1

Who Gets What and Why?

The Politics of Particularistic Economic Policies

Democratic institutions ostensibly serve the common good. Yet democratically elected leaders face diverse incentives. Politicians must balance the public's welfare with demands from interest groups that run counter to the common good. Nowhere is this balancing act more apparent than in the area of economic policy. Governments' economic policies often redistribute resources between groups. Governments collect money from taxpayers and then spend the tax revenues on various programs. Governments may fund programs that support broad groups of citizens, such as health care or education. Alternatively, governments may use their fiscal resources to privilege small, select groups of citizens via programs like subsidies for business.[1] Subsidies typically provide economic benefits selectively to small groups and accordingly can be described as "particularistic" economic policies. Although particularistic economic policies often entail costs for many citizens, including taxpayers and consumers, they nonetheless emerge in democratic contexts.

Although the political motivations behind particularistic economic policies have been studied extensively,[2] the variation in such policies between countries is less well understood. Leaders in some democratic countries enact more particularistic economic policies than others and as a result, particularistic economic policies vary in both frequency and magnitude among democracies. In France and Australia, for example, leaders habitually provide narrowly targeted financial assistance to select businesses. Similarly, governments in the United Kingdom subsidized individual firms during the 1960s and 1970s, including state-

[1] Governments can also privilege select groups by exempting them from paying taxes.
[2] Producers' demands often prevail because they are fewer in number and consequently can organize more easily than taxpayers and consumers (e.g. Olson 1965, Alt and Gilligan 1994). Producers also have more at stake. Government subsidies can mean the difference between bankruptcy and profit. However, for taxpayers, the cost of any given subsidy program is negligible. Taxpayers consequently have few incentives to oppose subsidies.

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owned companies like British Steel and British Airways (Sharp, Shepherd, and Marsden 1987). In contrast, during the same period, the West German government refused to provide subsidies to individual firms (Schatz and Wolter 1987). The government focused instead on building a comprehensive framework of policies that would benefit large numbers of citizens called the *Soziale Marktwirtschaft* (Sharp et al. 1987). Today, governments in some countries continue in the same tradition by providing general assistance to broad groups, as in Finland (Verdier, 1995: 4).

The diversity in democracies' economic policies reflects the varied responsiveness of politicians to different interests. In France, for example, most politicians believe it is their duty above all else to represent the citizens living in their geographically-defined electoral district.[3] French politicians consequently work hard to secure economic benefits for their constituents. As one member of the French parliament (MP) colorfully put it, "[a]n MP is a gardener. He has a big garden – his constituency – and he has to go to Paris in order to get fertiliser."[4] Particularistic economic policies can provide such fertilizer.

In contrast, leaders in some countries strive to represent larger groups of citizens. In Sweden, for example, the government refused to bail out the ailing automotive industry following the 2008 global financial crisis. The Prime Minister said he would not put "taxpayer money intended for healthcare or education into owning car companies" (Ward 2009). The German government similarly resisted demands for industrial subsides in the wake of the 2008 crisis. Defending this decision, the German Minister for Economics and Technology said that privileging certain industries went against "all successful principles of our economic policy."[5] Governments' varied approaches to economic policy highlight the puzzle motivating my book: why do governments provide more particularistic economic policies in some democracies than others?

The goal of this book is to understand economic policy. Specifically, I seek to explain the variation in economic support provided by democratically elected governments to firms, industries, and sectors, such as manufacturing. Understanding why governments do more to assist such groups in some countries is important. Democratic theorists have long worried about the power of special interests. Groups that pursue economic rents for themselves at the expense of others are of

[3] In a survey conducted by Brouard et al. (2013), 41.2 percent of sitting French MPs said this.

[4] Quoted in Brouard et al. (2013: 146). This quote came from a member of the centre-right political party Union for a Popular Movement (*Union pour un mouvement populaire*/UMP).

[5] *The Economist* November 1, 2008: 62.

particular concern. Groups seeking government subsidies "not only pervert the meaning of democratic accountability but also create deadweight losses and distort economic incentives" (Cox and McCubbins, 2001: 48).[6] The money governments spend on subsidies is money no longer available for other programs, such as education or health care. And governments facing tight budgets often cut programs, such as social welfare, in order to fund increased spending on subsidies (Rickard 2012b). Subsidies consequently have serious implications for the regressivity of government spending. It is therefore important to understand why leaders in some democracies spend relatively more on particularistic economic policies, like subsidies.

I argue that economic policy outcomes depend on the way politicians are elected and the distribution of economic activities in space. Economic policy cannot be explained by political institutions alone, contrary to conventional wisdom. Economic geography – that is, the geographic distribution of economic activities – must also be considered to understand governments' economic policy decisions. My argument stands in contrast to "pure" institutional arguments that identify political institutions as the key determinant of countries' economic policies (e.g. Persson and Tabellini 2003). This book's core thesis is that economic policies result from the interactive effects of economic geography and political institutions, specifically the institutions governing democratic elections. Electoral institutions determine the optimal (re)election strategy for politicians and political parties competing in democratic elections. Economic geography determines which economic policies best accomplish the institutionally generated electoral strategy. In the following section, I briefly outline the contours of my argument, which I develop more fully in Chapter 3.

ARGUMENT IN BRIEF

Elections aggregate voters' preferences. But not all elections work the same way. Different rules govern election contests in different countries. The rules governing elections, often referred to as electoral institutions or electoral systems, determine how elections work and ultimately how elections aggregate voters' preferences. To understand the effects of electoral institutions, it is important to know what voters want. Equally important, however, is knowing where voters with shared preferences live. Voters with shared policy preferences may live close to one another in relatively small, geographically concentrated areas. But voters with shared policy preferences may alternatively reside throughout the

[6] See also Stigler (1971) and Becker (1985).

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country. Knowing where voters with shared policy preferences live is vital to understanding how electoral institutions shape policy outcomes because different electoral institutions provide dissimilar incentives for politicians to respond to groups with different geographic characteristics.

Voters' economic policy preferences depend, in part, on their economic security. Most voters work to earn a living and as a result, their personal economic prosperity is closely tied to the economic fortunes of their employer.[7] People want their employer to be economically successful because successful industries hire and retain more employees, typically offering more generous wages and compensation packages (Aghion et al. 2011, Criscuolo et al. 2012, Stöllinger and Holzner 2016). Industries' ability to pay generous wages and provide secure employment opportunities often depends on governments' economic policies, including, for example, subsidies.

