient to improve voters' ability to vote as if they were informed. McCubbins and Rodriguez conclude that deliberation can improve the welfare of participants under very narrow circumstances that are seldom found in the initiative environment. Principally, they find that only with a very few participants can the act of deliberating improve each individual's welfare relative to making independent decisions. The initiative environments even at the local level involve more than a handful of participants.

A corollary to the belief in the importance of reasons and reasoning is the assumption that competition between speakers and their reasons will improve voters' ability to make a welfare-enhancing decision. On the contrary, Boudreau and McCubbins show that adversarial competition does not guarantee that learning will occur.²⁷ Instead, conditions for learning must be met, and the existence of those conditions must be common knowledge between all participants for persuasion and enlightenment to occur.

²⁶ Mathew McCubbins and Daniel Rodriguez. "When Does Deliberating Improve Decision Making?" *Journal of Contemporary Legal Issues*. (2006)

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Unless the conditions for learning exist and they are known to all, having multiple speakers only increases the amount of noise in the environment because no speaker's statements can be considered credible. Listeners therefore cannot learn. Allowing competition in the marketplace of ideas is no guarantee that voters can learn and make a reasoned choice.

In this section we have argued that faith in reason in the context of initiatives is misplaced. The presence of reasons in an initiative campaign is neither necessary nor sufficient for voters to make reasoned decisions. Instead, we have suggested that the principal guide for voters, who seldom have sufficient personal knowledge to make competent decisions, will be the existence of credible endorsers. In the following section, we elaborate the conditions under which voters can learn from endorsers whether the endorsers' statements are found in the newspaper, voter pamphlet or on the local news channels.

3.1. Learning from Endorsements

Our primary concern is whether voters in local infrastructure bond elections are likely to have information or its substitutes to make welfare enhancing decisions. One of the common findings in models of voter decision making is that, in complete information settings, the majority (represented by the median voter) is made better off through the existence of an initiative process.²⁸ However, voters often do not have complete

²⁷ Cheryl Boudreau and Mathew McCubbins. 2007. Adversarial Competition. (forthcoming).

²⁸ See, e.g., Elisabeth Gerber. *The Populist Paradox: Interest Group Influence and the Promise of Direct Legislation* (1999).

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information.²⁹ In the absence of complete information, voters must have substitutes that allow them to make decisions as if they were fully informed. Frequently the substitutes for information take the form of speakers whose endorsements replace detailed factual knowledge and can provide voters with information about which way to vote on an issue.

Lupia demonstrates that voters can learn from campaigns in his study of the 1988 California insurance initiatives.³⁰ His argument outlines, in concrete terms, the conditions under which endorsements can replace complete information and serve as effective voting cues. First, Lupia points out that the policy positions of endorsers must be widely known to voters. Total spending for the insurance campaigns in 1988 was more than \$82 million, suggesting an aggressive campaign to publicize positions. Second, the various interest groups and campaigners were identifiable as members of one of three main groups: the insurance industry, trial lawyers, and consumer activists. For Lupia, the key is that a voter can identify which groups support or oppose a particular initiative and also identify the group with whom the voter has common interests. Determining common interests is made easier when voters know an information provider's (speaker's) reputation for supporting certain types of policy, which in turn is made easier when voters can identify the source of the information, and the source has a well-known policy preference. In 1988 voters in California faced multiple, likely confusing, insurance initiatives, but the presence of well-funded campaigns and known endorsers with publicly recognizable reputations enabled uninformed voters to use

²⁹ See Lupia and Matsusaka (2004) *supra* note 1

³⁰ Arthur Lupia. "Shortcuts versus Encyclopedias: Information and Voting Behavior in California Insurance Reform Elections." *American Political Science Review*. 88:63-76.

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information shortcuts to vote as if they were informed. This example gives us a general sense of the actual conditions in the political environment that lead voters to learn from the statements of endorsers.

3.2 Conditions for Trust of Endorsers

Voters can learn from endorsements only when the endorser's statement meets the conditions for learning, which Lupia and McCubbins derive and test experimentally.³¹ We use Lupia and McCubbins' results to extend Lupia's earlier analysis and to explain more generally how voters can learn from endorsers. Specifically, we explain what conditions must exist for a voter to learn from the statements of an endorser, even if that endorser is not speaking to the specific voter. Lupia and McCubbins show that external forces can generate trust, persuasion, and the possibility of learning in contexts where these outcomes would not otherwise occur.³² To provide the background for our analysis, we first review their theoretical (and empirically tested) results.

Lupia and McCubbins demonstrate that for a voter (receiver in their model) to learn from the statements of an endorser, the voters must believe that an endorser is both knowledgeable and trustworthy. The knowledge condition is met only if the listener/voter believes that an endorser has knowledge or expertise about the issue. The trust condition can be met only if a person believes that the endorser is trustworthy. Trust requires one of four additional conditions: 1) the person and endorser must have common interests; 2) there must be a threat of verification imposed upon the endorser; 3)

(1994)

³¹ see Lupia and McCubbins (1998) supra note 21

³² See Chapters 6-8 of Lupia & McCubbins (1998) supra note 21

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the endorser must face penalties for lying; or 4) there must be observable, costly effort on the part of the endorser. Barring the existence of the conditions for trust and learning, Lupia and McCubbins demonstrate that learning will not happen. We next apply the conditions for learning to the statements of endorsers to demonstrate how observers can learn from watching the interaction between a speaker and his audience.

3.3 Learning by Observing an Endorser's Statement

Our goal in this paper is to understand the information environment surrounding initiatives, and one of the key aspects of that environment is whether and how voters observe statements by endorsers. In this in this section, we extend the arguments of Lupia and Lupia and McCubbins to describe when an observer can learn from the interaction she sees between a speaker and a listener.

For a voter to learn from observing the interaction between a speaker and audience voters must know the relationship between an endorser and the audience to whom he is speaking. If the observed relationship does not meet the conditions for learning or the observer does not know if the conditions for learning are met, then the observer cannot learn from anything she witnesses. Without that knowledge, voters may not know how to interpret the endorser's statements. These conditions for trust do not exist generally; rather, they must be established between a speaker and a specific audience. Briefly, for an observer to learn by overhearing a statement from a speaker to an audience the statement must meet the conditions for trust and the observer must know that the statement met the conditions for trust. We now consider both of these conditions.

