
The Power of Producers
Successful Demands for State Aid

Why do democratically elected governments spend more money on subsidies in some countries than in others? One reason may be the structure of a country's economy or the particular products a country produces. If a country's economic structure shapes its industrial policy, only a fool would try to compare countries' industrial policies in their entirety. Indeed, policy-makers I interviewed expressed skepticism about the wisdom of comparing countries' industrial policies.¹ Even comparing industrial policy across two relatively similar countries, such as Norway and Sweden, raised eyebrows among policy-makers.² While academics tend to be more comfortable making generalizations and cross-national comparisons, I take seriously the potential challenges of comparing countries' industrial policies in their totality. For this reason, I focus exclusively on subsidies to the manufacturing sector in the previous chapter. In this chapter, I focus exclusively on subsidies for a single industry. Focusing on one industry allows for a meaningful comparison of government support for business between countries.

In this chapter, I examine government subsidies for the wine industry. I compare subsidies for winemakers in two countries: France and Austria. The wine industries in these two countries, while not identical, share many similar features making them ideal for a comparative case study. The wine industry has the added advantage of having largely "exogenous" geographic patterns. Only certain geographic locations are suited to wine production, and factors, such as weather, soil, and terrain, primarily determine winemakers' location decisions. The wine industry consequently provides a valuable case study with which to investigate the links between geography, institutions, and policy.

¹ In person interview with Innovation Norway staff members Pål Aslak Hungnes and Per Melchior Koch in Oslo, Norway on June 19, 2014.

² In person interview with Innovation Norway staff members Pål Aslak Hungnes and Per Melchior Koch in Oslo, Norway on June 19, 2014.

France and Austria provide a valuable comparative case study because their electoral institutions differ significantly. Austria's highly proportional system³ provides an unambiguous contrast to France's majority-plurality system where candidates win office by obtaining a majority of votes in the first ballot or, failing that, a plurality of votes at the second ballot (Elgie 2005). In Austria, candidates fill a party's legislative seats in the order in which they are listed on a party's list and legislative seats are awarded to parties based on their vote shares. Given these electoral institutions, I expect to see different types of government assistance for producers. In France, I expect to find economic benefits geographically targeted to select groups. In contrast, I expect economic benefits to be more broadly beneficial in Austria.

Using a detailed case-selection criterion described below, I identify two subsidy programs that I investigate in detail – one in each country. Both programs conform to the expectations derived from my theory. The French subsidy program exclusively benefits producers that are geographically concentrated in a small area of the country. In contrast, the Austrian program assists producers across the entire country – irrespective of their geographic location. Both subsidy programs ran afoul of the European Union's rules on state aid. Rules on state aid seek to ensure a level playing field for all companies across the union.

EU state aid rules introduce an important factor to the model of economic policy-making developed in Chapter 3: international politics. Up to this point, I have focused exclusively on domestic politics arguing that incumbents in different countries have varied electoral incentives to supply certain types of economic policies. Their incentives stem from a country's electoral institutions and economic geography. But domestic electoral incentives are only part of the policy-making story. National policy decisions are increasingly influenced by international agreements. International rules, like those of the European Union (EU) and World Trade Organization (WTO), regulate countries' economic policies. As a result, governments frequently must consider the international implications of their economic policy decisions. Some policy choices will conflict with governments' international obligations. In these cases, governments must weigh the costs of violating international rules against the domestic benefits of implementing the "illegal" policy. For the subsidies examined here, the governments in both Austria and France concluded that the benefits gained at home from providing the subsidy outweighed the international costs of violating EU state aid rules.

³ Austria's electoral system produces some of the most proportional results in the world (Müller, 2005: 397).

The domestic benefits of these subsidies were large precisely because of the constellation of economic geography and electoral institutions. Together, electoral institutions and economic geography robustly predict the likelihood that a government will violate EU state aid rules – illustrating that domestic politics shape not only national economic policy but also international economic relations.

CASE SELECTION

Myriad subsidy programs exist. Given the ubiquity of government subsidies, it would be far too easy to cherry pick cases that best fit my theory. To guard against this, I use a methodical, multistep selection criterion. First, I identify EU member-states' subsidy programs using documents published by the European Commission.⁴ Every year, the Commission compiles a list of member-states' subsidies. The Commission monitors states' subsidies to ensure that they comply with EU rules that regulate subsidies (or "state aid" in EU nomenclature). These rules seek to ensure a level playing field for all companies across the union, and for this reason member-states are generally not allowed to subsidize their own producers. EU rules also aim to prevent subsidies from being used as an alternative form of protection in the absence of traditional barriers to trade, such as tariffs. EU rules prohibit subsidies that distort competition or have negative effects on intra-EU trade (Besley and Seabright 1999).

EU rules further require states to inform the Commission of their subsidy programs (Besley and Seabright 1999). Each notification triggers a preliminary investigation by the Commission into whether or not the subsidy is compatible with EU regulations. In this way, the Commission acts more like a police patrol than a fire alarm (McCubbins and Schwartz 1984).

Not all subsidies are prohibited by EU rules.⁵ Subsidies can be used in a number of circumstances because EU treaties recognize that government

⁴ I focus on subsidies that actually transpired (rather than those that did not). While this may be considered by some to be equivalent to "selecting on the dependent variable," it is appropriate here given my goal. I seek to illustrate the political mechanisms that link geography, electoral institutions, and policy. For this reason, I focus on cases where the outcome of interest (i.e. subsidies) actually occurred. Additionally, as a practical matter, it is extraordinarily difficult to identify subsidies that did not happen. Most subsidy programs fail to materialize long before they get to the legislature and as a result they are virtually invisible to researchers *ex post*.

⁵ Articles 87(2) and, more importantly in practice, 87(3) of the EC Treaty provide exceptions, thereby leaving states room for maneuver regarding the use of state aid (Blauberger 2009).

aid is sometimes necessary. Subsidies are permissible, for example, if they promote the execution of an important project of “common European interest” or remedy a serious disturbance in the economy of a member state. Aid is also permitted to facilitate the development of certain economic activities where such aid does not adversely affect trading conditions to an extent contrary to the common interest.⁶ Subsidies that aim to improve firm productivity and economic growth by removing or reducing market failures (or system failures) are also compatible with the rules of the Single Market (Stöckinger and Holzner 2016).

Given the varied circumstances under which subsidies are allowed under EU state aid rules, governments can assist producers using subsidies while fully complying with EU rules. In fact, most government-funded subsidies comply with EU rules (European Commission 1995). In 1997, the Commission registered 657 subsidies and found that 98 percent of them complied with EU rules.⁷ Given this, the universe of EU compliant subsidies is too large to usefully identify cases for in-depth study. Therefore, as a first step, I limit my sample to subsidies formally investigated by the European Commission. If doubts exist as to the compatibility of a subsidy with EU state aid rules, the Commission opens a formal investigation. At the end of the investigation, the Commission makes a final ruling. If the Commission issues a negative decision, the measure is deemed to be incompatible with EU rules. I limit my sample to cases where the Commission made a negative or partially negative decision under Article 93(21) of the EC Treaty with or without recovery. In 2014, only 26 out of 593 subsidy investigations resulted in a “negative decision with recovery” in which the Commission ruled that the aid was noncompliant with State Aid rules and required the government to “recover” the aid. If the Commission makes a negative decision “with recovery,” the Commission requires the member state to recover the aid already paid out with interest from the beneficiaries.⁸

⁶ EU subsidy rules are regularly reviewed in response to demands from member-states and the European Council. The Council called for fewer but better targeted subsidies to boost the European economy following the 2008 global economic crises and in May 2014, the Commission adopted revised subsidy rules.

⁷ In sectors other than agriculture, fisheries, transport, and coal (European Commission 1997).

⁸ The Commission subsequently opens a “recovery case” to enforce the implementation of its decision. On June 30, 2014, there were forty-nine active pending recovery cases. (Author’s calculations using data available from the European Commission’s database of Competition Cases available at <http://ec.europa.eu/competition/elojade/isef/index.cfm?pa=2>). If the member state does not comply with the decision in due time, the Commission may refer it to the European Court of Justice (ECJ).

The aim of recovery is to remove the undue advantage granted to companies.

While this selection criterion usefully limits the sample size, it may introduce bias. Subsidies incompatible with EU rules may differ from subsidies that comply with state aid rules. Noncompliant subsidies may, for example, stem from particularly intense domestic pressures for assistance. Leaders facing intense demands for aid may be more willing to provide subsidies in violation of EU state aid rules. On one hand, such dynamics might generate an upward bias in the apparent level of domestic demand for subsidies. On the other hand, intense domestic pressure for subsidies may help to make the mechanisms linking electoral institutions and economic geography to policy more visible to observers *ex post*.

In fact, the politics behind noncompliant subsidies appear to be similar to the politics that lead to EU-compliant subsidies. The same variables that predict subsidy spending (i.e. geographic concentration and electoral institutions) also explain the cross-national variation in non-EU compliant subsidies.⁹ To demonstrate this, I identify all negative or partially negative decisions by the European Commission with respect to manufacturing-sector subsidies under Article 93(21) of the EC Treaty (with or without recovery) from 1988 to 2000. Using these original data, I estimate a negative binominal regression model of non-EU compliant subsidies on PR, geographic concentration, the key interaction term, and important control variables. The results are reported in Table 5.1.

Governments elected via proportionality are more likely to violate EU state aid rules than governments elected via plurality when the beneficiaries are geographically diffuse. When manufacturing employment is geographically diffuse (i.e. when *Concentration* equals zero), the expected number of “illegal” manufacturing subsidies is

⁹ No evidence exists to suggest that the Commission’s rulings on state aid are biased (Besley and Seabright 1999). All illegal subsidy programs are equally likely to be ruled against by the Commission. In fact, some conclude that the Commission’s negative decisions on state aid are “as-if” random (Besley and Seabright 1999). Some scholars suggest that the idea of systematic bias in the commission’s rules is simply “implausible” (Franchino and Mainenti, 2016: 8). The EU’s strongest member (Germany) is ruled against most frequently by the Commission during this period. The fact suggests that the Commission’s decisions are not biased in favor of the union’s most powerful states. But if any bias does exist, it would arguably make it more difficult to find support for my argument. If, for example, illegal subsidy programs in some member-states are more likely to be ruled against than those in other states, the pattern of negative decisions would deviate from the pattern I predict based on domestic political considerations. Any bias that does exist in the Commission’s decisions would therefore make it more rather than less difficult to find support for my argument.

