Economic Geography, Electoral Institutions, and the Politics of Redistribution

Chapter 1 – Who Gets What and Why?

The Politics of Particularistic Economic Policies

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Why do politicians in some democracies provide more particularistic economic policies than in others? Particularistic economic policies selectively assist small groups of citizens at the expense of many. Government-funded subsidies, for example, help people employed in the subsidized industry but do so at the expense of taxpayers. Subsidies to the US sugar industry sustain a domestic sugar price two to three times higher than the world's market price. As a result, approximately 20,000 US sugar cane farmers receive an extra $369 million dollars a year (Beghin et al. 2003, Frieden, Lake, and Schultz, 2010: 234).[1] These benefits come at a cost to American taxpayers and consumers. They pay an additional $2.3 billion dollars a year for sugar due to the policies that support the industry (Beghin et al. 2003, Frieden et al. 2010: 234). In effect, particularistic economic policies, like subsidies, redistribute wealth among a country's citizens.

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

While the political motivation behind such policies is well understood (e.g. Olson 1965), the cross-national variation is not.[2] Elected leaders in some democracies enact more particularistic economic policies than others, resulting in substantial differences in both the frequency and magnitude of such policies across democratic countries. Governments in the United Kingdom, for example, often provided subsidies to individual firms, including state-owned companies like British Steel and British Airways, during the late 1960s and early 1970s (Sharp, Shepherd, and Marsden 1987). The Industry Act of 1972 explicitly authorized government subsidies for individual firms and industries in order to boost investment (Bailey 2013). To stimulate investment in the paper industry, the government provided £8 million pounds of subsidies to the industry (Bailey 2013).

In contrast, during the same period, the West German government rarely supplied particularistic economic policies (Owen 2012). The governments' portfolio of distributive policies consisted principally of programs that benefited large groups of citizens (Owen 2012). Subsidies, when provided, were made available to all industries in the manufacturing sector rather than a select few (Shepherd, Duchêne and Saunders 1983). The government routinely refused to provide subsidies to individual firms (Schatz and Wolter 1987). It focused instead on building a comprehensive framework of policies that would benefit large numbers of citizens called the *Soziale Marktwirtschaft* (Sharp et al. 1987).

The cross-national variation in particularistic economic policies is puzzling. Why does such variation exist among democracies? Democratic institutions are ostensibly designed to

[2] Producers' demands often prevail over the interests of taxpayers and consumers because producers are fewer in number and can consequently organize more easily than taxpayers (e.g. Olson 1965, Alt and Gilligan 1994). Producers also have more at stake. Government subsidies can mean the difference between bankruptcy and profit. However, for taxpayers, the cost of any given subsidy program is negligible. Taxpayers consequently have few incentives to oppose subsidies. Particularistic economic policies are therefore an understandable policy outcome – even in democracies.

serve the common good. Yet in some democracies, politicians routinely cater to the interests of a few rather than the good of many. Leaders in France and Australia, for example, often provide subsidies selectively to only certain producers. In contrast, governments in Finland and Italy typically provide general assistance to large groups of producers (Verdier, 1995: 4). Why are democratically elected leaders more responsive to parochial interests in some countries than in others? Furthermore, why does the variation in particularistic economic policies persist in the face of globalization? International economic integration is thought to compel governments to adopt similar policies. When a foreign competitor receives generous government subsidies, home governments often come under pressure to supply comparable levels of support. Subsidies to China's steel industry, for instance, prompted demands for government assistance in other steel-producing states including France, the United States, Germany and the United Kingdom (Wong 2014, Rankin 2016, Farrell 2016). Yet despite the competitive pressures from increased international trade, countries continue to exhibit different levels of support for producers.

Even in the wake of the 2008 economic crisis, governments' enthusiasm for targeting economic assistance selectively varied across countries. Some leaders raced to provide aid to troubled industries. The French president unveiled a "strategic national investment fund" to buy stakes in certain French industries to protect them against foreign "predators".[3] In Italy, the Prime Minister called subsidies a "categorical imperative" in times of economic distress and rejoiced over their new post-crisis vogue.[4] The Australian government increased budgetary assistance to industry by 26 percent from 2006 to 2010 and the British government poured money into select parts of the economy that were deemed to "make a difference".[5]

[3] *The Economist* Nov 1, 2008: 62.
[4] *The Economist* Nov 1, 2008: 62.
[5] *The Economist* Nov 1, 2008: 62 and author's calculations from Australian budget data available at http://www.budget.gov.au/past_budgets.htm

Not all governments rushed to help domestic producers following the economic downturn. Germany's economics minister, Michael Glos, warned that privileging certain industries went against "all successful principles of our economic policy".[6] The Swedish government refused to bail out the ailing domestic automotive industry. The Prime Minister said he would not put "taxpayer money intended for healthcare or education into owning car companies".[7] The varied governmental responses to the Great Recession highlight the key puzzle motivating my research: why are democratically-elected leaders in some countries more willing to supply particularistic economic policies than in others?

I argue that electoral institutions and economic geography work together to explain why particularistic economic policies are more generous in some countries than others. Electoral institutions generate incentives for politicians and parties to pursue certain (re-) election strategies. Geography determines which policies best accomplish the institutionally-generated electoral tactics. Sometimes particularistic economic policies are the most efficient option to aid (re-) election.