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The first condition for observers to learn from a statement made from a speaker to an audience is that the statement meets the conditions for learning. These conditions do not exist generally and may not even exist at all times between the same speaker and audience. Therefore, observers must know something about the actual conditions under which the speaker made his statement.

The second condition for observers to learn from a speaker's statement to an audience is that the observer must know whether the relationship between the two other parties meets the conditions for learning. If the third party knows that the relationship she observes meets the conditions for learning, then she may be able to learn from her observations.³³

To consider a more concrete example, observers may be able to figure out the meaning of a statement about gun control by the President of the National Rifle Association (NRA) when he's speaking to a gun club, but observers may not know how to interpret his statements when he's speaking to a gardening club, which means they can't learn from the NRA president's statements in that latter context. The reason for the difference is that the first situation involves both an alignment of interests and likely penalties for lying, whereas the second situation does not clearly have either common interests or its institutional substitutes. The NRA may make the exact same statement to both audiences to avoid sending conflicting signals that could affect its reputation, but if a voter is only aware of the statement made to the gardening club it is difficult, perhaps

³³ Arthur Lupia and Mathew McCubbins. Learning from Oversight: Police Patrols and Fire Alarms Reconsidered. *Journal of Law Economics and Organization*. Vol. 10, No. 1, pp. 96-125. (1994).

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impossible, for her to learn from this statement, because the conditions for trust are absent in the speech made to the gardening club. In the absence of the conditions for trust, the observer cannot be sure that the speaker was telling the truth. This example demonstrates that learning from a speaker is not simply a function of the content of the speaker's comments but is related to who is speaking and to whom he is speaking. If a speaker makes a statement to an audience that regards him as trusted endorser, then all listeners can be "flies on the wall" and learn from that statement.³⁴

One of the common situations in the local initiative context is that council members vote to decide whether to place the initiative on the ballot. Does a voter who knows of this endorsement by elected officials have information that allows her to learn? It may be that the council's vote is a credible signal to constituents about the worthiness of a proposal, but it could represent something else as well – public-regarding intentions do not support every council vote. For instance, the decision to refer the bond proposal to the voters may be blame shirking,³⁵ a requirement of law,³⁶ a decision to fight out the proposal's merits during a campaign, or a logroll across various proposals. To fully understand the audience and the message being conveyed by a legislative vote or other statement by an elected official requires analyzing each situation independently and the institutional constraints which may provide a sanction for lying or a process for verification. No blanket decision can be made.

³⁴ See Boudreau, Lupia and McCubbins (2005). "Fly on the Wall." *Northwestern Law Review* (?)

³⁵ Morris Fiorina. "Legislative Choice of Regulatory forms: Legal process or administrative process. *Public Choice*. 39: 33 – 66. (1982)

³⁶ Some states require voter approval of local bond propositions.

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The California League of Women Voters recognizes the importance of paying attention to endorsers when it cautions voters: “Who are the real sponsors and opponents of the measure? Investigate the names of groups with which you are not familiar.” There is little research about what names and political groups voters are familiar with in local elections. A recent survey suggests to us that many voters are largely unaware of the people and issues in local politics, which may make it difficult for voters to assess the credibility of endorsers as suggested by the League of Women Voters. In a survey of suburban voters across the country about 46% reported that they had “a lot” or a “fair” amount of knowledge about local politics.³⁷ The survey results also suggest that the level of knowledge of local candidates seems to decrease as the size of the suburb increases. To the extent that these findings hold across different municipalities they suggest that many voters in local elections lack much knowledge about local politics. If they lack such knowledge it is important to then ask if they can find the substitutes for explicit knowledge in the form of credible endorsers. The survey of suburban voters found that about 34% of voters in the survey knew a city councilor, although this percentage was much lower in larger suburbs than smaller suburbs. Personal knowledge of a candidate may help a voter determine if the candidate is a credible source. However, most voters, particularly in larger suburbs (not to mention Los Angeles or Austin) will not know a candidate personally. In the absence of knowledge about local politicians or issues, it will be difficult for voters to determine the interests of politicians, which makes it particularly

³⁷ J. Eric Oliver and Shang e. Ha. “Vote Choice in Suburban Elections”. Working paper. 2006. Can be found at:
http://harrisschool.uchicago.edu/Academic/workshops/ampolpapers/Oliver_Workshop.pdf

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important that voters know whether or not the conditions for trust are present and are common knowledge. If these conditions are met, then voters may be able to make reasoned decisions even in the absence of detailed knowledge. Without credible endorsers, the survey results suggest voters may not be informed and able to make reasoned decisions.

In this section we have detailed the conditions under which voters can learn from an endorser's statement. Despite common assumptions, the presence of reasons or competition between reasons is neither necessary nor sufficient for voter learning. Rather, statements from a speaker to an audience must meet the conditions for learning for the observer to learn from the statement he witnesses. Absent the conditions for learning, endorsements will not be credible, and they will not lead a voter to make a reasoned decision. We now explore several different cases of local infrastructure bonds to examine how likely these conditions are to exist in practice.

3.4 Learning in the political wild

As we discussed earlier, many scholars argue that endorsements play in helping voters to learn about political issues. One of the common assumptions in the existing literature is that *all* voters can learn from endorsements or other statements. However, the conditions for learning derived and tested by Lupia and McCubbins are specific to a given relationship between a speaker and a listener. When only a small segment of the population meets the conditions for trust and learning, then only those individuals can learn from the statements. In local initiative elections there are often very few endorsers

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or speakers for a given initiative, which means that it is particularly difficult for individuals to hear an endorsement that meets the conditions for learning.

We now consider a common example of an endorsement and illustrate when it can and when it cannot lead to voter learning. For example, imagine that voters are faced with a bond for building more schools in their district. The president of the teacher's union offers an endorsement on behalf of the initiative that is heard by a large number of voters. Will voters be able to learn from this statement?