People employed in a given industry share a common interest in the economic performance of the industry and government policies that promote its performance.[8] This shared interest is "narrow" because most industries typically employ only a small fraction of a country's total population. The US steel industry, for example, employs only 0.3 percent of the US population. The steel industry therefore constitutes a "narrow" or "special" interest, as defined here.

Narrow interests can be more or less geographically concentrated depending on the geographic patterns of employment. Although industries today have fewer constraints on where they locate and employees tend to be more geographically mobile, strong patterns of geographic concentration persist at both a national and regional level in many economies (Krugman 1991, OECD 2008, Autor, Dorn, and Hanson 2013). But not all industries are equally concentrated (Autor et al. 2013). While employees in the US steel industry are primarily located in just three of the fifty US states, the tourism industry, in contrast, employs people across the entire country. As these illustrative examples make clear, different industries have varied geographic patterns of employment.

Economic geography is politically important because politicians have varied incentives to cater to more or less geographically concentrated groups depending on a country's electoral institutions. Electoral institutions stipulate the rules governing elections and vary from country

[7] In the short- to medium term. In the longer term, they may be able to move depending on their mobility and the costs of adjustment.

[8] Citizens who own factors of production employed in the industry, such as capital or labor, also benefit.

to country. In some democracies, politicians can win office with less than a majority of votes. In others, a candidate's chance of winning office depends not on the number of individual votes they receive but rather on their value in office to party leaders. In short, the path to electoral victory is different in different countries depending on a country's electoral system.

Two main categories of electoral systems exist: plurality and proportional. In a plurality system, votes are cast for individual candidates and the candidate with the most votes wins office (Cox, 1990: 906). In contrast, proportional representation (PR) systems allocate legislative seats to parties in accordance with the proportion of votes won by each party. Together these two formulas govern eighty percent of elections held around the world (Clark, Golder, and Golder 2013, Inter-Parliamentary Union PARLINE database 2013).[9]

I briefly describe how economic geography matters in these two different systems. I develop my argument more fully in Chapter 3 where I identify two mechanisms through which economic geography and electoral institutions shape leaders' incentives and subsequently policy: (1) effective vote maximization and (2) the nature of electoral competition.

Geography in Plurality Systems

Politicians have incentives to cater to geographically concentrated groups in countries with plurality electoral systems because they must win a plurality of votes in their electoral district to win office. Politicians therefore court the support of groups concentrated in their own geographically defined district. To win their support, incumbent politicians provide economic benefits or "rents" to their district. By providing economic benefits to their constituents, politicians seek to develop their own personal support base among voters (i.e. a personal vote).

Politicians can use subsidies to develop a personal vote when the beneficiaries of the subsidy are geographically concentrated in their own district. When an industry's employees are concentrated in a politician's district, subsidies for that industry are analogous to legislative particularism, or "pork." The economic benefits of the subsidy go to the politician's district but the costs are spread over all taxpayers throughout

[9] The PARLINE database can be found at www.ipu.org. The remaining 20 percent consist of "mixed" electoral systems that combine features of both plurality and proportional electoral systems. Germany, for example, has a mixed electoral system.

the country. Supplying such geographically concentrated benefits helps politicians cultivate their own personal support base among voters, which increases their reelection chances in plurality electoral systems (Ferejohn 1974, Fenno 1978, Wilson 1986).

Providing subsidies and other economic benefits to geographically concentrated groups is an expedient way to win elections in plurality electoral systems. As a result, particularistic economic policies for geographically concentrated groups are common in countries with plurality electoral systems. In the United States, for example, the Republican-led administration imposed a 30 percent tariff on steel imports in 2002 in an attempt to win Congressional seats in the steel-producing states of Ohio and Pennsylvania (Read 2005).[10] In 2017, President Donald Trump launched an investigation of foreign steel imports in order to fulfil a campaign promise he made to steel workers in two important swing states: Ohio and Pennsylvania. Trump launched the investigation under Section 232 of the Trade Expansion Act of 1962, which empowers the Department of Commerce to decide whether imports "threaten to impair" US national security and gives the president substantial autonomy to impose new trade barriers (Bown 2017). Trade barriers imposed on foreign steel imports would benefit the geographically concentrated steel industry and its employees. At the same time, however, they would increase costs for US manufacturers and construction companies that rely on imported steel inputs, ultimately raising costs for US consumers and also taxpayers who fund public infrastructure projects.

Despite their costs, particularistic economic policies – or even just the promise of them – provide a useful electoral tool in plurality systems when the beneficiaries are geographically concentrated. Particularistic economic policies allow parties to target benefits to precisely those areas where they most need increased voter support, such as Ohio and Pennsylvania in the United States example. In contrast, when the beneficiaries are geographically diffuse, particularistic economic policies are an inefficient means to win plurality elections. If the US steel industry had been more evenly dispersed within the country, for example, providing the industry with economic benefits would have "over bought" support in some states where the Republican party did not need any additional votes to win. For this reason, neither political parties nor individual politicians have strong incentives to provide economic benefits to geographically diffuse groups in plurality systems. For political parties, supporting diffuse groups will over buy support in some areas and under buy support in others. And

10 The US risked violating their obligations as a member of the World Trade Organization by supplying these tariffs to the steel industry.

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individual politicians seeking an office other than the presidency need to win only the support of voters in their own electoral district. As a result, few incentives exist to work on behalf of geographically diffuse groups spread across many districts in plurality systems because doing so neither sufficiently rewards politicians' efforts nor maximizes their chances for (re)election.

Geography in Proportional Systems

Geography is unimportant for political parties competing in countries with proportional electoral systems and a single, national electoral district. In such systems, all votes are equally valuable because they all contribute to a party's share of the national vote, regardless of their geographic location. A party's national vote share determines how many seats they hold in the legislature. Parties want to maximize the number of legislative seats they hold, and to this end they work to maximize their share of the national vote. They can do so with little regard for the geographic distribution of potential supporters because the entire country constitutes a single electoral district. In reality, however, single district PR system are rare. Only a handful of PR countries have one nationwide electoral district. Instead, most PR systems have multiple subnational districts.

