The Daily Dish

Ballot Initiatives and State Economic Performance

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Eakinomics: Ballot Initiatives and State Economic Performance

A burgeoning area of economic research recently has been the impact of policy uncertainty on the economy, with the broad finding that policy uncertainty is just like other kinds of uncertainty: Other things being equal, it is undesirable and lowers economic performance and satisfaction.

At the same time, policy analysts are often asked to evaluate high-profile ballot initiatives that seek to pursue economic policy changes in the states. One notable example is California's Proposition 22, which granted certain online platforms an exemption from a 2019 state law regarding worker classification. Is this policy a good idea? In any event, it was approved by voters in 2020.

But there is another aspect of ballot initiatives. Independent of the merits of any single proposal, repeated attempts to bypass the legislative process may contribute to an uncertain policy environment for businesses. If so, the volume and frequency of initiatives raises the possibility that they contribute to economic uncertainty, which can lead to reduced economic growth.

Recently, my colleagues Dan Bosch, Dan Goldbeck, and Tom Lee took a look with me at this issue. We benefited from the work of Redouane Elkamhi, Chanik Jo, and Marco Salerno who developed "50 novel indices of State-level Economic Policy Uncertainty (SEPU) based on newspaper coverage frequency using 204 million state newspaper articles from January 1990 to December 2019." Their analysis indicated that these indices mirror economic policy uncertainty for the economy as a whole, and "explain the cross-sectional variation in state-level GDP, employment, income as well as industry investment decisions."

The authors generously provided us with their indices, which we married with state-by-state data on ballot initiatives taken from the National Council of State Legislatures Statewide Ballot Measures Database. Of the 39 initiative topics available, we restricted analysis to the 18 topics likely to impact economic performance, such as Labor & Employment, Environmental Protection, and Tax & Revenue.

We found that there is a positive and statistically significant relationship between the number of ballot initiatives and the level of state economic policy uncertainty ("for a one percent increase in the number of ballot initiatives, SEPU increases by about 1.746 points"). Similarly, there is a positive and statistically significant relationship between the frequency of ballot initiatives and the level of state economic policy uncertainty ("an additional consecutive year where there was a ballot initiative increases SEPU by about 2.193 points"). As a final step, we link the SEPU increase due to the volume and frequency back to the work of Elkahmi, et al. to estimate the impact of ballot initiatives on gross state product, state income, and state employment.

What's the bottom line? We concluded, "This analysis does not necessarily mean that all ballot initiatives are harmful, once impacts on productivity and growth are weighed against other potential societal benefits. As with all policy options, decisions about ballot initiatives involve tradeoffs. This analysis suggests, however, that

states may have an economic interest in limiting the number and frequency of such initiatives—especially those dealing with taxation, employment, budgets, and similar policy categories most likely to impact overall economic performance.”