First, does the union president share common interests with voters? For a voter to know that her interests are shared by the union president, the voter must know the union's interests. However, there are multiple interests a union president could represent: her own, the union's, the school district's, or the teacher's. These interests may coincide or they may be different. In the absence of any institutional constraints it may well be difficult for voters to identify which interests the union president is representing. Given that, common interests seem unlikely to help voters learn from this endorsement.

However, institutional devices may make learning possible for the voters hearing the union president's statements. One of the most likely institutional devices in this example is that the union president faces a penalty for lying from the union membership. If the president faces such a penalty, and a voter is aware of the penalty's existence, then she may be able to learn from the statement. Even a voter who does not share common interests with the union may be able to learn from statement, because he may know that his interests are opposed to the union's interests.

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This example demonstrates that in the absence of institutional constraints it will be difficult for many voters to learn from a speaker because her interests will not be known to the voters, and therefore the voter cannot determine whether they share common or conflicting interests.

3.5 Learning from newspapers

One of the more common forms of information in local elections comes from newspapers. We briefly review experimental evidence about how a source's credibility affects learning and then we discuss when speakers in a newspaper story are likely to be credible, and therefore able to facilitate reasoned decision making.

In a typical newspaper story, two of the key aspects that determine whether learning will happen are the credibility of the speaker quoted in the story and the reputation of the newspaper that published the story. Druckman studies how the credibility of a speaker and a newspaper affect learning.³⁸ He finds that when a participant in the experiment believes a speaker is more likely to be trustworthy, then the participant is more likely to believe the speaker's statements and learn from them. Druckman demonstrates how a speaker's credibility affects learning by studying how statements from either Colin Powell (credible) or Jerry Springer (not credible) affect subjects' beliefs and how stories published in the *New York Times* have a different effect than stories published in the *National Enquirer*. He finds that statements coming from the not credible speaker and the not credible source have little or no effect on beliefs, but that statements from credible sources can influence beliefs. These results imply that

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observer's perceptions of a statement's credibility will affect whether or not learning occurs as a result of their statements. In practice, the conditions for learning (especially for trust) may not work like an on/off switch. Rather, they may exist with some probability. In that event, the receiver or observer has to decide if the conditions are sufficiently likely to exist that they induce truthful statements from a speaker to his audience.

The experiment utilized speakers who were widely known, and therefore subjects were likely to have pre-existing beliefs about the speaker's credibility. However, in local elections the credibility of speakers may not be as well known as it was in Druckman's experiment. The probability of learning from a speaker's statement will be higher if the speaker quoted in a newspaper story is well-known and has a professional or political affiliation that helps audience members to determine the speaker's interests and determine whether or not they have common or conflicting interests.

If newspaper readers cannot determine a speaker's interests, then Lupia and McCubbins show that institutions can create the conditions for trust. The key is whether or not the newspaper has in place these institutions, such as a penalty for lying, costly action or a threat of verification. It is possible that newspapers can impose, with some probability, a penalty for lying if the newspaper refuses to solicit statements from speakers known to lie. However, even if newspapers do enforce a penalty for lying, this policy may not be common knowledge among readers of the newspaper, and therefore the institution cannot actually create the conditions for learning.

³⁸ James Druckman. "On The Limits Of Framing Effects: Who Can Frame?," *The*

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In terms of costly action as an institutional mechanism to facilitate learning, newspapers do not impose any type of costly action on speakers. In fact the incentives of reporters to cover both sides of a story and feature conflict³⁹ may actually lower the costs associated with making a statement because the newspaper seeks out speakers, which then lowers the costs associated with speaking.

The newspaper may have some mechanisms for imposing a threat of verification, however. First, the newspaper could employ a fact checker for speakers' statements. Second, the presence of multiple speakers in a newspaper could induce truth telling because another speaker, who is trustworthy because of common interests, may act to verify the statements of an otherwise untrustworthy speaker. It should be noted that none of these institutions are required of a newspaper, and therefore the key to a paper's ability to inform voters depends on the voters' perceptions of whether or not the newspaper has created the conditions for trust to exist and whether the presence of these institutions is common knowledge among both speakers and readers/audience.

In addition to news stories, readers may be exposed to editorials or opinion columns and attempt to learn from reading them. In these cases, the speaker is either the author of the column or, if it is an unsigned newspaper editorial, then the exact speaker depends on the composition of the editorial board and their policies for writing editorials. If the writer of the opinion/editorial is a well-known and has easily identified interests, then voters may be able to learn from these writings. However, if the writer's or his/her

Journal of Politics 63: 1041-1066. (2001)

³⁹ Matthew Baum and Tim Groeling. *Politics Across the Water's Edge: How Strategic Politicians, Journalists, and Citizens Shape the News about War*. (unpublished)

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organizational interests are unknown, then voters can only learn from the editorial if the conditions for trust are present in the newspaper. This will be different for each newspaper, and Druckman shows us that readers will have perceptions about the truthfulness of statements in different newspaper. If readers cannot identify the speaker then learning is unlikely without the presence of institutional conditions for trust. This discussion demonstrates that learning may occur as a result of reading stories in a newspaper, but it is by no means guaranteed and it will depend on the speaker's characteristics and the newspaper's characteristics. We now consider the information environment in a number of different cities, and assess whether or not voters were able to make welfare-enhancing decisions in each environment.

4. Bond Referenda Build Los Angeles

The city of Los Angeles used ballot propositions extensively in the 1920s and 1930s as the city built its infrastructure, particularly water and power infrastructure.⁴⁰ In this section, we examine the information environment surrounding the elections of that time period to determine how likely voters were to learn and make informed decisions. We find that the political environment did not provide the necessary conditions for learning and actually appears to have made it as difficult as possible for the conditions for learning to be met. We also move forward in time to analyze the information environment surrounding significant infrastructure bonds placed before Los Angeles voters in the last several years. Before we review specific bond elections, however, it is

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worthwhile to provide a general sense of how bond elections occurred in Los Angeles.

This historical context reveals how likely the conditions for learning were to exist.