Table 5.1 *Effects of PR on non-EU compliant subsidies*

	(1)	(2)	(3)	(4)
PR	2.049*** (0.551)	2.092*** (0.585)	2.078*** (0.554)	1.872*** (0.651)
Concentration	30.546*** (7.210)	30.899*** (7.308)	30.090*** (6.915)	28.833*** (7.761)
PR*Concentration	-18.980** (9.484)	-19.726* (10.195)	-19.169** (9.685)	-16.867* (10.423)
GDP (log)	1.433*** (0.164)	1.394*** (0.181)	1.404*** (0.163)	1.377*** (0.209)
Area (log)		0.053 (0.190)		
Economic Growth			-0.089 (0.079)	
Employment				0.018 (0.035)
Alpha (log)	-0.767* (0.418)	-0.779* (0.437)	-0.707* (0.410)	-0.708* (0.411)
Constant	-41.77*** (4.653)	-41.37*** (4.444)	-40.73*** (4.658)	-40.67*** (5.404)
Observations	156	156	156	156

Notes: Robust standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; EU country-years only; manufacturing sector only; results are robust to one-year lags.

higher in PR countries than plurality countries, as demonstrated by the positive and statistically significant coefficient on *PR* in Table 5.1. The positive coefficient is statistically significant across all four models.

Figure 5.1 graphically illustrates the results reported in Table 5.1. In Figure 5.1, the coefficients from column 4 of Table 5.1 are transformed to indicate the predicted number of noncompliant subsidies per country-year. The predicted numbers of subsidies that violate EU state aid rules in a given country-year is low, ranging from zero to five. This result accords with the fact that the European Commission typically rules against only a handful of subsidies in any given country for any given year.

When *Concentration* is less than 0.07, the expected number of noncompliant subsidies is higher in PR countries than plurality countries. In other words, governments elected via proportionality fund more noncompliant subsidies than governments elected via plurality when the beneficiaries are geographically diffuse. This finding is consistent with the argument that incumbents in plurality systems have few incentives to

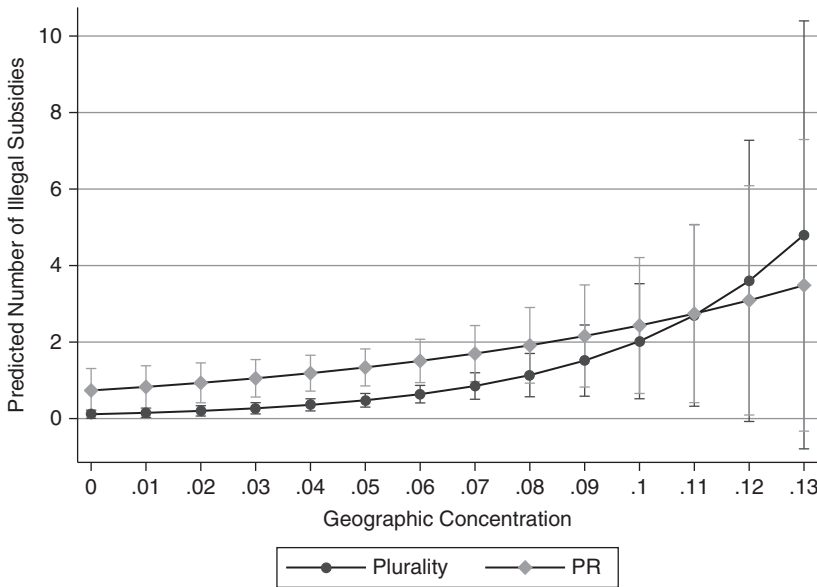


Figure 5.1 Predicted number of non-EU compliant subsidies (bars indicate 95 percent confidence interval)

fund subsidies for groups spread across multiple districts. Funding subsidies for groups across multiple districts is an inefficient reelection strategy for incumbents in plurality systems. Instead, incumbents in plurality systems seek to fund programs that exclusively benefit groups concentrated in their own district because doing so is an efficient way to maximize their chances of reelection. In contrast, incumbent parties in PR systems seek to increase their share of the national vote by subsidizing groups spread across the country. Leaders in PR countries are therefore more willing to fund subsidies for diffuse groups than leaders in plurality countries – even in violation of EU state aid rules.

As *Concentration* increases, the number of noncompliant subsidies increases in both PR and plurality countries. However, the rate of increase is greater in plurality countries, as compared to PR countries. When *Concentration* is higher than 0.11, the predicted number of noncompliant subsidies is larger in plurality countries than PR countries. However, the 95 percent confidence intervals overlap. At high levels of geographic concentration, the predicted number of noncompliant subsidies does not differ meaningfully between PR and plurality countries.

The same factors that explain the variation in subsidy spending between countries (i.e. geographic concentration and electoral rules) also explain the cross-national variation in noncompliance with EU state aid rules. These

results suggest that the politics behind noncompliant subsidies are similar to those of compliant subsidies. The findings reported in Table 5.1 also help to minimize concerns about possible bias in the population of noncompliant subsidies. Previous studies have similarly found no evidence of bias in the Commission's rulings on state aid (Besley and Seabright 1999, Franchino and Mainenti, 2016: 8). Illegal subsidy programs appear to be equally likely to be ruled against by the Commission regardless of the member-state in which they originate. The Commission's decisions do not appear to be biased in favor of the union's most powerful states. In fact, the strongest EU member-state, Germany, is ruled against frequently by the Commission. Some scholars even suggest that the Commission's negative decisions on state aid are "as-if" random (Besley and Seabright 1999). If any bias does exist in the Commissions' decisions, it would arguably make it more difficult to find support for my argument. If illegal subsidy programs in some member-states are more likely to be ruled against than those in other states, the pattern of negative decisions would deviate from the pattern I predict based on domestic political considerations. Any bias that does exist in the Commission's decisions would therefore make it more difficult to find support for my argument.

Although only a small proportion of state subsidies run afoul of EU rules, the sample of negative or partially negative decisions remains too large to usefully identify cases for an in-depth investigation of the political dynamics behind subsidies. Therefore, as a further step, I limit my sample to negative or partially negative decisions made during the period from 1990 to 2000. I focus on these years because EU state aid rules – and the Commissions' enforcement of them – remained relatively constant over this period.¹⁰ This consistency ensures that I compare like cases.

However, even this sample contains too many cases for a meaningful in-depth study. Therefore, as a final selection criterion, I limit my sample to a single industry. A single-industry case study ensures that the myriad factors that vary between different industries are held constant. Declining industries, for example, tend to win more state aid than prosperous industries. A single industry study holds such factors constant and consequently helps to isolate the effects of electoral institutions and economic geography. In this chapter, I focus exclusively on subsidies to the wine industry.¹¹

¹⁰ Even though the formal instruments of state aid control were laid out in the 1957 Treaty of Rome, it was only in the mid-1980s that enforcement became a Commission priority. Important changes in state aid policy and enforcement occurred in the year 1990 and again in 1999 (Cini 2001, Blauburger 2009).

¹¹ Cognac is technically a type of brandy rather than a wine per se. However, like wine, it is produced from grapes and its production methods must meet certain legal requirements. Cognac is made by distilling wine, and then aging the resulting spirit

Why Wine?

The wine industry provides a particularly useful case study because the geography of wine production is largely exogenous to policy. Factors such as weather and soil are far more important determinates of the location of vineyards than politics. Vines must be planted in areas where the topography and climate are conducive to grape growth. And producers often operate on or near vineyards to minimize the time between harvest and pressing. In Europe, wine is frequently produced at the vineyard in order to qualify for the prestigious geographic classifications. Often, a wine's denomination can only be attributed if the grapes are grown and pressed in the delimited region (Meloni and Swinnen 2013). In sum, the geography of wine production is largely exogenous to politics.

Because the geographic pattern of wine production is generally exogenous to politics, concerns about the direction of causation – or what causes what – are minimized. In theory, producers could strategically choose their geographic location to take advantage of a country's political system. Producers in plurality systems, for example, could tactically locate themselves in concentrated groups to maximize their chances of winning particularistic economic policies, like subsidies. In this way, economic geography could be a function of a country's electoral rules. However, average employment concentration levels are nearly identical in plurality systems and PR systems, which suggests that producers do not strategically locate themselves in order to take advantage of the electoral system. Producers in plurality systems are just as concentrated as producers in PR systems, on average. This finding is consistent with the large and growing literature on firms' location decisions, which shows that factors other than government policy are far more important to firms' location decisions.¹²

The wine industry illustrates one reason why economic geography looks broadly similar in plurality and PR systems: producers' location options are limited by their production requirements. Wine producers cannot choose from an infinite number of locations to set up shop. Winemakers must be near high quality grape-producing vineyards, and vineyards must be located in areas with suitable climate, soil, and terrain. They have limited location options and as a result they have little ability to strategically locate their production processes to take advantage of the electoral system. Because the geography of wine production is determined

in wood barrels. The Cognac label can only be applied to the spirit if it was produced in a specific geographic region of France.

¹² European Commission (2003).

primarily by factors other than countries' electoral institutions, government aid to the wine industry provides a useful case with which to examine the impact of electoral institutions and geography on economic policy.

The Outcome of the Selection Process

My case selection strategy has several additional benefits. First, only countries bound by identical international rules are compared with one another. The EU rules regulating the wine industry are highly restrictive and as a result, it would be misleading to compare wine subsidies in EU countries to wine subsidies in non-EU countries. France, for example, is constrained by EU subsidy rules but South Africa faces no such restrictions. Comparing government aid to winemakers in France to subsidies in South Africa would be misleading. Usefully, my sample is restricted to EU member countries, which are bound by identical international rules.