Geography matters in PR systems with multiple electoral districts. In such systems, most legislative seats are awarded to parties based on their district performance rather than their national performance. In Norway, for example, 150 of 169 legislative seats are allocated to parties based on their share of district votes (Aardal 2011).[11] As a result, the geography of potential votes is electorally important in countries with proportional electoral systems and multiple districts. Political parties competing in such countries consequently take economic geography into account when making policy decisions. However, unlike parties in plurality systems, political parties in PR systems tend to favor geographically diffuse groups. Providing economic benefits to geographically diffuse groups maximizes parties' effective votes and the likelihood of being in parliament.

Parties competing in proportional systems with multiple district are better off supplying policies to geographically diffuse groups rather than

[11] Because seats are awarded to parties at the district level, we observe disproportionality between parties' national vote shares and the number of legislative seats they hold in most PR countries. Such disproportionality has been the subject of extensive research including, for example, Gallagher (1991).

concentrated groups for several reasons. First, favoring geographically diffuse groups helps parties build a nationwide constituency. A nationwide constituency is electorally useful in proportional systems and particularly in PR systems where elections are party centered. A nationwide constituency helps parties grow their vote share and "displaces the district as the primary electoral constituency" (Lancaster and Patterson, 1990: 470).[12] Displacing the district as the primary electoral constituency gives the party greater influence over their legislators because legislators are less able to appeal to their district-level constituents for reelection. Parties with greater control over their legislators have relatively greater influence on policy outcomes, which permits them greater opportunities to provide benefits to diffuse groups. Such benefits can engender "a shift in the national mood towards the ruling party" (Reed, Scheiner, and Thies 2012), which increases the party's vote share and the number of seats they control in the legislature.

Second, political parties have incentives to pursue the support of geographically diffuse groups to ensure that the party's vote share is above any national vote-share threshold, which exist in many PR systems. These thresholds stipulate that political parties must win a minimum share of the national vote to hold any seats in parliament. Parties that pursue the support of geographically concentrated groups rather than geographically diffuse group may fail to cross national vote-share thresholds. In Norway, for example, a party called People's Action Future for Finnmark (*Folkeaksjonen Framtid for Finnmark*) focused exclusively on improving the economic conditions in Finnmark. To this end, the party campaigned on increasing government assistance for the area's fishing industry (Aardal 2011). The party subsequently won 21.5 percent of the vote in the electoral district of Finnmark in 1989 (Aardal 2011). However, the party won just 0.3 percent of the national vote and as a result it was not eligible for any of the legislative seats allocated at the national level because it failed to clear the national threshold of 4 percent. As this example illustrates, parties competing in PR systems have compelling incentives to pursue diffuse votes spread across the country.

Third, parties in PR systems may support geographically diffuse groups in an attempt to generate a more uniform vote swing – that is, a similarly sized vote increase in all districts. A more uniform swing often produces more seats for parties competing in PR systems with multiple districts. Because a more uniform swing potentially increases a party's legislative

[12] "Thereby decreasing the importance of pork-barrel politics" (Lancaster and Patterson, 1990: 470).

seats, parties have electoral incentives to favor geographically diffuse groups.

These reasons explain why geographically diffuse groups receive support from political parties competing in PR systems. But why would parties in PR systems provide fewer subsidies to concentrated groups than diffuse groups? The answer is simple: subsidies entail costs. These costs include both real monetary costs and opportunity costs. Every dollar spent on subsides for concentrated groups is one less dollar available for diffuse groups. The opportunity costs of forgone spending on diffuse groups are large for political parties competing in PR systems. Subsidizing the geographically diffuse construction industry, for example, helps people in all regions of the country. Employees in the construction industry benefit directly from subsidies via increased wages and more secure employment. Owners of capital invested in the industry benefit from above market rates of return and greater demand. Related sectors, such as real estate and retail, also benefit from government-funded subsidies for the construction sector. And because the sector is geographically diffuse, many more people in related sectors indirectly benefit from government support. Real estate agencies, restaurants, and hardware stores across the country benefit from government aid to the diffuse construction sector. If the sector was concentrated in a single area, many fewer people in related sectors would benefit – potentially just a handful of real estate agents, restaurants or hardware stores in a single city. More people, in more places, benefit from subsidies to geographically diffuse groups.

Subsidies to geographically diffuse industries typically benefit more people than subsidies to equally sized concentrated industries. In effect, there is a "dispersion bonus" from subsidizing geographically diffuse industries.[13] This dispersion bonus is more valuable electorally for parties competing in PR systems than parties in plurality systems. In PR systems, every additional vote won by a party contributes to its electoral success. In contrast, many of the additional votes secured via subsidies are lost to parties and politicians competing in plurality systems. As a result, governments in PR systems will tend to spend more on geographically diffuse groups than governments in plurality systems, all else equal. Even relatively small, geographically diffuse groups can win subsidies in PR systems because more votes translate into more seats. In Norway, for example, the Liberal Party (*Venstre*) could have won seven seats instead of two if it had won just 0.1 percent more of the national vote in the 2009 election (Aardal 2011). Providing subsidies to an industry employing just

[13] I am grateful to John Carey for articulating the term "dispersion bonus."

0.1 percent of the country's labor force could have made a big difference to the Liberal Party's electoral fortunes.

Because the electoral support of geographically diffuse groups is especially valuable for parties competing in PR systems, diffuse groups can and do win particularistic economic policies. In Sweden, a country with a proportional electoral system, the geographically diffuse forestry sector received 10 percent of all government subsidies – despite the fact that it employed less than 1 percent of the country's total population (Carlsson 1983).[14] Similarly, in Norway, which also has a PR system, the geographically diffuse tourism industry receives generous state support. In 2013, for example, the Norwegian government made a deal with Disney regarding the marketing of the film *Frozen*. For an undisclosed amount of money, the Norwegian government secured exclusive rights to use creative elements from the film, as well as the Disney logo and brand, in the marketing of Norway as a travel destination (Innovation Norway 2014a). The deal is credited with significantly increasing tourist numbers. Fjord Tours' sales in the American market doubled in the beginning of 2014, and ticket sales on the Hurtigruten coastal express increased by 24 percent (Innovation Norway 2014a). The upsurge in tourism brought economic benefits to businesses throughout the country.

In sum, my argument brings together electoral institutions and economic geography and shows how they interact to shape economic policy. I argue that both plurality and proportional electoral systems incentivize the provision of narrowly beneficial, particularistic economic policies under certain conditions. Leaders in plurality systems have incentives to supply particularistic economic policies when the beneficiaries are geographically concentrated. When the beneficiaries of particularistic economic policies are geographically diffuse, leaders in PR systems have incentives to supply such policies.