4.1 The historical background of Los Angeles bond elections

In *Globalizing L.A.*, Erie recounts how different municipal authorities used bond propositions to generate funds for infrastructure projects. For example, The Port of Los Angeles was eminently successful in its ballot campaigns between 1910 and 1924. The Port put six different bonds on the ballot, and all six of them passed, usually with more than 80% of voters voting “yes.” The turnout for the elections that featured these propositions ranged from 14.8% in 1910 to 52.1% in 1924.⁴¹ The Port combined active campaigns with low levels of opposition to generate this record of electoral success.

Lacking in-house precinct workers, the port relied instead on interest-group supporters, and their well-financed campaign advertising to win elections. Save for the SP (Southern Pacific), which the port began to court assiduously, the department, in stark contrast to the DWP (Dept. of Water and Power), had few potential adversaries. ... The city’s leading newspapers and commercial organizations enthusiastically backed the department’s electoral campaigns.⁴²

As the city was building infrastructure through the use of bond propositions, those seeking to ensure the passage of bonds often manipulated the process to stack the odds in their favor. A major objective of this strategy was to ensure that friendly voters came to the polls on Election Day, where they could have decisive impact because of generally low voter turnout. Erie writes:

The city council frequently colluded with departments to call special elections in which the electoral leverage of municipal employees could be maximized. Of the

⁴⁰ Steve Erie. *Globalizing L.A.* Stanford University Press. (2004)

⁴¹ see Erie p. 56 supra note 35

⁴² see Erie p. 55-56. supra note 35

harbor-bond, charter, and ordinance referenda, over 75 percent were in municipal elections; over half of these involved special elections. Turnout in municipal elections was low; generally, fewer than one-third of Los Angeles's registered voters bothered to go to the polls. Turnout was even lower in special elections. City employees (numbering 13,000 on average between 1912 and 1932) could be a power force both in municipal-bon (72,000 average turnout) and in nonbond elections (107,000 average turnout) from 1906-1932.⁴³

Given the circumstances that Erie outlines regarding the bond elections for harbor infrastructure, it seems unlikely that the environment meets the conditions for learning. Voters likely lacked information about many of the bond initiatives. The electoral calendar was often manipulated to reduce voter turnout and Erie's historical analysis also suggests that for most of the harbor elections only one side of the issue was likely to be represented through a funded campaign, which reduces the probability of observers being able to learn from an endorser.⁴⁴ The existence of multiple endorsements increases the probability that a given observer or audience member will observe a trusted endorser.

With this general background in mind, we turn to several specific elections and bond propositions in Los Angeles to examine whether or not the conditions for learning were met, and if so, how they might have been met in each circumstance.

4.2 Infrastructure bonds in Twentieth-Century Los Angeles

In the June 5, 1923 election, L.A. voters faced six bond propositions that totaled \$61,500,000. A harbor bond for \$15,000,000 and a power bond for \$35,000,000 appeared on the ballot, as well as four smaller bond propositions. The power bond

⁴³ see Erie p. 57 supra note 35

⁴⁴ The presence of multiple endorsers is not important for competition reasons as argued by Boudreau and McCubbins (forthcoming), but rather because with multiple endorsers there is a greater chance that a given observer or listener will head a statement from a

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appears to have generated campaigns on both sides of the issue, which all else equal should increase the opportunity for learning because there are more opportunities for an observer to witness a speaker's statement that meets the conditions for trust. The *Los Angeles Times* described opposition to the costly power bond by the Los Angeles Taxpayers Association.⁴⁵ These opponents claimed that the city was already near its debt limit and that the bonds were unnecessary because \$25 million was to be used for the non-existent Boulder Canyon Dam. One of the city councilors, Mushet, voted to put the bond on the June ballot and allow the voters to decide whether or not to pass it, even though he opposed the bond's passage. We return to this general topic in our discussion of the San Francisco elections, but this anecdote helps to show why it is erroneous to simply interpret a councilor's vote as reflecting his policy preference. The *Times* article listed prominent people associated with the opposition campaign; knowing the identity of the speakers makes endorsements more credible if the interests of these actors are known to the listeners. Opposition to the power bond included the Chamber of Commerce, the Los Angeles Realty Board, the President of the University of Southern California, and numerous other figures associated with local interest groups. Many *Times* readers would have known the economic and political interests of at least some of these groups, and together with the knowledge of the context of their endorsements (in a public forum like the *Times*), they could accurately determine the relationship between the speaker and the audience and learn from this information.

speaker that meets the conditions for learning.

⁴⁵ *Los Angeles Times* (May 15, 1923)

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In the June 1923 election the power bond failed, but the other five bonds, totaling \$26.5 million, passed. A review of the *Los Angeles Times* archives in the month leading up to the election reveals that the only proposition to generate any discussion was the power bond; therefore, it seems that only the power bond may have met the conditions for learning. One important issue in newspaper stories is whether the conditions for trust exist for the people quoted in the story. There are multiple audiences to whom a quoted person may be speaking, and because the conditions for trust are audience specific it is difficult for readers to know if the conditions for trust are met by a quotation in the newspaper. Are they speaking to all the newspaper's readers, some of the newspaper's readers, their own group of supporters or an entirely different audience? For readers to learn from these statements they must believe that either the newspaper itself creates the conditions for learning or that other readers of the newspaper can enforce truth telling by imposing a penalty for lying upon a speaker. Identifying the audience and the conditions present when the statement is made are critical for learning because it is difficult for voters to learn directly from these statements or learn as "flies on the wall" when voters do not know whether or not the conditions for trust are present. Lupia and McCubbins demonstrate that when people are unsure if a statement is trustworthy they simply ignore the speaker's statements. It may actually be that the conditions for trust were met for a given statement, but if voters cannot determine if the truth is being told then they cannot learn from the statement.