Second, my empirical strategy ensures that I did not selectively pick cases to fit my theory. The sample under investigation encompasses the entire population of illegal wine subsidies during the period from 1990 to 2000. During this period, there are three wine subsidy programs that violate EU state aid rules – one each in France, Austria, and Germany. I examine the French and Austrian programs in detail in this chapter. I set aside the German subsidy because of the complexities of Germany's mixed electoral system. The mixed-member proportional system makes it more difficult to isolate the precise mechanisms linking geography, institutions, and policy. However, the German case broadly fits my theory. Leaders elected from single-member districts provided a subsidy to a geographically concentrated group of winemakers located on just 982 hectares (3.8 square miles) in a single federal state, an area that constituted less than 0.1 percent of the total area in Rhineland-Palatinate. In sum, the universe of illegal wine subsidies in my sample period conform to my theoretical expectations. Before turning to the details of the two illegal wine subsidies, I begin first with brief, general discussion of wine subsidies.

WINE SUBSIDIES

Many governments subsidize wine production. Various policies assist winemakers including subsidized loans, minimum price schemes, drought relief schemes, water subsidies, aid for vine-pulling or "grubbing," and tax breaks. While government assistance for wine

producers is common and widespread, EU rules regulate member-states' support for the wine industry.

Of all the wine consumed around the world today, 60 percent is subject to EU rules (OIV 2007). While the EU has generic subsidy rules (or "state aid" in EU nomenclature), the wine industry is subject to special regulations.¹³ Aid to wine producers is allowed, for example, if the objective is to reduce wine production or improve quality (without leading to increased production).¹⁴ Governments can provide subsidies to offset the costs of converting vineyards from one varietal to another (but they must not increase production potential). Similarly, governments can fund programs that aim to reduce the production of wines for which there is no market (via conversion). Subsidies are also allowed under EU rules if they improve the quality of the product without leading to increased production.¹⁵ In sum, governments interested in assisting wine producers must navigate a complex web of EU rules and regulations.

At times, governments run afoul of the EU rules. In many cases, governments appear to have inadvertently violated EU regulations in their attempts to assist domestic winemakers. In the following case studies, I identify where the demands for subsidies came from and explore why the demands were successful in winning support from the government – even in violation of EU state aid rules. I begin with the case of France.

SUBSIDIES FOR FRENCH COGNAC PRODUCERS

The French subsidy program granted supplemental financial aid to wine producers in the demarcated Cognac region. The designated Cognac region, bordered by the Atlantic Ocean on the west and the medieval city of Angoulême on the east, covers the département of Charente-

¹³ In the EU today, wine production is regulated and controlled by a comprehensive Wine Common Market Organization in the framework of the Common Agricultural Policy.

¹⁴ These rules prohibit, for example, government aid for the planting of winegrowing areas from September 1, 1988, except where such aid contains criteria to ensure, in particular, that the objective of reducing production or improving quality is achieved without leading to increased production (32001D0052 2001/52/EC: Commission Decision of September 20, 2000 on the State aid implemented by France in the winegrowing sector (notified under document number C(2000) 2754 Official Journal L 017, 19/01/2001 P. 0030–0037 available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32001D0052>).

¹⁵ These subsidies are permissible under the WTO's 1994 Uruguay Round Agreement on Agriculture (URAA) because they are considered "blue box" subsidies.

Maritime and most of Charente. The French government approved two decrees to grant aid for winegrowing holdings in the Charente-Maritime and Charente area on March 12, 1999 and April 6, 2000, for the 1998/1999 and 1999/2000 wine years, respectively.

Of all the grapes grown in Charente, 95 percent are destined for Cognac distillation (Yagoda 2009). Cognac is technically a type of brandy rather than a wine per se. However, like wine, it is produced from grapes and its production methods must meet certain legal requirements. Cognac is made by distilling wine, and then aging the resulting spirit in wood barrels. The Cognac label can only be applied to the spirit if it was produced in a specific geographic region – the eponymous Cognac region of western France.

Four measures were agreed by the French government to help Cognac producers in Charente. These programs included: (1) supplemental aid for improving the vine population; (2) technical support for producers; (3) the promotion of Cognac; (4) supplements to the grubbing premium – a financial incentive to voluntarily pull up grape vines. “Grubbing up” subsidies are intended to reduce supply and subsequently raise prices. Producers in the region qualified for a supplemental payment of €1,524 per hectare to help convert vineyards traditionally used to produce Cognac, to the production of other wines known as “local wines.”¹⁶ The estimated budget for the subsidy was FRF 10,000,000 (€1,524,000).¹⁷ Only producers located in the Cognac demarcated region were eligible for this aid.

Government support for winemakers in France

The Cognac subsidy is just one example of state support in a country with a long history of government assistance for winemakers. French governments of various ideological persuasions have assisted wine producers over the decades.¹⁸ In 1953, for example, the “Code du Vin” reestablished subsidies to uproot vines, as well as subsidies for surplus

¹⁶ JORF n°85 du 11 avril 1999 page 5387, <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000211372>.

¹⁷ JORF n°85 du 11 avril 1999 page 5387.

¹⁸ French wine producers benefit from EU assistance. In fact, France is the third largest beneficiary of EU subsidies for the wine industry (i.e. of all aid paid by the EAGGF guarantee behind the wine industry). France falls behind Spain and Italy with 19 percent of the aid (Ministère de l’agriculture et de la pêche Mise à jour: janvier 2006 Direction des affaires financières et de la logistique Le vin et les produits de la viticulture http://agriculture.gouv.fr/IMG/pdf/vin_2004.pdf). EU payments to the wine industry represented 2.3 percent of total CAP expenditure in 2009, according to the latest European Commission figures available. The largest producer nations,

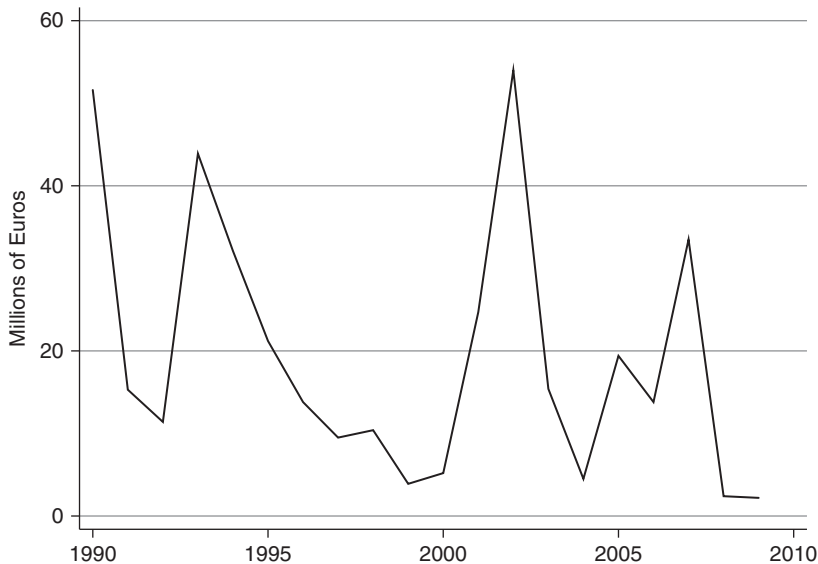


Figure 5.2 Total national government financial aid to the wine industry, in millions of euros. Source: Public support to agriculture (*Les concours publics à l'agriculture*).

storage and compulsory distillation (Meloni and Swinnen 2013). In more recent years, government support for the industry has fluctuated, as illustrated in Figure 5.2. Between 1990 and 2004, the level of public assistance to the French wine industry varied.¹⁹ The two largest spikes in government assistance occurred in election years, which suggest politics may play a role in state support for the industry. Elected leaders may seek the electoral support of industry-specific interest groups in the run up to election contests.

Interest Group Politics in France

Historically, no single interest group represented the entire wine industry in France. Instead, pressure groups were organized around Appellations, or geographically defined areas (Meloni and Swinnen 2013). In an attempt to regulate quality, the French government created an explicit link between the “quality” of the wine and its production region (the *terroir*). The regional

France, Spain, and Italy, took the majority of the subsidies, which totaled EUR 1.31 billion Euros.

¹⁹ These variations are due, in part, to market fluctuations, including the occurrence of overproduction (Ministère de l’agriculture et de la pêche Mise à jour: janvier 2006 Direction des affaires financières et de la logistique Le vin et les produits de la viticulture, http://agriculture.gouv.fr/IMG/pdf/vin_2004.pdf).

boundaries of Bordeaux, Cognac, Armagnac, and Champagne wines were established between 1908 and 1912. These regional boundaries were referred to as *Appellations*. In 1935, a law formalized the *Appellations d'Origine Contrôlées* (AOC). Producers and winegrowers coalesced into AOC groups. For example, in the Champagne AOC region, three powerful lobbying groups emerged: the *Fédération des Syndicats de la Champagne* that represented winegrowers; the *Syndicat du Commerce des Vins de Champagne* that promoted exports of the *Maisons de Champagne*; and the *Association Viticole Champenoise* that stood for the interests of both winegrowers and *Maisons*.²⁰ The geographically defined AOC associations became powerful interest groups whose members typically lived and worked in relatively concentrated geographic locations. These interest groups lobby the government for economic assistance and have been quite successful in winning subsidies (Meloni and Swinnen 2013). The political influence of these groups is due, in part, to the country's electoral institutions.