CONTRIBUTION

By bringing together geography and institutions, my argument provides a solution to the ongoing debate over which democratic institutions make governments most responsive to narrow interests. Purely institutional accounts reach conflicting conclusions about the effects of electoral systems on leaders' responsiveness to narrow interest groups. In the following section, I briefly outline the contours of the ongoing debate.

[14] During the mid-1970s.

Conventional Wisdom About Plurality Systems

Many scholars believe plurality electoral systems provide the greatest incentives for politicians to cater to narrow interests. Grossman and Helpman (2005) develop a theoretical model that illustrates why plurality systems generate incentives for policy targeting. In their model, two parties compete in legislative elections, and each party has equal chances of winning a given seat in a given district. There are three electoral districts; each district contains one-third of the population and elects one legislator. Grossman and Helpman (2005) assume that for each industry, all capital in owned by the residents of a single district. As a result, legislators represent constituents with industry-specific economic interests.

Upon forming the government, the delegation from the majority party seeks to maximize the welfare of its constituents. If the party in power represents all three districts, the legislature will work to maximize the welfare of the entire country by setting tariffs at zero. In contrast, if the governing party represents only two of the three districts, they will set a positive tariff rate. Tariffs typically provide narrow benefits to select domestic producers – often at the expense of consumers.[15] A nonzero tariff emerges in Grossman and Helpman's model when trade policy is chosen by the majority delegation. Legislators in the majority use tariffs to redistribute income to residents in their own districts, rather than maximize national welfare by setting an optimal tariff of zero.

The model generates expectations about the effects of electoral systems because Grossman and Helpman (2005) speculate that the governing party in majoritarian systems is unlikely to represent all three districts. Instead, the government in a proportional electoral system is far more likely to represent all three districts. Thus the legislature in a proportional system will work to maximize the welfare of the entire country by setting tariffs at zero. In other words, the Grossman and Helpman (2005) model suggests that PR systems will produce more broadly beneficial economic policies. Majoritarian systems, in contrast, will lead politicians to supply more particularistic economic policies, such as industry-specific tariffs or subsidies.

A similar prediction emerges from a canonical model developed by Persson, Roland, and Tabellini (2007). They assume that the geographic

[15] Of course, tariffs can be designed to be more or less narrowly beneficial. In theory, a tariff could be designed to protect a product produced by just one firm. Such a tariff would provide narrow benefits. At the other extreme, a government could impose a flat tariff that taxes all imported goods at the same rate, as was historically the case in Chile.

distribution of economic groups is the same in all districts (Persson et al. 2007). Given this assumption, their model predicts that majoritarian elections will be associated with more narrowly beneficial policies and less broadly beneficial public goods, as compared to proportional elections. Persson and Tabellini find empirical support for this prediction; they report that majoritarian systems, a type of plurality electoral system, produce smaller government and less welfare spending than proportional elections (Persson and Tabellini, 1999: 2003). Spending on social services is estimated to be 2 to 3 percent lower in plurality systems, as compared to proportional systems, holding all else equal (Persson and Tabellini 2003).

Several additional studies report similar findings. In a sample of 147 countries from 1981 to 2004, Evans (2009) finds that majoritarian systems have higher tariffs than countries with proportional electoral systems, all else equal. Ardelean and Evans (2013) demonstrate that tariffs are higher, on average, in majoritarian systems than in proportional systems using product-level tariff rates for a cross-section of developed and developing countries between 1988 and 2007. Also, democracies with plurality electoral rules are named as defendants in international disputes over illegal narrow trade barriers more often than democracies with proportional electoral rules (Rickard 2010, Davis 2012). This evidence suggests that the electoral incentives to provide narrowly beneficial policies are so compelling in plurality systems that legislators are willing to supply such policies even when doing so violates their international treaty obligations (Naoi 2009, Rickard 2010, Davis 2012). This evidence supports the proposition that plurality electoral systems make governments highly responsive to special interests.

Conventional Wisdom About Proportional Systems

Some scholars argue that the incentives to cater to narrow interests are even *greater* in proportional systems compared to plurality systems. A formal model developed by Rogowski and Kayser (2002) highlights the importance of seat-vote elasticities. Majoritarian systems have greater seat-vote elasticities than PR systems, and as a result, a loss of votes translates into a greater loss of seats for parties competing in majoritarian systems. In proportional systems, politicians are able to cater to narrow interests without having to be overly concerned with any election losses they might incur for doing so. In contrast, politicians in plurality systems cannot stray far from the preferences of the median voter because a small change in vote share can produce a large change in seat share. Rogowski and Kayser therefore posit that politicians in proportional systems will be relatively more responsive to narrow interests, such as industry-specific demands for protection.

A theoretical model developed by de Mesquita et al. (2003) also implies that narrow, particularistic policies will be more frequent in PR systems, as compared to majoritarian systems. Their model examines the political consequences of the size of a "winning coalition." A winning coalition is a subset of the selectorate (i.e. the people who choose the leaders) with sufficient size to allow the subset to endow leaders with political power to negate the influence of the remainder of the selectorate and the disenfranchised members of the society (de Mesquita et al. 2003: 51). The winning coalition is larger in majoritarian systems than in PR systems, according to de Mesquita et al. (2003).[16] As the size of the winning coalition grows, the cost of private goods, such as subsidies, increase. According to their logic, narrow policies like industrial subsidies should be less frequent in majoritarian systems than in proportional systems.

Empirical evidence exists to support the idea that proportional electoral rules incentivize particularistic economic policies. Nontariff barriers are higher, on average, in proportional rule democracies than in majoritarian systems (Mansfield and Busch 1995). Proportional rule systems are also associated with higher consumer prices (Rogowski and Kayser 2002, Chang, Kayser, and Rogowski 2008, Chang et al. 2010). Higher consumer prices may reflect governmental policies that privilege producer groups at the expense of consumers. Legislatively imposed barriers to trade, for example, raise the prices of consumer goods. The existence of higher trade barriers in proportional rule countries may explain why consumer prices are higher in PR systems than in majoritarian systems. This evidence stands in direct contrast to the results reported in several other studies as described above and illustrates the lack of consensus over the effects of electoral systems on economic policy. While some scholars believe that PR systems make leaders especially responsive to special interests and consequently generate more particularistic economic policies, others believe that plurality systems do. The debate has continued unresolved to date.