In November 1935's special election, a \$7.7 million bond was proposed for expansion of the Los Angeles Harbor. According to a November 22, 1935 *Los Angeles*

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Times article, the bond was endorsed by six of the county's eight congressional representatives, and it was opposed by the California Taxpayer's Association. This story was run in the paper four days before the election. Readers of the paper might have been able to recognize the interests of these actors and determine if they shared interests, which would have allowed them to learn from one or the other statements. The endorsements by congressional representatives might also have provided voters partisan cues to use in their decision making.⁴⁶ Of course, voters would have to be aware of the endorsements, but that limitation always exists. The bond proposition ultimately failed. It did garner more than a majority of the votes cast, but it did not achieve the 2/3 majority required.⁴⁷

Erie suggests that the failure of the 1935 bond was due in part to the general economic malaise associated with the depression.⁴⁸ In addition to rejecting the 1935 bond, voters had previously turned down the Harbor's request in 1934 to increase leasing authority. However, in 1959 with the depression fully behind them, Los Angeles voters approved a change in the Port's charter that allowed them to issue revenue bonds without voter approval.⁴⁹

The story that Erie tells about Los Angeles elections clearly suggests that political actors manipulated the election process to give bond proposals the best chance of

⁴⁶ Elizabeth Garrett & Daniel A. Smith, *Veiled Political Actors and Campaign Disclosure Laws in Direct Democracy*, 4 *Elect. L.J.* (2005); Elizabeth Garrett, *Hybrid Democracy*, 73 *Geo. Wash. L. Rev.* 1096 (2005); Richard L. Hasen, *Parties Take the Initiative (and Vice Versa)*, 100 *Colum. L. Rev.* 731 (2000)

⁴⁷ *Los Angeles Times*, Nov. 27, 1935

⁴⁸ see Erie, p. 81-84. *supra* note 35

⁴⁹ see Erie, 81-84, *supra* note 35

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passage, and suggests that our concerns about take-it-or-leave-it offers and sequential elimination agendas are more than just theoretical worries. Our review of the information environment of historical L.A. bond elections suggests that some elections may meet the conditions for learning, while others appear not to meet the relevant conditions. This suggests that we cannot make a blanket statement that such initiatives are always beneficial or always negative. Further, it may be that all of these infrastructure projects were beneficial to society even though they may not have met the conditions for voter learning.

4.3 Infrastructure Bonds in Today's Los Angeles: Has the Information Environment Improved?

The Los Angeles story is not a relic of the early 20th century. In the first five years of the 21st century, Los Angeles voters faced significant decisions about funding infrastructure projects through ballot propositions. Between 2000 and 2006, there were eight infrastructure bond measures in the City of Los Angeles (including Los Angeles Unified School District (LAUSD) and Los Angeles Community College District (LACCD)). Of the eight measures, three were for non-school infrastructure. Measure F in 2000 and Measure Q in 2002, both of which passed, raised money for public safety concerns such as paramedics, police, and fire. Measure O in 2004 also passed and funded clean water, ocean, river, beach, and bay storm water cleanup. The other five bond propositions were all for education-related concerns. Three benefited the Los Angeles Unified School District, and the other two provided infrastructure for the Los Angeles Community College District. All five of these propositions also passed.

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The information environment for these eight propositions appears to vary, although there are some common elements. For instance, in all eight cases, both the *Los Angeles Times* and the *Los Angeles Weekly* wrote editorials that either supported or opposed the measures. For voters who know the interests of the paper's editorial board this can be useful information. Furthermore, there were multiple news stories addressing each of the measures. These stories undoubtedly provided reasons why voters might vote for or against a proposition, but as we discussed earlier, the existence of reasons is neither necessary nor sufficient for reasoned decision making. Instead, we survey who offered endorsements either in the voter pamphlets or newspaper articles and evaluate whether they met the conditions for trust and learning. In general, we found that newspaper articles (*Los Angeles Times*) and voter pamphlets during this time period often featured statements by credible endorsers such as well-known politicians and interest groups. The Los Angeles mayor and city councilors usually took public positions on the bond measures, and these individuals may meet the conditions for trust among at least some voters. Additionally, for the bonds in 2002 there was opposition to the bond measures by the Howard Jarvis Taxpayer's Association and advocates of dividing Los Angeles into multiple smaller political jurisdictions. Both of these groups were well-known at the time and voters may well have been able to learn from their statements. In each election a variety of newspapers also offered their endorsements either for or against a given bond. Taken together, it seems that during this time period voters had a reasonable opportunity to learn from trustworthy speakers.

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One of the particularly interesting aspects of the initiatives passed in Los Angeles during this time period is the relationship between Proposition A and AA. The LACCD sponsored Proposition A to raise money for the construction of new buildings, and voters passed the proposition in 2001. A few years later in 2003, the community college district proposed, and the voters passed, Proposition AA to complete the projects originally funded by Proposition A. Of course, the money spent from Proposition A would have been wasted if buildings were simply left half completed, so voters were in a bind when presented with Proposition AA. This measure may well have appeared to be the only way to get any value from the original proposition. Voters faced a classic example of a Romer and Rosenthal take-it-or-leave-it offer as discussed in Section 1 in both the first and second bond election. In particular the second bond election gave voters the option of approving the bond measure and further indebting themselves or not passing the bond and leaving many of the promised construction projects unfinished. The iterated process of funding these infrastructure bonds appears remarkably similar to the sequential elimination agenda problem we discussed in Section 2 and elaborated upon by Kousser and McCubbins.⁵⁰

5. Bond Elections in Austin, Texas

The use of ballot propositions is not unique to Los Angeles. In fact Austin, Texas appeared to pursue the historical Los Angeles strategy during the 1980s and 1990s. In Austin, bond elections were frequently held in off-year or off-month election and

⁵⁰ see Kousser & McCubbins (2005)

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featured dozens of bond proposals at one time. Both of these features suggest a story of election manipulation. Manipulation of the electoral calendar may make it more difficult for voters to find credible sources of information, because it can affect the probability of credible speakers being present. The manipulation of election timing may increase the hurdles for the conditions for learning because it can lead to years where there are few statements by credible endorsers, because there are not enough political campaigns occurring to motivate the attention of credible endorsers.