Electoral Institutions in France

France's electoral institutions make it politically expedient for elected leaders to respond to the demands of geographically concentrated interest groups. The French electoral system is classified as being a two-ballot majority-plurality system (Elgie 2005). A candidate is elected by winning either a majority of votes in the first ballot or failing that, a plurality of votes at the second ballot, hence the term "majority-plurality" (Elgie, 2005: 122). A candidate is elected in the first round if she obtains an absolute majority of the total votes cast, provided this amount is equal to a quarter of registered voters in a given constituency. If no candidate obtains an absolute majority in the first round, a second round election is held. To be a candidate in the second round, a candidate must have obtained 12.5 percent of the registered voters in the first round. At the second ballot, a relative majority of cast votes is sufficient to get elected.²¹

France's electoral system incentivizes candidates to focus tenaciously on the demands of their geographically defined constituents (i.e. the voters located in the geographically defined constituency in which the candidate is seeking election). Only these voters matter for a candidate's (re)election

²⁰ The creation of these associations was made possible, in part, by the 1884 French law that legalized labor unions (Simpson 2011).

²¹ In the case of an equal number of votes cast between the two candidates, the elder candidate is elected.

chances. Voters located in other districts are irrelevant. Therefore, to maximize their chances of holding office, politicians seek to target economic benefits to producers geographically concentrated in their own district. In this way, the two-ballot system has similar effects as a simple majoritarian or plurality system (Elgie 2005).

France's electoral institutions generate incentives for politicians to geographically target economic benefits to their own constituents. A survey of sitting French MPs revealed that 41.2 percent agreed it was their duty to "represent above all his/her constituency and his/her region" (Brouard et al. 2013).²² As one French MP put it: "An MP is a gardener. He has a big garden, his constituency, and he has to go to Paris in order to get fertiliser."²³ Subsidies are one example of such fertilizer. Subsidies benefit producers and when producers are geographically concentrated in a MP's district, they have incentives to secure such programs. In the case of French wine producers, geographically concentrated producers share common economic interests, and these shared interests form the basis for organized interest groups, which lobby legislators for targeted economic benefits.

Adding further to the incentives for localism is the fact that national legislators in France tend to have close ties to local constituencies (Costa and Kerrouche 2009). A long-standing tradition exists that candidates elected to the National Assembly have a local base (if not they must be "parachuted" into a position of responsibility at the local level as soon as possible [Elgie, 2005: 131]).²⁴ In the 1997–2002 legislature, for example, 97 percent of all deputies simultaneously held some sort of elected office at the local level (Elgie, 2005: 131). All three of the legislators that lobbied for the wine subsidy held local positions in addition to their national legislative seat. For example, Marie-Line Reynaud served as a member of the Municipal Council of Jarnac. Jarnac is home to several Cognac distilleries, including Courvoisier. Didier Quentin served on both the Charente-Maritime's General Council and the Poitou-Charentes Regional Council. Dominique Bussereau also served as a regional councilor for Poitou-Charentes and a general councillor for the Charente-Maritime département.

Given this tradition, French legislators may pay relatively more attention to the concerns of their local constituency than their counterparts elsewhere, even controlling for electoral rules (Elgie, 2005: 131).

²² Brouard et al. (2013).

²³ 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).

²⁴ Note however that this is not due to the electoral system per se.

However, constituents' demands succeed at the national level because of France's national electoral institutions. Although France has three tiers of subnational government, it is a unitary, centralized state, in which most authority is exercised by a power base in Paris (OECD 2010). The centralized power is controlled by leaders elected to office via a majority-plurality system, which incentivizes the provision of narrowly targeted policies, such as the wine subsidy I examine here.

In sum, France's electoral institutions align with the geography of the French wine industry to produce geographically targeted support programs. The financial support provided to producers in the Cognac region is just one such example.

The Politics Behind Targeted Support for Cognac

Cognac producers faced difficult economic conditions in the late 1990s. Cognac sales began falling as markets in Asia, most notably Japan, suffered. Asia was one of the key markets for French brandy and the economic crisis in Asia hit the French Cognac industry hard.²⁵ The decline in global demand resulted in an accumulation of cognac stock, which in turn drove down cognac prices and subsequently profits. Many smaller producers were pushed to the verge of bankruptcy. Some growers even destroyed a segment of their vines in an attempt to sustain prices.²⁶

In September 1998, winemakers in the region took to the streets to demand government assistance.²⁷ Over 700 viticulturists and grape farmers set up barriers around the cities of Cognac and Jarnac to demand subsidies and tax breaks in compensation for declining sales of French brandy.²⁸ Local grape growers and cognac producers were joined by members of the agriculture union, Movement for the Defense of Family Farmers (MODEF), in a massive tire burning campaign.²⁹ The protests caused serious disruption to the area. The four-day blockade ended when the government promised targeted financial assistance. Growers were promised aid to cut overproduction, as well as cheap-rate loans to tide them over until they had been paid for their harvests. Full details of the

²⁵ *Dans les Charentes, la crise du cognac met à mal toute la région*, Le Monde, November 26, 1997; Reuters, Oct 1, 1998 via Factiva accessed on Nov 3, 2014.

²⁶ Reuters, Oct 1, 1998 via Factiva accessed on Nov 3, 2014.

²⁷ Bussereau. Parliamentary question no 468 Question published in the OJ: 05/10/1998 page: 5339 Source: <http://questions.assemblee-nationale.fr/q11/11-468QOSD.htm>

²⁸ Reuters, Oct 6, 1998 via Factiva accessed on Nov. 3, 2014

²⁹ Torula News 1998 Global Torula News Archive Sept 29, 1998 www.cognacnet.com/torulanews/torulanews098.htm.

assistance program were to be worked out with the Agriculture Ministry.³⁰

Ultimately, four measures were agreed by the French government to help Cognac producers including a “grubbing up” subsidy – a financial incentive to voluntarily pull up grape vines. Only producers located in the Cognac demarcated region were eligible for this financial assistance.³¹ The geographically targeted nature of this subsidy conforms to my theoretical expectations. In France, where candidates compete in single-member districts under a majority-plurality system, I anticipate that subsidies will tend to be targeted to geographically concentrated groups, like the Cognac producers of Charente. Politicians competing for office in single-member districts have incentives to supply economic rents to their geographically defined constituents in order to maximize their chances of (re)election. Subsidies provide one policy tool by which to achieve this goal. It is no surprise then that this subsidy program benefits exclusively to narrow, geographically concentrated producer group.

Parliamentary Questions

Legislators’ electoral strategies influence their legislative behavior (Ames 1995, Carey and Shugart 1995). Specifically, I argue that electoral institutions shape legislators’ reelection strategies, which, in turn, influence their legislative behavior. One important form of legislative behavior is parliamentary questions. Parliamentary questions (PQs) give legislators an opportunity to pose questions to government ministers either in the legislative chamber or via writing. PQs provide a unique insight into parliamentarians’ concerns because they are a form of legislative behavior typically not organized by political parties (Martin 2011a). Additionally, the number of questions allowed from the floor is limited, and legislators consequently treat PQs as a scarce resource. They carefully consider what policies to agitate for and which issues to raise with ministers in their parliamentary questions.

I identify all of the PQs asked in the French legislature that relate to the Cognac subsidy program.³² During the period from 1997 to 2000, three

³⁰ Reuters, Oct 1, 1998 via Factiva accessed on Nov 3, 2014.

³¹ The estimated budget was FRF 10,000,000 (EUR 1,524,000) and the aid was to be granted in the form of a payment of FRF 10,000/ha (EUR 1,524) to winegrowers (JORF n°85 du 11 avril 1999 page 5387).

³² The legislative record provides valuable evidence of legislators’ priorities and policy preferences. However, legislators may use multiple means to maximize their chances of winning office. Legislators may, for example, lobby ministers directly for key policies. Such lobbying may not appear in the legislative record. Legislators may

legislators asked eleven parliamentary questions seeking subsidies for wine makers in the Cognac region. All of the PQs were addressed to the Minister of Agriculture and Fisheries. Details of these questions can be found in Table 5.2.

Although each of the three legislators came from a different political party, they all represented the same region. Marie-Line Reynaud, a member of the governing Socialist (*Socialiste*) party, came from the *Charente Département (circonscription 2)*. Didier Quentin was elected from the *Département Charente-Maritime (circonscription 5)* as a member of the center-right opposition party *Rassemblement pour la République*. Dominique Bussereau represented the *Département Charente-Maritime (circonscription 4)* as a member of *Démocratie libérale et indépendants*, which was a center-right opposition party. This pattern suggests that ideology and partisanship are relatively less important than geography for explaining legislators' policy priorities. Legislators from different parties, but the same region, demanded subsidies for their geographically concentrated constituents (i.e. Cognac producers). In effect, geography trumped ideology.

The questions, recorded in the legislative record, highlight the legislators' efforts to secure state aid for their winemaking constituents. Bussereau, for example, urged the Minister of Agriculture to provide targeted assistance to the winegrowers of the Cognac region on the floor of the National Assembly on October 5, 1998. He argued that the government should make an "unprecedented effort" because the region has very serious economic difficulties.³³ Bussereau described the winemakers' recent protests and urged the government to act before such demonstrations became violent. In his PQ, Bussereau took the opportunity to propose explicit support measures, including subsidized loans for grape growers, financial aid for distillation, and a minimum price target, which would work to "quickly improve farmers' incomes."³⁴

Reynaud, a Socialist legislator from Charente, asked the most parliamentary questions related to the Cognac subsidy. In fact, she asked seven of the eleven PQs related to aid for Charente winemakers. On the floor of the National Assembly, Reynaud implored the Minister to subsidize Charente wine producers. Specifically, she called for supplemental aid for Charente area winemakers to support diversification – that is, the uprooting

lobby ministers behind closed doors. Given this, it is important to remember that the legislative record likely provides only part of the picture.

³³ Author's translation. Original text can be found at <http://questions.assemblee-nationale.fr/q11/11-468QOSD.htm>.

³⁴ Author's translation. Original text can be found at <http://questions.assemblee-nationale.fr/q11/11-468QOSD.htm>.