Going Forward: Geography

My argument suggests a solution to the current impasse: economic geography. Up to now, geography has been largely absent from discussions of electoral institutions' policy effects. Some studies overlook geography entirely (e.g. Persson et al. 2007). Others make

[16] However, Persson and Tabellini (2003) make the opposite claim.

strong assumptions about the geographic distribution of economic activity. Some models assume that each electoral district contains one unique industry that is entirely concentrated within the district (e.g. McGillvray, 1997: 588, 590, Grossman and Helpman 2005, McGillivray 2004). Such restrictive assumptions bear little resemblance to reality. Although economic activity is "lumpy," industries are rarely contained within a single electoral district. Moreover, different industries and economic sectors display different patterns of geographic dispersion, and these patterns vary between countries.

Ignoring the geographic patterns of voters with shared economic interests may be innocuous if politicians elected via different rules are equally responsive to concentrated (or diffuse) interests. But different electoral systems generate different incentives to represent geographically concentrated (or diffuse) groups. Therefore, geography must be part of any institutional explanation of policy outcomes. Identical institutions can produce different policy outcomes depending on countries' economic geography. Plurality systems will produce generous subsidies only when the potential beneficiaries are geographically concentrated. When the beneficiaries are geographically diffuse, subsidies will be relatively meagre in plurality systems. In this way, alike electoral institutions can produce different policy outcomes depending on the pattern of economic geography. Taking geography into account can help to explain the mixed effects of electoral institutions on policy outcomes.

While I am not the first to suggest the importance of geography for politics,[17] virtually all existing research focuses exclusively on plurality systems. McGillivray (2004) examined the effects of geographic concentration in two plurality countries: Canada and the United States. McGillivray found that concentrated industries in these two countries tend to win more trade protection than diffuse industries. Similarly, Hansen (1990) established that geographically concentrated industries are more likely to secure protection from foreign import surges in the United States. Milner (1997) showed that concentrated industries in the United States made fewer trade concessions in negotiations over the North American Free Trade Agreement (NAFTA).

Although geographic concentration is politically advantageous for interest groups in plurality systems, it is unclear what role geography plays in proportional electoral systems.[18] Cognizant of this limitation,

[17] See, for example, Rodden (2010).

[18] Busch and Reinhardt (2005) argue that geographic concentration may be an asset for all interest groups regardless of a country's electoral rules.

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McGillivray (1997) recommended future research to investigate the effects of geographic concentration in proportional systems (p. 604).[19] My research responds to her appeal by examining the effects of geographic concentration in countries with various different electoral systems. This book provides one of the first quantitative tests of the policy effects of economic geography in countries with proportional electoral systems. I find that the effects of geographic concentration vary depending on a country's electoral institutions. While geographic concentration is a political asset for interest groups in plurality systems, it is a political liability in proportional systems. In other words, the political consequences of economic geography vary between electoral systems.

A key lesson of this book is that economic geography matters for politics and policy. It consequently merits greater attention from academics and policy makers alike. Economic geography has important political consequences – many of which have been overlooked to date. Economic geography is credited by some with the election of Donald Trump to the US presidency (Autor et al. 2016) and Britain's decision to leave the European Union in 2016 (Colantone and Stanig 2016). Voters' decisions appear to be influenced, at least in part, by their regions' experience with globalization. Some regions lost out to globalization while others grew rich because of the unequal distribution of economic activities across space within countries. Regions differed in their exposure to foreign import competition because the importance of different industries for local employment varied between regions (Autor et al. 2013). Regions hit hard by foreign imports experienced decreases in wages and employment (Autor et al. 2013). People living in economically depressed regions disproportionally supported Trump in the 2016 US presidential election and voted to leave the EU in the UK's 2016 referendum on exiting the European Union. These examples suggest that economic geography matters for voters' decisions at the ballot box, and as a result can have far reaching consequences.

Economic geography has also been credited with the recent rise in populism. The growing appeal of populist politics is believed to be due, in part, to increasing regional inequalities. Among OECD countries, the average productivity gap between the most productive 10 percent of

[19] Although McGillivray (2004) hypothesizes about the effects of district marginality in both PR and plurality countries, her empirical tests include only plurality countries. Her sample does not extend to PR countries (McGillivray, 1997: 271, McGillivray, 2004: 81). McGillivray herself writes, "The hypotheses for proportional representation systems are not examined" (2004: 87).

regions and the bottom 75 percent widened by nearly 60 percent over the past 20 years.[20] Rich regions are increasingly pulling away from less well-off regions. In Britain, for example, London's share of the country's gross value added rose from 19 percent to 23 percent during the period from 1997 to 2015.[21] Growing regional inequalities may help to explain the rise in populism and highlight the political significance of economic geography. This book makes an important contribution to understanding the political consequences of economic geography.

WIDER IMPLICATIONS

I develop my argument in the context of economic policy. However, the logic of my argument is general and can be applied to other issue areas. Whenever voters with shared preferences exhibit varied geographic patterns, my argument can provide useful insights. One example may be ethnic politics (Horowitz 1985, Mozaffar, Scarritt, and Glalich 2003, Lijphart 2004). My argument suggests that the influence of an ethnic group's shared policy preferences will depend on the country's electoral institutions and the group's geographic distribution. When an ethnic group is geographically diffuse, their preferences will have greater expression under proportional electoral rules than plurality rules. In this situation, it may be inopportune to introduce plurality electoral rules – particularly in an ethnically diverse society.[22]

Understanding that institutions alone do not determine policy has further implications for constitutional designers and reformers. When reformers deliberate over how to alter their country's constitution, they frequently focus on how to achieve desired policy outcomes. However, institutions alone cannot guarantee any specific outcome. Instead, policy outcomes depend on both institutions and economic geography. When designing institutions with particular policy goals in mind, leaders must consider the geographic distribution of citizens with shared interests in key policy goals.

My argument also has several implications for countries' international economic relations. First, my argument suggests when and under what conditions countries are most likely to violate international agreements that restrict the use of particularistic economic policies. Narrowly targeted policies are the focus of many international agreements because they tend to cause economic distortions (Rickard 2010). International

[20] *The Economist* October 21, 2017: 20.
[21] *The Economist* October 21, 2017: 20.
[22] Of course, future research is needed to determine the extent to which my argument applies to ethnic politics.

agreements seek to limit distortions by regulating governments' use of particularistic economic policies, such as industry-specific tariffs and subsidies. My argument suggests that democracies with plurality electoral systems and geographically concentrated industries have powerful domestic incentives to violate these international restrictions. Similarly, democracies with proportional electoral systems and geographically diffuse industries have powerful domestic incentives to violate international restrictions on particularistic economic policies.