One other consequence of manipulating the election calendar is its effect on voter turnout, which is often quite low as we will see below. Low turnout may occur as a result of difficulty in learning about election measures. In that case it seems likely that voters who did turn out may not represent the median voter, although these voters may also be those most likely to acquire information that helps them to make a reasoned decision. Of course, the opposite is also possible that voters turning out in these elections do actually represent the median voter, but this is an empirical question about which we lack data. On the other hand, the voters that turn out may not actually be the informed voters, in which case we cannot be sure their decisions enhance their welfare. The difficulty in learning about the variety of ballot measures has not gone unnoticed by election observers. In a Nov. 5, 1998 *Austin American Statesman* article the reporter wrote “So how many of the 127,000 or so Austinites who voted on the propositions could describe even 25 of the projects? 15? 5? City officials and political consultants agree that, in an election with little money for advertising on most of the propositions, many voters

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probably entered the ballot booth with some mixture of specific knowledge, general recollection and cluelessness.”⁵¹

The combination of a multitude of bond proposals and their extremely narrow nature also raises the possibility voters may only be informed about one or two of the issues. For instance, voters may turnout to cast a vote on the particular bond that is likely to affect them and about which they can make a reasoned decision, but voters may still be largely uninformed about the multitude of other issues on the ballot. On all of these other issues voters cannot make a reasoned choice that improves their welfare. As our discussion of the 1998 election below makes clear it seems likely that voters were ill-informed about many of the ballot propositions.

On the September 11, 1982 ballot, Austin voters were faced with 25 different propositions.⁵² All of them involved authorizing the issuance of some form of bond for an infrastructure improvement, such as sewer system, libraries, and parks. The bonds totaled \$422,400,000. In the election, only 22% (38,216) of 173,607 voters actually cast ballots. The utility system propositions were often highly specific and clearly described the intended use of the money and the geographic area of the city that the new infrastructure would serve. It is as if Austin propositions included a phenomenally strict single-subject rule that required authorization for each specific project.⁵³ All of the 25 propositions passed, most often with more than 70% of voters approving.

⁵¹ Ben Wear. “Leaders: Bonds won on fine times, popular mayor.” *Austin American-Statesman*. November 5, 1998.

⁵² Information about the Austin, Texas elections can be obtained at: <http://www.ci.austin.tx.us/election/search.cfm>.

⁵³ This is likely the result of the state’s single subject rule for initiative and referenda.

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Two years later in September 1984, the ballot was filled with 28 propositions, proposing to spend a total of \$954,935,000. Again, every one of the propositions involved authorizing the issuance of bonds for a local infrastructure project, and the authorizations were again highly specific mentioning a particular project and often a geographic area the money would presumably benefit. As in 1982, all of the propositions passed. Just the four months later in January 1985, voters were presented with another 19 propositions on the ballot. However, only two of the measures involved bond issuance for infrastructure – an art museum and a new thoroughfare. The bond for the art museum, totaling just over \$20 million, passed, and the bond for the new road, totaling \$47 million, failed.

Elections that feature dozens of propositions and hundreds of millions of dollars of bond issuance continue to characterize local direct democracy in Austin. In August 1992, the Austin ballot included 22 bond-related measures. Sixteen of the 22 were for new infrastructure and totaled almost \$364 million in authorized spending. The targets for the spending included items such as street improvements, land acquisition for parks and recreation, and improving/extending the city's waterworks and wastewater system. At the same time that voters were asked to approve new spending, they were being asked to revoke bonding authority they had granted the utility system in 1984 and 1985. For this General Municipal Election, held in the middle of summer, 73,308 out of 265, 903

Information about the rules and regulations governing Austin's initiative process can be found at: <http://mylaw.usc.edu/haynes/index.html>. The fact that the state requires initiatives to only cover a single subject can create consider problems with sequential elimination agendas and an inability to balance tradeoffs between referenda. For a detailed discussion see Kousser and McCubbins 2005.

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(27.57%) of voters came to the polls. Of the 16 requests for additional spending authority, all but three passed. The three bond issues that failed included two related to a cultural arts center and reimbursement for a building the city already bought.

Searching the archives of the *Austin American-Statesman* reveals precious little evidence that the initiative information environment met the conditions for trust and knowledge for the vast majority of the bond propositions put before voters in these elections.⁵⁴ The *Austin American-Statesman* occasionally featured editorials for and against propositions, such as its July 8, 1992 editorial addressing Proposition 10 and 11. The editorial urged a “yes” vote on Proposition 10 and a “no” vote on Proposition 11. The newspaper editorial may facilitate learning, but it requires voters to know either the interest of the editorial board (which implies knowing who they are and their interests) or know whether the conditions for trust exist when the writers made their statement.

In 1998 Austin voters were asked to decide on the fate of dozens of propositions that authorized different projects. On November 4, 1998, Ben Wear wrote a news article in the *Austin American-Statesman* that makes it appear that there was very little possibility for the environment to meet the conditions for learning.

Even after a federal judge in late September lifted a city ban against business donations to the bond campaign, the money flow was modest for all but Propositions 11 and 12, the two measures making it possible to renovate Palmer and build the nearby facilities.

⁵⁴ In the 1992 election there appears to be only one initiative that may have met the conditions for trust and knowledge. The “Save Our Spring” initiative generated supporters and opponents that were able to raise and spend over \$100,000. This provides the possibility that the campaign surrounding this initiative may have met the conditions for trust and knowledge, but it is not a bond proposition so we do not focus on it here.

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Austin's opera, symphony and main ballet company each gave \$35,000 to a committee that ran television commercials in support of the Palmer project. But donations to three other committees supporting the bonds were modest and their campaigns amounted to mailings, block-walking and phone calls.

The only noticeable opposition, other than recycling of some anti-bond yard signs from last spring's city bond election, was a last-minute mailing by *Texas Monthly* publisher Mike Levy that urged the defeat of Proposition 2. That measure provides \$75.9 million for parks and recreation.⁵⁵

The initiative environment in Austin seems unlikely to lead to reasoned decisions by voters. First, they were often faced with a multitude of initiatives which makes it difficult to compare the status quo without the initiatives to the future with them. Second, the initiative environment appears to lack trusted endorsers that could guide voter decision making. Although at times Austin voters may have had the ability to make reasoned decisions about one or more bond propositions, our analysis suggests that often times voters may not have been able to make reasoned decisions and therefore we question whether these propositions improve welfare.