Table 5.2 *Parliamentary questions about the French Cognac subsidy*

Number	Legislator	Party	Département	Published in JO (day/ month/year)	Minister's Reply (day/ month/year)
11ème législature – QE 56084	Dominique Bussereau	Démocratie libérale (DL)	Charente-Maritime	25/12/2000	19/02/2001
11ème législature – QE 53674	Didier Quentin	Rassemblement pour la République (RPR)	Charente-Maritime	13/11/2000	05/02/2001
11ème législature – QE 32186	Marie-Line Reynaud	Socialiste (PS)	Charente	28/06/1999	18/10/1999
11ème législature – QE 17374	Didier Quentin	Rassemblement pour la République (RPR)	Charente-Maritime	27/07/1998	05/07/1999
11ème législature – QE 9823	Marie-Line Reynaud	Socialiste (PS)	Charente	09/02/1998	25/01/1999
11ème législature – QE 5366	Marie-Line Reynaud	Socialiste (PS)	Charente	27/10/1997	02/02/1998
11ème législature – QE 2380	Marie-Line Reynaud	Socialiste (PS)	Charente	25/08/1997	05/07/1999
11ème législature – QE 2379	Marie-Line Reynaud	Socialiste (PS)	Charente	25/08/1997	25/01/1999
11ème législature – QE 2378	Marie-Line Reynaud	Socialiste (PS)	Charente	25/08/1997	10/11/1997
11ème législature – QOSD 1257	Marie-Line Reynaud	Socialiste (PS)	Charente	25/12/2000	10/01/2001
11ème législature – QOSD 468	Dominique Bussereau	Démocratie libérale (DL)	Charente-Maritime	05/10/1998	07/10/1998

Notes: JO refers to the *Journal officiel de la République française*, which is the official gazette of the French Republic. It publishes the major legal official information from the national Government of France.

of vines for Cognac and replanting new varieties. She argued that this government assistance was necessary to lift “the Cognac region out of its structural crisis.”³⁵

The Minister of Agriculture came to the legislative chamber in person to answer these legislators’ questions. Minister Le Pensec (Socialist) said that he agreed with the seriousness of the economic crisis facing wine growers in Charente and Charente-Maritime.³⁶ He stated that the situation had his “full attention” and that he sought to implement “a more ambitious structural adjustment program.” He clarified that such an adjustment program “will require undoubtedly adequate resources.” He specified that he wanted to provide short-term relief via distillation subsidies and grubbing up premiums. He expressed particular support for young winemakers, as well as those who make a greater effort of collective organization.

The Prime Minister ultimately issued a decree granting aid to wine makers in Charente-Maritime and Charente.³⁷ This example illustrates how a handful of engaged legislators can succeed in winning targeted aid for their constituents. In this case, the legislators did not need to convince a plurality of fellow legislators as the program was not passed by legislative degree. Instead, they needed to convince the Agriculture Minister and the Prime Minister to fund the subsidy.

The Role of Partisanship

In this case, both the Agriculture Minister and the Prime Minister were socialists. Is this merely a coincidence or does ideology play a role in governments’ subsidy decisions? In France, governments of various ideological persuasions have assisted winemakers. Although the Cognac subsidy was provided by a Socialist Prime Minister, the legislators who demanded the subsidy were not, uniformly, Socialists. In fact, two of the three legislators requesting assistance for cognac producers came from right-leaning, opposition, parties. Bussereau, a member of the center-right *Démocratie libérale* (DL) party, explicitly minimized the role of partisanship in his demands for cognac subsidies. He clarified that his demands for subsidies had nothing to do with the fact that he was from an opposition party. Instead, he insisted that his demands reflected only the dire economic situation of Cognac growers in his constituency. Bussereau argued that demands for targeted assistance could reasonably come from

³⁵ Author’s translation. Original text can be found at <http://questions.assemblee-nationale.fr/q11/11-1257QOSD.htm>.

³⁶ Author’s translation. Original text can be found at <http://questions.assemblee-nationale.fr/q11/11-468QOSD.htm>.

³⁷ JORF n°85 du 11 Avril 1999 page 5387.

any of the areas' legislators. And, indeed, legislators from two other parties made similar demands on the floor of the National Assembly. The Minister of Agriculture, himself a Socialist, identified legislators from other parties who shared similar concerns regarding Cognac producers in his legislative speech.

In this case, electoral incentives appear to have outweighed partisan politics. The socialist government allocated financial help not just as a way of funneling pork to its own constituents or members of parliament. However, we cannot know for certain whether the outcome would have been different if the Prime Minister had not been a socialist. Thus, the French case does not fully resolve the question of how governments' ideology matters for subsidies.

The Role of Electoral Competitiveness

What role, if any, did the competitiveness of elections play in the Cognac subsidies? Among legislators from the region, those elected in safe seats did not press for subsidies for their winemaking constituents via parliamentary questions. Jean-Claude Beauchaud, for example, won a convincing victory in 1997 with 64.8 percent of the second round vote.³⁸ Beauchaud was from the same party as the Prime Minister and as such was in a unique position to win subsidies for his winemaking constituents. Yet, Beauchaud, did not ask for assistance for wine producers in the Cognac region.³⁹ Perhaps Beauchaud did not feel the need to lobby on behalf of his constituents given the lack of competition he faced in the 1997 election. Given his lack of constituency service, it comes as no surprise that Beauchaud's vote share declined by 5 percentage points to 59 percent in 2002. Although he was returned to the legislature in 2002, it was by a far less convincing margin.

³⁸ Elections were held for all the seats in the National Assembly following the premature dissolution of the legislature on April 22, 1997. In the 1997 election, the Socialist Party won 246 seats. It did not obtain an absolute majority (289 seats) and thus relied on the support of its allies to govern. These allies included the 37 Communists, 13 Radical Socialists, 16 various left, and eight Greens who entered the National Assembly for the first time. The National Front, instrumental in defeating candidates from the moderate right, won only a single seat. The RPR and its ally the Union for French Democracy (UDF), which together lost over 200 seats, had a total of 256 seats with the "various right." Taking heed of these results, President Chirac called on Socialist Lionel Jospin to form the government, which was appointed on June 4 and included Communist and Green Ministers. Jospin was a Socialist. France thus began a period of "cohabitation" between a rightist President and a leftist Government. The aid in question was enacted by decree by the Socialist Prime Minister (Source: JORF n°85 du 11 Avril 1999 page 5387).

³⁹ At least not in public.

Legislators from the Charente and Charente-Maritime region who faced more competitive elections in 1997 were more likely to press for subsidies in subsequent years. On average, legislators that asked for Cognac subsidies won their seats by smaller margins than the regional average. The average vote share for legislators elected from the nine *circonscriptions* in the region was 55.9 percent. The average vote share for legislators who asked for wine subsidies for the region was only 53.75 percent. Quentin, for example, won office with 55.37 percent of the second round vote and Reynaud won with 54.81 percent. Of the three legislators who ask for subsidies, Bussereau faced the most competitive race. In the second round of the 1997 election, Bussereau defeated his opponent by only 1,136 votes winning just 51.07 percent of the vote.

Bussereau's race was the most competitive, as illustrated in Table 5.3. Given how slim his margin of victory was in 1997, he had every incentive to try to win extra votes by speaking out in support of subsidies. Bussereau worked hard to win subsidies for Cognac makers. He submitted written questions and also asked parliamentary questions addressed to the Minister of Agriculture. In these questions, he argued vigorously for subsidies for the area's winemakers. He even faced off with the Minister on the floor of the National Assembly in an attempt to win subsidies for his wine-producing constituents. This case suggests that legislators elected in more competitive districts will tend to work harder on behalf of their constituents in single-member district, plurality systems.

In this case, the Prime Minister, Lionel Jospin (Socialist), did not have to choose between safe or competitive districts when awarding subsidies to Cognac producers. Because of the geography of the Cognac designated area, subsidies to Cognac producers went to both safe and competitive districts. The Charentes region is comprised of five departments, two of which contain Cognac wine producers: Charente and Charente-Maritime. For the Socialist party, Charente was a safe *département*. In the second round of the 1997 legislative elections, the Socialists won 57.22 percent of the vote in Charente. All four legislators from the *département* were Socialists. However, the Socialist Party faced stiffer competition in Charente-Maritime. The centrist UDF (*Union pour la Démocratie Française*) party won 36.45 percent of the vote in Charente-Maritime the second round of the 1997 legislative elections. In contrast, the Socialists won just 30.31 percent of the vote. Following the 1997 election, only two of the five legislators from Charente-Maritime were Socialists.

Given the geographic distribution of Cognac producers, the subsidy provided benefits to both safe and competitive districts. As a result, this

Table 5.3 *Electoral competitiveness in Charentes*

Département	Circonscription	Candidate 1	Party	Votes	% Votes	Candidate 2	Party	Votes	% Votes
CHARENTE	1	VIOLLET	SOC	22117	53.23	MOTTET	UDF	19433	46.77
CHARENTE	2	REYNAUD	SOC	22813	54.81	HOUSSIN	RPR	18808	45.19
CHARENTE	3	LAMBERT	SOC	28883	56.36	RICHEMONT DE	RPR	22364	43.64
CHARENTE	4	BEAUCHAUD	SOC	26465	64.8	RIFFAUD	UDF	14378	35.2
CHARENTE-MARITIME	1	CREPEAU	PRS	31495	59.57	CLERC	UDF	21377	40.43
CHARENTE-MARITIME	2	GRASSET	SOC	26791	53.07	BRANGER	UDF	23691	46.93
CHARENTE-MARITIME	3	ROUGER	SOC	28790	54.86	ROUX DE	UDF	23690	45.14
CHARENTE-MARITIME	4	CALLAUD	PRS	25981	48.93	BUSSEREAU	UDF	27117	51.07
CHARENTE-MARITIME	5	BILLOT ZELLER	SOC	24153	44.63	QUENTIN	RPR	29964	55.37

case cannot help to resolve the debate as to which districts economic rents, such as subsidies, disproportionality flow. While some argue that parties target benefits to safe districts to reward their core supporters, others believe that parties target benefits to swing districts in an attempt to win over nonpartisan or unattached voters. Given the geographic diffusion of Cognac producers, the Socialist Prime Minister did not have to choose between safe or competitive districts. Instead, he could target benefits to both safe districts and swing districts using a single program – precisely because of the geographic distribution of the relevant producers.