Second, my argument suggests which countries are most likely to impede future international economic cooperation and why. Governments elected via plurality rules and facing demands for subsidies from geographically concentrated groups, have strong incentives to resist new international agreements that restrict subsidies. The Canadian government, for instance, nearly scuppered the Trans-Pacific Partnership (TPP) agreement – an agreement negotiated by twelve countries over five years that would cover nearly 40 percent of global trade – to protect subsidies for thirteen thousand Canadian dairy farmers.[23] This small group of farmers enjoyed such influence because of their geographic concentration and Canada's plurality electoral system. This example serves as a reminder that all politics is local. Countries' international economic relations are shaped by the interactive effect of domestic political institutions and economic geography. In short, domestic politics influence international economic relations.

WHY SUBSIDIES?

Although the logic of my argument is general, I test the hypotheses derived from my theory using data on government-funded subsidies. Government spending on subsidies reveals how leaders weigh the demands of special interests against general welfare. Subsidies typically benefit smaller groups at the expense of larger groups, such as taxpayers. Subsidies to the US sugar industry, for example, sustain a domestic sugar price two to three times higher than the world's market price. As a result, approximately 20,000 US sugar cane farmers receive an extra $369 million dollars a year (Beghin et al. 2003, Frieden, Lake, and Schultz, 2010: 234).[24] These benefits come at a cost to American

[23] The finalized TPP proposal was signed by twelve countries. However, the twelve countries must complete their respective domestic treaty-ratification processes before the agreement can come into force. In 2017, President Donald Trump withdrew the US from the Trans-Pacific Partnership.

[24] Above the internationally determined value for the commodity. Calculations are for 1998 converted into 2006 US dollars.

taxpayers and consumers who pay an additional $2.3 billion dollars a year for sugar (Beghin et al. 2003, Frieden et al., 2010: 234). In this way, subsidies redistribute wealth from taxpayers to producers – that is, from larger groups to smaller groups. Governments' decisions about subsidy spending reveal their willingness to support narrow interest groups at the expense of broader groups.

Surprisingly little is known about the politics of government-funded subsidies.[25] On their face, subsidies are a type of distributive policy. They involve taxes and transfers and necessitate decisions about the allocation of government assistance to identifiable localities or groups (Golden and Min 2013). Given this, subsidies may share many of the characteristics of distributive policies. Yet, different distributive policies benefit various different groups and as a result engender dissimilar politics.

The beneficiaries of subsidies vary. Some subsidies are selectively targeted by governments to a few producers using strict eligibility criteria. For example, one of the subsidy programs examined in Chapter 5 assists only Cognac producers located in the French regions of Charente and Charente-Maritime. In contrast, other programs assist virtually all producers in a country with few, if any, qualifying criteria. In Austria, for example, the government subsidized the purchase of microwaves by restaurants across the country. Given the diversity in subsidy recipients, subsidy programs cannot be classified as being "narrowly beneficial" or "broadly beneficial" without knowing more about the recipients themselves. Knowing who benefits from a subsidy and where the beneficiaries are located geographically helps to elucidate the policies behind subsidy programs.

Understanding the politics of subsides is important because government-funded subsidies have potentially serious implications for redistribution and inequality. Governments spend large amounts of money on subsidies. In the European Union, subsidies to the manufacturing sector accounted for 2 percent of value added or approximately €1,000 per person employed in the sector (Sharp 2003). In the United States, Fortune 500 corporations received more than 16,000 subsidies, worth $63 billion dollars (Mattera and Tarczynska 2015). And many governments continue to spend generously on subsidies even during periods of fiscal austerity (Sherman 2017).[26] The Australian government increased spending on manufacturing subsidies by 26 percent from 2006-2010.[27] Money spent

[25] Although see Blais (1986), Verdier (1995), Alt et al. (1999), Zahariadis (2001), and Aydin (2007).

[26] http://www.baltimoresun.com/business/bs-bz-business-incentive-spending-grows-20170302-story.html

[27] Author's calculations from Australian budget data available at www.budget.gov.au/past_budgets.htm.

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on subsidies is money that is no longer available for other programs, such as welfare or health care (Rickard 2012b). As one government employee succinctly put it, "every subsidy I am giving is the money that the government could have spent elsewhere. Every subsidy means a primary healthcare centre I cannot build."[28] In short, subsidies have important implications for the regressivity of government spending.[29]

More and more governments use subsidies to aid domestic producers. Traditionally, many governments used tariffs to assist domestic businesses. But tariffs are restricted by a growing number of international trade agreements, and as a result, many governments have turned to subsidies instead (Ford and Suyker 1990, OECD 1998, Rickard 2012b). The Japanese government, for example, planned to increase subsidies to pig farmers to compensate them for the reduction in pork tariffs established as part of the Trans-Pacific Partnership (TPP) multilateral trade agreement.[30] Because international agreements increasingly restrict the use of tariffs and efficient capital markets restrict exchange rate manipulation, subsidies are one of the few tools policy-makers still have at their disposal to help domestic producers (Thomas 2007).[31] Subsidies are therefore becoming an increasingly common mode of state intervention in industry (Verdier 1995).

In many developed economies today, governments face intense pressure to assist the declining manufacturing sector. Support for manufacturing was a key issue in the 2016 US Presidential Election campaign, for example. Trump's promise to bring "manufacturing back to America"[32] helped him win votes in traditionally Democratic areas, which were crucial to his victory. In the United Kingdom, Prime Minister Theresa May created a new government ministry charged with developing

[28] Bibek Debroy, economist at the National Institution for Transforming India, a Government of India policy think-tank. Quoted in the Economic Times, India Times, May 7, 2017, "Scrap all production subsidies" http://economictimes.indiatimes.com/news/economy/policy/scrap-all-production-subsidies-niti-aayogs-bibek-debroy/articleshow/58560312.cms.

[29] Subsidies themselves may be regressive; they are funded by taxes but often go to support rich, powerful groups, such as US sugar cane growers.

[30] The Japan News, May 21, 2014, S Edition, Business Section, p. 8. Accessed via Lexis Nexis. Currently a tariff of up to ¥482 yen is imposed on one kilogram of cut meat, such as pork tenderloin or pork loin. However, the figure was to be gradually reduced to ¥50 yen over fifteen years as part of the TPP agreement.