6. San Francisco, California

The city of San Francisco, California has also featured extensive use of bond propositions to raise money for infrastructure over the city's history. Bond elections in San Francisco require a 2/3 majority in order to pass and take effect, so the proponents of

⁵⁵ Ben Wear. "Austin pushes forward all 12 bond propositions." *Austin American-Statesman*. November 4, 1998

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bonds face a steep hurdle. In this section we consider some of the elections that have occurred over the last 30 years and whether they met conditions for trust and knowledge.

In November 1966, voters in San Francisco failed to approve a bond proposition to spend \$95 million for airport construction.⁵⁶ The bond failed because it only garnered 66.1% of the vote, falling short of the 2/3 vote requirement. The 1966 voter pamphlet contains two arguments for the proposition, and there are a slew of public figures endorsing its passage including the local Democratic Party. One of the statements in favor of the bond was submitted by the members of the Board of Supervisors. The only opposition statement comes from the president of the “Home Owners and Tenants Protective Committee.” The opposition’s statement appears unlikely to meet the conditions for trust: what institutions to verify and/or punish the speaker for lying are in place for this group with no established reputation or likelihood of repeat play in the political process? The proponents’ arguments seem more likely to meet the conditions for trust, however, so it is possible that people could learn from that endorsement.

In November 1967, essentially the same issue was placed before the voters; this time the proposition passed with 68.6% of the vote. There were actually fewer people voting in favor of the proposal in 1967, but with the lower overall turn out, the 2/3 majority was met. It is unclear what, if any, any changes in the conditions for knowledge or trust occurred between these two elections. The arguments for and against the proposition in the voter pamphlet are both made by largely the same two groups and include the same basic endorsers. Despite the similarity in information environment, the

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outcome changed and the measure passed, but we have no reason to believe that voters were better able to make decisions that improved their welfare in this election compared to the 1966 to reject the bond.

Although the voter pamphlet lists the vote of each County Supervisor, these votes may not be a trustworthy signal to voters. As the earlier example from Los Angeles demonstrated, councilors may vote to refer a bond to voters even if they do not support the bond proposal. In voting about whether to refer a bond, it is unclear to whom the Supervisor's are speaking. It could be they are speaking to each other and not to voters – so voters are not the intended audience for the statement. For instance, councilors may be participating in a logroll where each one agrees to support sending another councilor's proposed bond measure to voters even though he/she does not approve of the specific bond proposal. It is unclear how to interpret votes of this nature and how voters would know that this is the interaction they are observing. The previous anecdote about the Los Angeles city councilor voting in favor of referring a bond to the voters and then making public statements that he opposed passage of the bond suggests that councilor votes may not be trustworthy endorsements. As we discussed previously for voters to learn from councilor's votes the conditions for trust must exist between a speaker and his audience and the observer must be aware that these conditions are present. We have not been able to determine whether the conditions for trust exist to allow voters to learn from these votes and it is even less clear that there is common knowledge by voters and Supervisors about those conditions. As we have discussed previously, for people to learn from the

⁵⁶ Copies of historical voter pamphlets can be found at:

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statements of others it must be clear to them that the conditions for trust are present.

These concerns with the votes of city councilors suggest that we cannot simply assume their votes are a credible endorsement from which voters can learn.

Even if voters may not be able to learn from the public votes of councilors they can determine how to vote by relying on the statements of credible endorsers. We focus on the November 1977 election in San Francisco because it featured three different configurations of speakers. In one case, there were known speakers on one side of the bond and an unknown speaker on the other. In another case, only one side was represented at all but by speakers who would likely be known. In the third case, there were known speakers on both sides of the bond proposition. Each of these cases presents a different possible learning environment for voters, and we now consider them in turn.

In 1977 arguments were presented both for and against Proposition A, which was to provide over \$9 million for city parks. The arguments for Proposition A were from a variety of publicly-known individuals such as the mayor, county supervisors, and city planners. These individuals are likely to be knowledgeable about the issue and may also meet the conditions for trust because voters recognize them and know if they have common interests, face verification, or a penalty for lying. A statement in the voter pamphlet may be a more trustworthy statement than a councilor's vote because the audience is more clearly defined and therefore it is possible for the audience (voters, interest groups, political parties) to impose the institutional conditions for trustworthy endorsements. However, the only statement against Proposition A is by an unaffiliated

<http://www.sfpl.org/librarylocations/main/gic/voterpamp/votepamp.htm>.

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person, and there is no information about him that would allow voters to determine if he meets the conditions for trust and/or knowledge. For instance, because nothing is known about the individual, assessment of common interests seems impossible. Furthermore, the substitutes for common interests appear unsatisfactory as the speaker does not face a threat of verification or a penalty for lying, and the cost of placing a statement in the voter pamphlet seems insufficient to generate conditions for trust. The proponents' statement in the voter pamphlet may be sufficient to generate learning because voters may know that they either share common interests with them or be able to determine the statement's audience and if the conditions for trust are present in that relationship.⁵⁷

The 1977 fire protection bond, Proposition B, featured no arguments against it and only one for it in the voter pamphlet. The argument in favor was from individuals who may have met the conditions for knowledge and trust (County Supervisor and Chief of the fire department). For the reasons discussed earlier there may be institutional constraints imposed on either of these actors that lead them to make trustworthy statements. For instance, the councilor has voters as an audience for his statements and he may be penalized by them for lying, which can induce him to make truthful statements. Voters may also be able to recognize if they share common interests with the councilor and therefore learn from the statement. The Fire Chief is also likely to face institutional constraints imposed by other fire fighters that can help voters determine the Chief's interests and induce the Chief to make trustworthy statements. The presence of credible

⁵⁷ If voters know that their interests conflict with the speaker's, but there are no institutions in place to induce truthful statements, then the voter cannot learn from the statement. Lupia and McCubbins demonstrate why statements in this context devolve into

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endorsers suggests that at least some voters (who recognized a speaker's credibility) would be able to make a reasoned decision on this bond measure.