The Policy Outcome

Winemakers and grape growers articulated their economic interests, legislators lobbied on behalf of their constituents, the minister drafted a policy response, and the subsidy program was ultimately approved by the Prime Minister. The Cognac subsidy reflects the importance of economic geography and political institutions for policy outcomes. Producers with shared economic interests were geographically concentrated. Their economic fortunes rose and fell together, and in response to declining sales they lobbied for government assistance. France's political institutions incentivized the regions' legislators to respond to the demands of their geographically defined constituents. The regions' legislators worked to persuade the national government to provide financial assistance to the geographically concentrated Cognac producers. In sum, the French case illustrates the importance of geographic concentration for economic policy outcomes in plurality electoral systems.

SUBSIDIES FOR AUSTRIAN FARM-GATE WINE MERCHANTS

The Austrian subsidy program provides a nice contrast to the French program. In Austria, the government provided farm-gate wine merchants with a subsidy equal to 7.58 percent of the final product price.⁴⁰ Farm-gate wine merchants (*Ab-Hof-Verkauf soll*) sell wine directly to consumers on their farms. Farm-gate sales play an important role in the wine sector in Austria (Euromonitor International 2015). From 2009 to 2014, farm-gate sales accounted for 18 percent of total wine sales, on average (Euromonitor International 2015). Although farm-gate wine merchants have lost market share to supermarkets and food/drink/tobacco specialists over time, as

⁴⁰ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31999D0779>.

Table 5.4 *Austrian farm-gate wine sales as a percentage of total sales*

2009	2010	2011	2012	2013	2014
18.6%	18.4%	18%	17.9%	17.8%	17.7%

Source: Euromonitor International (2015).

illustrated in Table 5.4, they continue to account for nearly one-fifth of the market (Euromonitor International 2015, Statistics Austria 2015).

In 2014, there were 11,602 wine producing holdings in Austria.⁴¹ About 4,900 of these holdings registered their wines as PDO or “quality wine.”⁴² According to the Minister of Agriculture, this registration indicates the “classical” farm-gate wine merchants.⁴³ In other words, 42 percent of Austrian wine producers are farm-gate wine merchants. Farm-gate merchants are geographically dispersed across all of Austria’s wine regions⁴⁴ and can consequently be characterized as a narrow, yet geographically diffuse interest group.

The Austrian government provided subsidies to farm-gate wine merchants via a tax break. Tax breaks are a type of government subsidy that allow producers to keep a larger share of their earnings.⁴⁵ Tax breaks reduce government revenues and therefore are regarded by the European Commission as “being granted through state resources.” Because tax breaks advantage some producers over others and are granted through state resources, the European Commission considers tax breaks to be

⁴¹ Farm-gate wine merchants are not statistically registered in Austria according to the Federal Ministry of Agriculture, Forestry, Environment and Water Management. Rudolf Schmid, Federal Ministry of Agriculture, Forestry, Environment and Water Management, Vienna, Austria. Email correspondence on December 23, 2015.

⁴² Rudolf Schmid, Federal Ministry of Agriculture, Forestry, Environment and Water Management, Vienna, Austria. Email correspondence on December 23, 2015.

⁴³ Rudolf Schmid, Federal Ministry of Agriculture, Forestry, Environment and Water Management, Vienna, Austria. Email correspondence on December 23, 2015.

⁴⁴ Wine is produced in significant quantities in four of the nine federal states, including Lower Austria, Vienna, Burgenland, and Styria.

⁴⁵ Although financial subsidies require a monetary outlay, governments forgo revenues by providing tax breaks to producers. When a government provides a tax break, its budget is affected in much the same way as if it had spent money. Tax exemptions are equivalent to a waiver of the fiscal revenue that would otherwise have to be paid by the producer to the government. The exemption is borne by the public budget insofar as it reduces revenues and therefore is regarded as being granted through state resources (Steenblik 2012). However, tax breaks are not included in the measure of fiscal subsidies used in Chapter 4 because they do not appear on the expenditures side of governments’ budgets.

a form of subsidy (i.e. state aid). The European Commission consequently regulates tax breaks using the same rules that regulate fiscal subsidies (Plender 2003, Blauburger 2009).

The Austrian government exempted farm-gate wine merchants from the country's beverage tax, which is levied at a rate of 7.58 percent of the retail price for sales of alcoholic beverages to consumers. The government exempted wine (heading numbers 220421 and 220429 of the Common Customs Tariff) and other fermented beverages (heading number 220600 of the Common Customs Tariff) where these products are sold directly to the consumer at the place of production. By doing so, the government provided geographically diffuse farm-gate wine merchants with an effective subsidy equal to 7.58 percent of the final product price.

Austria's subsidy program differed notably from France's program. In France, only producers in a small geographic area received economic assistance from the government. In contrast, Austria's tax break helped all farm-gate wine merchants – regardless of their geographic location. In fact, the European Commission confirmed in their investigation of the program that the farm-gate tax break did not apply exclusively to any particular region of Austria.⁴⁶ Austria's subsidy program provided geographically diffuse benefits while, in contrast, France's subsidy program provided geographically concentrated benefits. I argue that this difference is due, in part, to the countries' electoral institutions. In the following section, I briefly describe Austria's electoral system and its influence on policy outcomes.

Austria's Electoral Institutions

Austria provides a useful contrast to France because the countries' electoral institutions differ significantly. Austria's electoral system is a complex three-tier PR system that allocates seats in the National Council (*Nationalrat*) at the regional, state, and national levels via proportionality. The National Council is one of two houses in the Austrian Parliament and is sometimes referred to as the lower house. The constitution endows the National Council with significantly more power than the second chamber. For National Council elections, Austria is divided into nine regional electoral districts.⁴⁷ The nine regional districts are further subdivided into forty-three local electoral districts, which typically have more than one seat. The number of seats assigned to each local district depends on the district's population, as established by the

⁴⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31999D0779>.

⁴⁷ The nine regional electoral districts correspond to the nine states of Austria.

most recent census. Votes are cast first and foremost for a particular political party.⁴⁸ As a result, elections in Austria are party-centered rather than candidate-centered. Parties compete against one another in a near-perfect proportional system to maximize their share of votes and subsequently seats in the National Council.

The number of votes required to win a seat is the number of votes cast divided by the number of seats assigned to the district in question. For example, if 200,000 votes are cast in a five-seat local district, 40,000 votes are needed to win one seat. If a party wins 81,000 votes out of the 200,000 votes cast, it is entitled to two seats to be taken by the first two candidates on the party's local district list.⁴⁹ Since 80,000 votes would have been sufficient to win two seats, 1,000 votes are left unaccounted for by this first round of tallying. However, these "extra" votes are not lost to the party. Instead, they go to the regional level.⁵⁰ The system at the regional level is analogous to that used on the district level; the number of seats assigned to a regional district is simply the number of seats assigned to one of its constituent local districts but not filled during the first round of tallying. Any vote not accounted for on the regional level either is dealt with on the federal level, provided that the party it has been cast for has obtained at least 4 percent of the federal total vote. The D'Hondt method is used to allocate any National Council seats remaining to be filled. The system produces highly proportional results. In fact, within the universe of real-world PR systems, Austria's is one of the most fully proportional (Müller, 2005: 397).⁵¹

Prior to reforms in 1992, Austria was a fully closed-list system where voters confronted party lists at all levels – regional, state, and federal (Müller, 2005: 404). In other words, voters chose a party but could not express support for any individual candidate. Reforms in 1992, which became operational in the 1994 election, allowed voters to express some preferences for individual candidates.⁵² However, in practice, voters do

⁴⁸ In addition to voting for a party list, voters may express a preference for one individual candidate. A candidate receiving sufficient personal votes can rise in rank on his or her party's district list. In theory then, voters have a certain degree of influence as to which particular individual wins which particular seat. However, in practice, this almost never happens.

⁴⁹ Political parties submit separate, ranked lists of candidates for each district, regional or local election, in which they have chosen to run. They also submit a federal-level list.

⁵⁰ More precisely, any vote not accounted for on the local level is dealt with on the regional level, provided that the party it has been cast for has obtained at least 4 percent of the regional total vote.

⁵¹ However, a slight bias in favor of large parties persists (Müller, 2005: 414).

⁵² Electors vote for a party and may cast preferential votes for one regional list candidate and one state list candidate.

not intervene strongly in the process of allocating seats to individual candidates (Müller, 2005: 409). As a result, parties have a de facto monopoly in determining the composition of parliament (Müller, 2005: 401). Parties allocate the legislative seats they win to the individual candidates of their choosing.

Because party organizations are virtually free to determine who will obtain a seat in parliament (Müller, 2005: 410), electoral competition is party-centered. Survey research shows that Austrian voters think of elections in terms of parties rather than individual candidates (Müller, 2005: 410). This makes sense because voters decide between parties rather than individual candidates at the ballot box. Parties fill their legislative seats with candidates in the order they appear on the party's list.

To win office in Austria, a candidate's best strategy is to curry favor with the party's leadership in order to obtain a high place on the party's list. Candidates higher on the party's list are more likely to win office than those lower on the list. Therefore, to maximize their chances of winning office, candidates competing in party-centered PR systems, such as Austria, work to appease the party leadership in order to win a high place on the party's list. To achieve this goal, legislators typically tow the party line – even if it conflicts with the interests of voters in their geographically defined district. In other words, legislators prioritize the demands of the party leadership over those of voters in their districts.

In contrast, politicians competing in candidate-centered systems work to appeal to voters in their own electoral district. To maximize their chances of (re)election, politicians competing in candidate-centered elections may prioritize the demands of their constituents over those of party leaders. In candidate-centered systems, politicians can go against the party line because they have direct access to the ballot, and citizens cast votes for individual candidates rather than political parties. But in countries like Austria, where parties fill their legislative seats with candidates in the order they appear on the party's list, candidates tend to tow the party line. Given this, I expect Austrian legislators will support their party's position on the farm-gate tax break.