[31] Some international restrictions on subsidies exist. However, these restrictions tend to be more lax than international restrictions on tariffs (Rodrik 2004). Furthermore, it is often more difficult to determine if governments are subsidizing producers in violation of international rules because of subsidies' relative opacity (Kono 2006).

[32] www.whitehouse.gov/the-press-office/2017/02/23/remarks-president-trump-meeting-manufacturing-ceos.

an industrial policy to assist the manufacturing sector. The new ministry's title included the words "industrial strategy," sending a clear message that the United Kingdom is not shy about having a proactive industrial policy (Pratley 2016).[33] The minister appointed to head the department said he had been "charged with delivering a comprehensive industrial strategy" by the prime minister (Ruddick 2016).

Industrial policies – and subsidies for the manufacturing sector in particular – appear to be gaining political importance (Stöllinger and Holzner 2016). Questions about how best to adjust to the competitive pressures of a global economy have put subsidies at the center of contemporary policy discussions. In 2017, for example, the World Bank published a new working paper on subsidies and industrial policy (Maloney and Nayyar 2017). As governments come under growing pressure to assist firms, industries, and sectors, understanding the politics of subsidies is more important than ever. The theory developed in this book explains which countries' governments respond most vigorously to businesses' demands for economic assistance and why.

Despite the growing importance of subsides, governments in different countries spend different amounts of money on subsidy programs. Governments in the United Kingdom, for example, often provide subsidies to individual firms (Sharp et al. 1987). In fact, the Industry Act of 1972 explicitly authorized governments to subsidize individual firms and industries in order to boost investment (Bailey 2013). Throughout the 1970s, the British government subsidized individual firms, including the state-owned companies British Steel and British Airways (Sharp et al. 1987). In contrast, during the same period, the West German government rarely supplied particularistic economic policies (Owen 2012). Instead, the government's policy portfolio consisted principally of programs that benefited large groups of citizens (Owen 2012). Subsidies, when provided, were made available to all industries rather than a select few (Shepherd, Duchêne, and Saunders 1983). The government routinely refused to provide subsidies to individual firms (Schatz and Wolter 1987). It focused instead on building a comprehensive framework of policies that would benefit large numbers of citizens called the *Soziale Marktwirtschaft* (Sharp et al. 1987).

Cross-national variation in subsidies persists today, despite ever increasing global economic integration. For example, France typically spends three to four times as much on subsidies as Italy. In 2013, French subsidies equaled 0.6 percent of GDP while Italian subsidies totaled just

[33] The Ministry's full title is the Department for Business, Energy and Industrial Strategy.

0.2 percent of GDP. Such variation is surprising because globalization is believed to compel governments to adopt similar economic policies. Governments in a given country may come under pressure to subsidize domestic business in the face of foreign subsidies. Subsidies to China's steel industry, for instance, prompted demands for government assistance in other steel-producing countries including France, the United States, Germany, and the United Kingdom (Wong 2014, Rankin 2016, Farrell 2016). Despite competitive pressures from increased international trade and foreign subsidies, countries continue to exhibit varied levels of support for domestic producers.

Even in the wake of the 2008 global economic crisis, governments' enthusiasm for particularistic economic policies varied between countries. Some leaders raced to provide aid selectively to troubled industries. The French president unveiled a "strategic national investment fund" to buy stakes in certain French industries to protect them against foreign "predators."[34] In Italy, the Prime Minister called government-funded subsidies a "categorical imperative" in times of economic distress.[35] The Australian government increased budgetary assistance to industry by 26 percent from 2006 to 2010 and the British government poured money into select parts of the economy that were deemed to "make a difference."[36] But not all governments were equally keen to help select domestic producers. Governments in Germany and Sweden refused to selectively assist ailing industries in the aftermath of the 2008 crisis. The cross-national variation in government-funded subsidies highlights the key puzzle motivating my research: why are democratically elected leaders in some countries more willing to supply particularistic economic policies than others?

EMPIRICAL STRATEGY

To better understand the interactive effect of electoral institutions and economic geography on economic policy, I examine three different types of variation in subsidies. First and foremost, I examine the variation in government spending on subsidies between countries, holding all else equal. Second, I examine the variation in government spending on subsidies within countries between sectors – exploiting the disparity in employment patterns in different sectors of countries' economies. Third, I examine the variation in subsidy spending between electoral

34 *The Economist* November 1, 2008: 62.
35 *The Economist* November 1, 2008: 62.
36 *The Economist* November 1, 2008: 62 and author's calculations from Australian budget data available at www.budget.gov.au/past_budgets.htm.

districts within countries, holding economic geography constant. All three tests highlight the importance of the incentives politicians and political parties face as a result of the interaction of electoral institutions and economic geography.

PLAN OF THE BOOK

In Chapter 2, I describe economic geography in greater detail and explore how and why it varies within and between countries. In Chapter 3, I develop my argument in full and identify two mechanisms through which economic geography and electoral institutions work together to shape leaders' incentives and subsequently policy: (1) effective vote maximization and (2) the nature of electoral competition.

In Chapter 4, I test my argument empirically using large-N, quantitative methods. I construct a politically relevant measure of economic geography using disaggregated employment data. These data identify employees' geographic location as well as their sector of employment and are available for more than a dozen economically advanced countries over two decades. This empirical measure obviates the need for simplifying assumptions about economic geography. Instead, actual patterns of economic geography can be measured in a cross-nationally comparable fashion.[37] These data demonstrate that employment patterns rarely conform to the restrictive assumptions in many prominent models of economic policy making. Relaxing these assumptions reveals new predictions about electoral institutions' policy effects and provides a novel solution to the ongoing debate over which institutions generate the most particularistic economic policies.

Statistical tests of governments' subsidy spending in economically developed democracies over nearly two decades reveal that economic geography conditions the effects of electoral institutions – controlling for international subsidy rules, trade openness, country size, economic development, and various other features of a country. Subsidies for manufacturing constitute a larger share of government expenditures in plurality systems than in PR systems when manufacturing employment is geographically concentrated. When manufacturing employment is diffuse, governments in PR systems assign relatively more of their budgets to manufacturing subsidies than governments in plurality systems, holding all else equal. These results are robust to alternative model specifications including those that relax the assumption that electoral systems are exogenous.

[37] Albeit for a limited number of countries given the highly disaggregated data needed.