Finally, Proposition C, asked for authorization for \$90 million, the largest amount of spending for any measure in the 1977 election. Unlike the other two propositions, publicly known people and groups appeared on both sides of the proposition. The proponents of the measure are publicly identifiable individuals who appear likely to be knowledgeable based on their roles as political officials such as supervisors, mayor, etc. Some of the opponents seem to come from groups for which voters could recognize their interests such as the San Francisco Black Political Caucus and the San Francisco Federated Young Democrats. We should note that in Proposition C there are many opponents who are unaffiliated with any groups, and so their interests may be undetermined. This is different from the proponents of the bond who are all associated with well known groups or hold public positions such as county supervisor. Because some of the endorsers are publicly-known, there may be greater possibility that a voter can determine with whom he shares common interests, and the endorsers may also face a greater threat of verification in the voter pamphlet. Therefore, it would appear possible that these individuals are trustworthy and knowledgeable, and therefore voters may be able to learn which decision is welfare enhancing. The three propositions in 1977 met the conditions for learning to different degrees.

In November 1992's general presidential election, San Francisco voters were also asked to decide the fate of 11 different propositions, as well as a multitude of local and

a babbling equilibrium in which speaker's statements are uninformative.

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national political officials. The voter pamphlet for all of these issues and offices was 1094 pages long. There were three propositions about local infrastructure, Propositions A, B and C. Proposition A sought permission to issue \$350 million in bonds to provide loans for the reinforcement of private masonry buildings. The statement included a simplified analysis and controller's statement. San Francisco elections have long included a statement from a ballot simplification committee and the city controller. These two aspects can help to provide reasons for voting yes or no on a given bond, but they are not the same thing as a credible endorsement. A legislative analyst's or controller's statement does not tell voters which action to take and so these reasons do not constitute an endorsement. These statements typically provide voters with information about the tax rates they will face before and after a bond passes and what construction will occur as a result of the bond. Voters may be faced with lots of reasons about which way to vote, and simply providing reasons is not the same as offering a credible endorsement. The provision of these statements is another example of the faith in reason that underpins the initiative and referendum process, and as we discussed earlier simply providing reasons to voters may not be sufficient for them to make an informed decision and is likely to be less useful to voters than credible endorsements.

In addition to the information provided in the controller's statement and the simplified ballot explanation, the voter pamphlet features a statement from the Board of Supervisors entitled "Proponent's Arguments in Favor of Proposition A" and a rebuttal by a group of County committee members entitled "Rebuttal to Proponent's Arguments in Favor of Proposition A." Both opponents and proponents present a rebuttal to the

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other side's arguments. Following those two pages of statements there are multiple (more than 20) paid statements for the proposition by a variety of public officials and two statements against it. Although these statements are a costly signal in Lupia and McCubbins model, the cost of placing a statement on the ballot is trivial relative to the potential benefit of the bond passing. Therefore, these signals are not costly enough to induce truthful statements. There were also a few news stories in the *San Francisco Chronicle* about this Proposition leading up to the election. In the *Chronicle* articles, the primary opposition came from churches who were concerned that they could not afford the repairs even if the bond passed because they would have to pay market rates on any loans they received.⁵⁸

All of the San Francisco voter pamphlets that we examined from after 1975 contain two features that increase the possibility of learning. Prior to 1975 voter pamphlets contain a controller's statement, but not a simplified analysis. The simplified analyses begin to appear in the November 1975 election. First, each measure includes an "Analysis By Ballot Simplification Committee,"⁵⁹ which is essentially an abstract of the

⁵⁸ L.A. Chung, "S.F. Ballot Propositions" *The San Francisco Chronicle*. Page. 15/Z1. November 1, 1992

⁵⁹ The City of San Francisco's website

(http://www.sfgov.org/site/election_index.asp?id=21619 accessed February 28, 2007) describes the Ballot Simplification Committee as:

"Of the five voting members, the Board of Supervisors appoints three and the Mayor appoints two. Two of the three members appointed by the Board of Supervisors must be nominated by either the Northern California Chapter of the National Academy of Television Arts and Sciences or the Northern California Broadcasters Association. The League of Women Voters of San Francisco must nominate the third member. Of the two members appointed by the Mayor, the Northern California Newspaper Guild must nominate one member, and the other member must be an educational reading specialist recommended by the Superintendent of Schools of the San Francisco Unified School

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purpose of the initiatives and its likely effects. The simplification statement contains information about the status quo, how the proposal will change the status quo, and a short statement describing the effect of a “yes” vote and of a “no” vote. The knowledge condition is further enhanced in the San Francisco voter pamphlet by a Controller’s statement that includes more specific information about the financial impact of the proposed bond.

Even with all of the information provided in the voter pamphlet, the ability of voters to determine if a proposed bond is in welfare enhancing still requires the presence of a speaker(s) who makes statements in an environment that meets the conditions for voter learning. In practice, the conditions for learning will be met when voters have credible, trustworthy endorsers present to act as substitute for individual acquisition of the information. The review of San Francisco’s voter pamphlet makes it clear that frequently there were speakers and audiences meeting the conditions for learning, which makes it possible for voters to learn how to vote competently.

7. Conclusion

Although the use of referenda is quite common across the country to finance infrastructure projects, there are at least three reasons why we should be concerned with the welfare effects from these propositions. First, bonding authorities possess the ability to offer voters a Hobson’s choice that can move policy away from the pivotal voter’s

District. Each of the appointive members must be a resident and registered voter of the

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preferences. Second, the problem of overlapping bonding authority, together with the natural properties of the sequential nature of bond elections, creates a rush to the ballot by the myriad bonding and tax authorities. The outcome of this process may lead to a highly inefficient allocation of resources, where money is borrowed and spent not on the projects with the greatest need, but on those that got on the ballot first. Third, voters in many, but certainly not all, local bond elections lack the ability to make reasoned decisions because there are no credible endorsers from whom they can learn which way to vote. Each of these problems alone would be cause for concern, and taken together they seem especially problematic for the outcome of bond elections. Although we do not present suggestions for reforming the process here, we believe that it is important to consider possible reforms that can address these concerns.