Implications for Subsidies

Two political parties advocated the farm-gate tax break: the SPÖ (Social Democrats) and ÖVP (Austrian Peoples Party/Conservatives). These parties made up the government coalition that proposed the tax break.⁵³

⁵³ The Socialist Party of Austria (SPÖ) won 43.3 percent of the votes in Styria (Steiermark) in the October 7, 1990 General Election. The next closest party was

Under the responsibility of the Finance Minister, the Cabinet agreed to the tax break and the government subsequently presented the proposal to parliament for approval. Speaking in parliament, the Finance Minister said,

“When I am thinking of the beverages consumption tax I have to say that we found a compromise on a topic that has been debated for decades, a compromise that gives equal opportunities to retailers and tourism.”⁵⁴

Finance Ministers are typically less supportive of tax breaks than other government ministers because they reduce government revenues.⁵⁵ Yet, in this case, the Finance Minister supported the tax break and cited as a reason for his support the opportunities it would provide to two geographically diffuse groups: farm-gate wine retailers and the tourism industry.⁵⁶ Farm-gate wine merchants are spread across all of Austria’s wine regions. Similarly, the tourism industry employs people across virtually the entire country. The tourism industry is, in fact, one of the most geographically diffuse industries in Austria. The farm-gate tax break constituted a potential boon for the geographically diffuse tourism industry. It was widely believed that consumers would travel to farm-gate wine merchants in order to take advantage of the cheaper wine made possible by the tax break.

For some legislators, their party’s position on the tax break corresponded with their constituents’ economic interests. Legislators from wine regions who were members of a government party, for example, faced congruent incentives to support the tax break. Both their party and their constituents wanted the tax break and as a result, these legislators found themselves in a win-win situation. Their winemaking (and wine-consuming) constituents would benefit from the tax break, and they would earn credit with the party leadership by supporting the tax

Austrian People’s Party (ÖVP) with 33.2 percent of the vote. In the following election, support for the Socialist Party fell. The SPÖ received only 36.6 percent of the vote. The Austrian People’s Party received 27.5 percent of the vote. The party with the largest vote gain was the Freedom Party of Austria (FPÖ). Its vote share increased to 23.4 percent up from 16.8 percent in 1990. Despite this, the Socialist Party of Austria (SPÖ) remained the largest party at the national level. In 1994, the socialists held sixty-five seats in the *Nationalrat*. This represented a seat lost from 1990 when then held eighty seats.

⁵⁴ Lacina, pp. 8511–8514, in Stenographic Protocol of the 77th session of the National Council of the Republic of Austria, 9–10.06.1992, Vienna (Org. Title: Stenographisches Protokoll der 77. Sitzung des Nationalrats der Republik Österreich, Wien).

⁵⁵ Particularly as compared to those ministries entrusted to promote industrial or regional development (Blauberger 2009).

⁵⁶ Stenographic Protocol of the 73rd session of the National Council of the Republic of Austria, 24.06.1992, p. 7934, Vienna (Org. Title: Stenographisches Protokoll der 73. Sitzung des Nationalrats der Republik Österreich, 24.06.1992, 7934, Wien).

break. Erhard Meier was one such legislator. Meier was a member of the Social Democrats (SPÖ) party – one of the government parties that proposed the tax break. Meier represented the state of Styria in Austria's second chamber, the *Bundesrat* (Federal Assembly).⁵⁷ Styria is the second largest wine producing state in Austria. Nearly 3,300 (3,290.83) hectares were devoted to vineyards in Styria in 1999 (Statistics Austria 2000). For comparison, the next largest wine-producing area (Vienna) had only 678.30 hectares of vineyard (Statistics Austria (2000)).⁵⁸ Given the importance of wine production in his home state and his party's support of the subsidy, it is no surprise that in December 1991, Meier spoke in support of the subsidy in parliament.⁵⁹

By speaking in support of the subsidy, Meier promoted the economic interests of all farm-gate wine merchants – not just those in his own state of Styria. Given this, some part of Meier's efforts would go unrewarded in a plurality system like France because many of the beneficiaries of the subsidy could not vote for him. However, in Austria, Meier's work was not in vain. Although farm-gate wine merchants outside of Styria could not vote for Meier, they could vote for his party. And Austria's three-tier PR electoral system ensures that no votes are wasted. All votes count towards the party's share of legislative seats. By speaking in support of the tax break, Meier promoted his party's policy and potentially improved their future electoral success. By doing so, he also curried favor with the party leadership, which is an astute strategy in a closed-list PR system like Austria where parties control access to the ballot and the identity of people who fill seats in the legislature.

Unlike Meier, some legislators faced a situation in which their party's position on the tax break conflicted with the economic interests of their constituents. Erich Schreiner (Freedom Party of Austria/Freiheitliche Partei Österreichs/FPÖ), for example, represented the country's largest wine producing region (Lower Austria) with over 44,567.53 hectares of vineyards in 1999.⁶⁰ Many of Schreiner's constituents would benefit from the farm-gate tax break. Yet, Schreiner's party, the FPÖ, opposed the tax

⁵⁷ Prior to joining the legislature, Meier served as mayor of Bad Aussee (1975–1990), a town in the Austrian state of Styria. He also served as District Party Deputy Chairman of the SPÖ Liezen, a municipality in the Austrian federal state of Styria and as a member of the Land party committee of the SPÖ Styria since 1987.

⁵⁸ While the number of hectares under cultivation has changed over time, the relative ranking of Austrian states has not (Statistics Austria 2000). The 1999 data are the closest available data to the tax break.

⁵⁹ Ultimately, the 1992 Wine Tax Act included an exemption of for farm-gate wine sales.

⁶⁰ While the number of hectares under cultivation has changed over time, the ranking of Austria's wine producing regions has not (Statistics Austria 2000).

break. Unsurprisingly, given Austria's electoral institutions, Schreiner chose to support his party's position rather than the economic interests of his geographically defined constituents. In a parliamentary debate over the Wine Tax Act in the National Council on June 1992, Schreiner towed his party's line and argued against the subsidy saying,

someone in a wine growing region can go to a farm gate merchant and buy a cheaper product because it is less taxed, while someone in Salzburg has to pay a higher price.⁶¹

The Austrian state of Salzburg is located in the north of the country, close to the border with the German state of Bavaria. Salzburg is part of Austria's beer belt, which runs on the northern border from Waldviertel (the Wood Quarter) in Lower Austria through all of Upper Austria, Salzburg, Tyrol to Vorarlberg.⁶² Although historically there were vineyards in Salzburg, virtually no wine is produced in the region today because of its current climate. While consumers in Austria's wine growing regions, including Eastern Austria, Burgenland, and Styria would benefit from the subsidy thanks to their geographic proximity to farm-gate wine merchants, consumers in Salzburg would benefit relatively less because they live farther away from farm-gate wine merchants.

Although Schreiner argued for the interests of citizens of Salzburg, he was not elected to represent Salzburg. Instead, he was elected to represent voters in Lower Austria and specifically the Waldviertel (Wood Quarter) where Austria's most famous wine region, the Wachau, is located. By opposing the tax break, Schreiner promoted the position of his party at the expense of his winemaking (and wine-drinking) constituents. Schreiner's decision is eminently rational in a closed-list, party-centered system like Austria. But why identify Salzburg specifically in his parliamentary speech?

Schreiner's reference to Salzburg was no coincidence but instead was part of the FPÖ's electoral strategy. The FPÖ, stood a greater chance of directly winning an additional legislative seat in Salzburg than in Lower Austria. In both Lower Austria and Salzburg, the FPÖ was the third largest party by vote share. However, the FPÖ was much closer to its next largest competitor, the Austrian People's Party (ÖVP) in Salzburg. In the 1990 parliamentary elections, less than 12 (11.6) percentage points separated FPÖ from ÖVP in Salzburg.⁶³ In contrast, nearly 27 points

⁶¹ Schreiner, pp. 8555–8557, in Stenographic Protocol of the 77th session of the National Council of the Republic of Austria, 9–10.06.1992, pp. 8554–8558, Vienna (Org. Title: Stenographisches Protokoll der 77. Sitzung des Nationalrats der Republik Österreich, 9–10.06.1992, pp. 8554–8558, Wien).

⁶² Email correspondence with Professor Wolfgang Müller February 26, 2016.

⁶³ The FPÖ won 20.5 percent of the votes while ÖVP won 32.1 percent of the vote in Salzburg.

separated the FPÖ from ÖVP in Lower Austria. The FPÖ therefore stood a better chance of gaining an additional seat in Salzburg relative to Lower Austria.

The FPÖ leadership calculated that supporting the tax break would do little to shrink the 27-point gap between it and its next largest competitor in Lower Austria: ÖVP, who supported the tax break. FPÖ was unlikely to make any gains by supporting the subsidy relative to ÖVP given that ÖVP helped to draft the proposed legislation.

By opposing the tax break, the FPÖ sought to appeal to a large group of voters (i.e. consumers) in a state where they were relatively competitive (i.e. Salzburg). In other words, the FPÖ opposed the farm-gate tax exemption for strategic electoral reasons. By opposing the subsidy, the FPÖ stood to gain votes in in Salzburg where few voters would directly benefit from the subsidy.

Schreiner's objection to the tax break illustrates the contrasting significance of geography in different electoral systems. In plurality systems, politicians are willing – even eager – to confer geographically specific benefits, such as the subsidies to wine producers in Charente and Charente-Maritime. The French program made subsidies available to only a small number of winemakers in the demarcated “Cognac” area of Charentes. The French government estimated that just 1,000 hectares were eligible for the subsidy. Despite the very small number of potential beneficiaries, no opposition to the subsidy is recorded in the legislative record. No French legislators spoke out against this geographically targeted subsidy, even though it would confer benefits in a geographically unequal manner.