In Chapter 5, I examine the mechanisms linking electoral institutions and economic geography to economic policy outcomes via two case studies. Given the ubiquity of government subsidies, it would be easy to cherry pick cases that fit my theory. To guard against this, I use a methodical, multistep selection criterion. Two subsidies meet the comprehensive criterion: a program to support Cognac producers in France and a subsidy for farm-gate wine merchants (i.e. wine makers who sell their wine at the place of production) in Austria. Both subsidies conform to my theoretical expectations. In France, where legislators compete in single-member districts via a majority-plurality electoral system, subsidies tend to be targeted to geographically concentrated producers – as in the Cognac example. In contrast, Austrian subsidies tend to go to geographically diffuse groups. In Austria, legislators compete in party-centered elections in multimember districts where legislative seats are awarded via proportional rules and party leaders determine the identity of the candidates that fill the party's seats. Given these institutions, I expect Austrian politicians will be relatively more responsive to the interests of geographically diffuse groups. Consistent with this expectation, geographically diffuse farm-gate wine merchants won generous economic benefits from the Austrian government.

Both Austria's and France's subsidies violated the European Union rules on State Aid, which limit member-states' ability to subsidize domestic producers. The European Union (EU) and World Trade Organization (WTO) regulate subsidies in an attempt to minimize economic distortions and create a level playing field for businesses in all member countries. The international restrictions on subsidies may make it more difficult to observe the domestic politics behind such programs. For instance, governments with electoral incentives to provide subsidies may not do so because of international rules limiting subsidies. Such behavior would make it difficult to find support for my argument; I would not see subsidies where I expect to, given a country's electoral institutions and economic geography. In this way, international restrictions on subsidies bias against finding support for my argument.

In practice, however, many governments continue to subsidize domestic producers – even as members of the EU and WTO (OFT 2009). Most international restraints on subsides are "either voluntary or do not bind in a significant way" (Rodrik, 2004: 32). Governments still have "much scope" to subsidize domestic producers (Rodrik, 2004: 32). Most international rules provide general block exemptions that allow for certain types of subsidies. Subsidies are permitted for research and

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development, innovation, training, employment, environmental protection, as risk capital, and for promoting entrepreneurship (OFT 2007). The EU state aid rules also allow governments to subsidize failing firms (European Commission 2009).

Government make use of these exemptions to subsidize domestic producers. Governments do so when a country's electoral institutions and economic geography align to provide compelling electoral incentives to fund subsidies. In Chapter 5, I show that a country's electoral institutions and economic geography robustly predict the probability that a government will violate EU state aid rules. In other words, the same variables that predict the generosity of government-funded subsidies also predict states' (non)compliance with international subsidy rules.

In Chapter 6, I investigate subsidies in countries with proportional electoral systems. Among proportional systems, two key institutional features vary: list type and district magnitude. District magnitude refers to the number of candidates elected to parliament from each district. List type determines the order in which a party's candidates receive seats in the legislature. List type influences the nature of electoral competition. In closed-list systems – where voters select a party at the ballot box – elections are party-centered. In contrast, open-list systems allow voters to select individual candidates from a party's list and elections are consequently candidate-centered. The nature of electoral competition shapes the optimal (re-)election strategy of candidates and parties and consequently their policy priorities.[38] As a result, spending on subsidies for geographically diffuse groups is relatively higher in closed-list PR systems, as compared to open-list PR systems. In open-list systems, some funds are diverted away from diffuse groups by powerful individual legislators to assist voters in their own electoral district or bailiwick.[39] Legislators in open-list PR systems have incentives to divert resources in this way to cultivate their own personal support base. Doing so helps them win more individual votes and consequently increases their reelection chances. As a result, spending on subsidies for geographically diffuse groups is relatively higher in closed-list PR systems where political parties can better discipline their legislators to ensure that subsidies flow to geographically diffuse groups.

[38] The nature of electoral competition may also interact with district magnitude to shape leaders' incentives (e.g. Carey and Shugart 1995, Shugart, Valdini, and Suominen 2005, Chang and Golden 2007, Carey and Hix 2011).

[39] For evidence of this dynamic see Ames (1995) and Golden and Picci (2008).

In the second half of Chapter 6, I investigate the variation in subsidies to different sectors in a PR country. This single-country study holds constant institutional features, such as electoral rules and list type, as well as other country-specific factors, like culture. Doing so helps to isolate the effects of economic geography. The geographic patterns of employment vary between sectors in a country's economy. I find that geographically diffuse sectors win more generous subsidies than concentrated sectors in a PR country with de facto closed party lists (Norway), holding all else equal. This finding provides further evidence that political parties reap electoral benefits from subsidizing geographically diffuse groups in proportional electoral systems.

In Chapter 7, I examine the variation in subsidies between electoral districts within a country, controlling for economic geography. Specifically, I investigate the cross-district variation in subsidies in Norway – an archetypal PR country. This is a particularly useful case study because most existing research on particularistic economic policies focuses exclusively on plurality countries. As a result, far less is known about the politics of policy targeting in countries with proportional electoral rules. Like most PR countries, Norway has multiple electoral districts, and most legislative seats are awarded to parties based on their share of district-level votes rather than the national vote. As a result, district-level competitiveness may shape parties' election strategies and policy priorities.

Two novel results emerge from an investigation of the variation in subsidies between electoral districts in a PR country. First, political parties competing in PR systems with multiple electoral districts engage in policy targeting (i.e. they supply benefits to select, geographically defined areas). Second, political parties target economic benefits disproportionality to districts where they have relatively more supporters in this PR system. Both findings run counter to the conventional wisdom regarding distributive politics, which is derived largely from studies of plurality systems.

In Chapter 7, I report qualitative evidence from interviews of government ministers and bureaucrats responsible for the administration of subsidy programs in Norway. The interview evidence confirms the importance of electoral politics for governments' spending decisions. Usefully, the interviewees describe how policy targeting works in practice – highlighting the various mechanisms that government ministers and political parties use to control bureaucrats and target subsidies to politically important areas.

In sum, I examine three different types of variation in government-funded subsidies: variation between countries, variation between sectors within countries, and variation between electoral districts within countries. All three investigations illustrate the importance of electoral incentives in shaping governments' economic policies. The incentives to provide selective economic benefits depend on both a country's electoral institutions and economic geography. Building on these findings, the final chapter extends the implications of the argument for a broader theory of policy-making in an increasingly globalized world.