In contrast, Austrian legislators objected to the farm-gate subsidy precisely because of its geographic inequalities. The fact that not all Austrians could benefit equally from the subsidy was, for some legislators and political parties, a compelling reason to oppose it. Legislator Schreiner said, for example, that the geographic inequality generated by the tax break was, “not justified.”⁶⁴ Schreiner opposed the subsidy despite the fact that a large number of farm-gate wine merchants lived and worked in the electoral district he represented in parliament.⁶⁵

For French legislators, taking such a position would be unthinkable. French legislators work on behalf of their constituents. In fact, many French MPs believe it is their responsibility to represent their

⁶⁴ Schreiner, pp. 8555–8557, in Stenographic Protocol of the 77th session of the National Council of the Republic of Austria, 9–10.06.1992, pp. 8554–8558, Vienna (Org. Title: Stenographisches Protokoll der 77. Sitzung des Nationalrats der Republik Österreich, 9–10.06.1992, pp. 8554–8558, Wien).

⁶⁵ In 1990, he served as Regional Party Vice-Chairman of the FPÖ of Lower Austria.

constituents above all else. This explains why legislators elected from the Cognac region lobbied for subsidies for Cognac producers. Importantly, French legislators from other regions did not oppose the subsidy program even though their constituents could not benefit from it. Legislators from other regions did not query the fact that all of the benefits were going only to Cognac producers. Nor did they use the opportunity to agitate for general subsidies for all winemakers or for targeted subsidies for winemakers in their own district. Instead, French legislators from other regions gave their implicit consent to geographically targeted subsidies.⁶⁶

Electoral institutions explain the difference in legislators' behavior. Different electoral institutions generate dissimilar incentives for leaders to cater to more or less concentrated groups. Austria's electoral institutions, which include closed-list PR and multimember districts, give parties incentives to cater to geographically diffuse groups, such as farm-gate wine merchants. Furthermore, in a party-centered system like Austria, legislators' best reelection strategy is to support their party's position – regardless of the economic interests of voters in their geographically-defined electoral district. Schreiner, for example, supported the position of his party rather than the economic interests of his winemaking (and wine-drinking) constituents. By opposing the subsidy, Schreiner increased his chances of obtaining a good position on the party-list. In Lower Austria, his party won four legislative seats in the 1990 elections. Schreiner could nearly ensure his reelection if he was at or very near the top of the party list. By actively working to promote the party's position on the tax break, he curried favor with the party leadership and maximize his chances of reelection. The party's position was chosen in an attempt to maximize their chances of directly gaining additional legislative seats. This example suggests that parties competing in multiparty PR systems may target their appeals to districts where they have the best chance of upsetting the rank ordering of parties.

The Policy Outcome

The Wine Tax Act came into force July 31, 1992 via the ordinary legislative procedure.⁶⁷ It was voted on after the 3rd reading of the act.

⁶⁶ Perhaps they did so as part of an iterated logroll knowing that others would “return the favor” when they faced demands for subsidies from their own constituents and would need to lobby for geographically targeted subsidies to appease them.

⁶⁷ Federal Law Gazette of the Republic of Austria No. 154, 30.06.1992, pp. 1759–1763, Vienna (Org. Title: Bundesgesetzblatt für die Republik Österreich Nr. 154, 30.06.1992, 1759–1763, Wien).

The last reading proceeded without debate immediately following the 2nd reading in the National Council on 10th July 1992⁶⁸ and in the Federal Assembly on July 15, 1992.⁶⁹ The tax exemption for farm-gate wine sales, included in the Wine Tax Act of 1992, passed by at least a two-thirds majority of votes in the National Council (which was needed since the Tax Act also included amendments to the constitution). It passed by unanimous vote in the Federal Assembly. Unfortunately, individual parliamentarians' votes on the legislation were not recorded.

Although the tax break was implemented prior to Austria's EU membership, the Commission ultimately ruled that it did not conform to EU rules.⁷⁰ The Commission's logic was that wine and other fermented beverages sold directly to the consumer at the vineyard compete with wine and other fermented beverages offered to the same consumer by retail traders. By exempting from charges one group of products while charging the others, conditions of competition were distorted. The Commission ruled that Austria could not maintain this subsidy after December 31, 1998.

CONCLUSION

In this chapter, I examine two subsidy programs – one for winemakers in France and another for winemakers in Austria. These two cases illustrate the political mechanisms that link electoral institutions and economic geography to policy. Policy outcomes are shaped by incumbents' optimal reelection strategy, which depends on a country's electoral institutions and economic geography. In plurality systems, incumbents' best reelection tactic is to target economic benefits, like subsidies, to producers their own electoral district because doing so maximizes their chances of reelection. Precisely for this reason, legislators from the French region of Cognac spoke in parliament to demand subsidies exclusively for winemakers in their districts. In contrast, legislators in Austria did not always represent their constituents' economic interests in parliament. One legislator, for example, spoke against a subsidy that would directly benefit winemakers in his district. He did so because his reelection chances

⁶⁸ Stenographic Protocol of the 77th session of the National Council of the Republic of Austria, 9–10.06.1992, pp. 8554–8558, Vienna (Org. Title: Stenographisches Protokoll der 77. Sitzung des Nationalrats der Republik Österreich, 9–10.06.1992, pp. 8554–8558, Wien).

⁶⁹ Stenographic Protocol of the 557th Session of the Federal Assembly of the Republic of Austria, 15.07.1992, pp. 26637–26640, Vienna (Org. Title: Stenographisches Protokoll der 557. Sitzung des Bundesrats der Republik Österreich, 15.07.1992, pp. 26637–26640, Wien).

⁷⁰ Beverage tax exemption farm gate; case number C57/96 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31999D0779>.

depend on his party's electoral fortunes and his support among the party's leaders because of Austria's *de facto* closed party lists.

As these two cases illustrate, electoral institutions and economic geography together shape incumbents' (re)-election strategies and subsequently economic policy. Incumbents in plurality systems, like France, lobby for subsidies for producers concentrated in their own electoral districts to maximize their reelection prospects. In contrast, government parties elected via proportionality and closed party lists, as in Austria, fund subsidies for geographically diffuse producers to maximize their chances of staying in government. Although the findings from these two cases are consistent with those from the large-N studies, several novel points emerge that merit discussion.

First, not all government-funded subsidies are equally "narrow" and consequently researchers must accurately identify a policy's beneficiaries to fully understand the politics behind it. Subsidies are generally considered to be "narrowly beneficial" policies. Yet, the two programs I investigate here demonstrate the potential variation in subsidies' beneficiaries. Both subsidy programs aided a small subset of the total population. However, the scope of the beneficiaries varied meaningfully between the two programs. The French subsidy benefited select producers on just 1,000 hectares of land. In contrast, the Austrian subsidy helped all farm-gate wine merchants across the entire country. In this way, the Austrian subsidy was more broadly beneficial than the French subsidy.

Accurately classifying policies as being either "broadly beneficial" or "narrowly targeted" has long been a stumbling block for empirical research on the form of government policy (e.g. Cox and McCubbins 2001, Persson and Tabellini 2003, Golden and Min 2013). In this chapter, I offer a potential way forward. Rather than using policy categories, such as subsidies, as imprecise proxies for the breadth of beneficiaries, scholars should instead work to identify the actual beneficiaries of government policies (e.g. farm-gate wine merchants) and their geographic distribution. Such a task is difficult but not impossible, particularly given recent advances in data transparency.⁷¹

Second, economic policy may depend, in part, on the partisanship of a country's government. Socialist governments enacted both of the programs investigated here. However, the large-N quantitative studies described in other chapters generally show no systematic relationship between partisanship and subsidy spending. Left governments do not spend any more of their budgets on subsidies than right governments, holding all else equal. Perhaps left and right governments spend similar

⁷¹ See, for example, Jusko (2017).

amounts of money on subsidies but assist different industries. Right-leaning parties may subsidize capital-intensive industries while left-leaning parties may assist labor-intensive industries (Verdier 1995). Because wine production is relatively labor-intensive, socialists may be more inclined to subsidize winemakers than other political parties.⁷² If different parties subsidize different industries, then it is important to account for government partisanship when comparing subsidies between industries.⁷³

Third, electoral competitiveness may influence the geographic distribution of subsidies within countries. In France, legislators who won office with smaller margins were more likely to lobby for subsidies than legislators who won with big margins. This may be because legislators can point to their legislative efforts at the next election and say, “See, I worked hard to get you subsidies. You should vote for me.” In contrast, legislators who command safe majorities feel less compelled to lobby for subsidies. Incumbent politicians who won a large share of a district’s votes in the previous election do not need to chase after additional votes because each new vote only contributes to their already large margin. As a result, subsidies may go disproportionately to districts with more competitive elections (i.e. swing seats) in plurality systems.

Although the French case suggests that district-level electoral competitiveness may influence the geographic distribution of subsidies in a plurality country, it is unclear what impact, if any, competitiveness may have on subsidies in PR countries. Existing research on competitiveness is generally restricted to plurality systems and, in fact, competitiveness most often refers to elections in single-member districts.⁷⁴ But in Austria – a proportional system with multi-member districts – competitiveness calculations may have led a party to oppose subsidies. An opposition party opposed the subsidy proposal to appeal to voters in Salzburg where they stood a greater chance of winning an additional legislative seat than in other districts. To win the votes needed to win an additional seat, the party spoke out against the subsidy because few, if any, people in Salzburg would benefit from it. Intriguingly, the Austrian example suggests district-level electoral competitiveness may

⁷² However, in France, governments of various ideological persuasions have assisted the wine industry.

⁷³ Single industry studies hold constant industry-specific characteristics such as labor-intensiveness and as a result, government ideology is not required as a control variable.

⁷⁴ In these studies, competitiveness most often refers to district-level competition rather than country-level measures of competitiveness. However, see, for example, Monroe and Rose (2002). But even at a district level, it is not always clear what “competitiveness” means in PR systems.

have previously overlooked effects on economic policy in PR systems. In Chapter 7, I investigate this possibility by examining the impact of district-level electoral competitiveness on the distribution of subsidies between electoral districts in an archetypal PR country: Norway. First, however, I examine the variation in subsidies between countries with proportional electoral systems. In the next chapter, I also examine the variation in subsidies between sectors within a PR country.