Particularistic economic policies take various forms. Governments can assist select groups in the domestic economy using low interest financing, reduced regulation, tax relief, price supports, monopoly rights, and subsidies – to name just a few possibilities. These policies are often referred to as "industrial policy" or "corporate welfare". I focus on the primary tool of industrial policy: subsidies (Stöllinger and Holzner 2016). Subsidies assist producers via financial support from the government. Fiscal subsidies appear in governments' budgets and include grants, loans and guarantees granted on preferential terms. The amount of money governments' allocate to subsidies varies across countries. I seek to explain this variation and in doing so shed new light on the politics of redistribution.

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[6] *The Economist* Nov 1, 2008: 62.
[7] http://on.ft.com/29RVywf

Why Subsidies?

Surprisingly little is known about the politics behind government-funded subsidies.[8] On their face, subsidies are a type of distributive policy. They involve taxes and transfers and necessitate decisions about the allocation of government assistance to identifiable localities or groups (Golden and Min 2013). Subsidies may consequently share the political characteristics of other distributive policies. Yet, different distributive policies benefit different groups and therefore engender dissimilar politics. Even subsidies vary greatly with respect to their beneficiaries. As a result, subsidies cannot easily be classified as being narrowly-beneficial or broadly-beneficial without knowing more about the recipients. Knowing who benefits from a subsidy and where the beneficiaries are located geographically elucidates the policies behind subsidy programs.

Subsidies provide a valuable policy tool for governments. Government-funded subsidies can increase employment and investment (Aghion et al. 2011, Criscuolo et al. 2012, Stöllinger and Holzner 2016). Traditionally, governments used tariffs to achieve these goals and support domestic producers. However, as the number of trade agreements limiting tariffs on imported goods has increased, governments have turned to subsidies to assist domestic producers (Ford and Suyker 1990, OECD 1998, Rickard 2012b). Governments often use subsidies to offset the reductions in tariffs required by international treaties (Rickard 2012b). The Japanese government, for example, plans to increase subsidies to pig farmers to compensate for the reduction in pork tariffs established as part of the Trans-Pacific Partnership (TPP) multilateral trade agreement.[9] Because international agreements increasingly restrict the

[8] Although see Blais (1986), Verdier (1995), Alt et al. (1999), Zahariadis (2001), and Aydin (2007).
[9] The Japan News, May 21, 2014, S Edition, Business Section, p. 8. Accessed via Lexis Nexis. Currently a tariff of up to ¥482 yen is imposed on one kilogram of cut meat, such as pork tenderloin or pork loin. However, the figure will gradually be reduced to ¥50 yen over 15 years as part of the TPP agreement.

use of tariffs and efficient capital markets restrict exchange rate manipulation, subsidies are one of the few tools policy-makers have remaining at their disposal to privilege domestic producers (Blomström and Kokko, 2003: 4–5, Thomas 2007).[10] As a result, subsidies are becoming the near universal mode of state intervention in industry (Verdier 1995).

Subsidies involve large amounts of money and make up an increasingly important component of many governments' budgets. In the European Union, subsidies to the manufacturing sector accounted for 2 percent of value added or approximately €1,000 Euros per person employed in the sector (Sharp 2003). In 2012, the British government spent £14.5 billion pounds on direct subsidies and grants to producers (Chakrabortty 2015). In the United States, the Fortune 500 corporations received more than 16,000 subsidies, worth $63 billion dollars (Mattera 2014). The Australian government increased spending on manufacturing subsidies by 26 percent over a four year period from 2006.[11] In addition to manufacturing subsidies, many governments also fund agriculture and energy subsidies, including support for wind and solar energy producers.

As spending on subsidies grows, so too does their political importance. In July 2016, the British Prime Minister Theresa May created a new government ministry charged with developing an industrial policy. The name of the new ministry included in its title the words "industrial strategy".[12] This phrase was presumably included to send a clear message that the United Kingdom is not shy about having a proactive industrial policy (Pratley 2016). In fact, the minister appointed to head the department said he had been "charged with delivering a

[10] There are, of course, some international restrictions on subsidies. However, these restrictions tend to be laxer than international restrictions on tariffs. Furthermore, it is often more difficult to determine if governments are subsidizing producers in violation of international rules. Their relative opacity makes subsidies a particularly inviting means by which to aid producers (Kono 2006).

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

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

comprehensive industrial strategy" (Ruddick 2016). Industrial policy – and subsidies in particular – appear to be enjoying something of a renaissance (Stöllinger and Holzner 2016). Understanding the politics behind subsidies is therefore increasingly important. I argue that the politics of subsidies depends, in part, on the geographic location of the beneficiaries.

Economic Geography

Subsidies benefit people employed in subsidized industries by raising wages above market rates and helping to ensure continued employment in the industry. The number of people working in a subsidized industry provides a rough estimate of the number of beneficiaries.[13] The beneficiaries of an industry-specific subsidy may be more or less geographically concentrated depending on the geographic distribution of employment in the industry. Some industries' employees are geographically concentrated in a relatively small area – sometimes just a single city or state. The US steel industry, for example, is geographically concentrated – with most of its 149,000 employees located in just three of the fifty US states. But other industries employ people across the entire country. The Germany forestry industry employs people in every region of Germany (Kies, Mrosek and Schulte, 2009: 44). Similarly, the construction industry in many countries employs people in virtually all regions.

The geographic distribution of beneficiaries influences the politics surrounding particularistic economic policies. Geography matters because the incentives to cater to concentrated or diffuse groups depend on a country's electoral institutions.

Electoral Institutions

Free and fair elections are a defining feature of democracy. The rules that govern democratic elections are often prescribed in a country's constitution and are frequently referred to as the electoral system. An electoral system is a set of laws and regulations that govern

[13] Arguably, the number of employees provides a low estimate of the number of beneficiaries. The total number is likely higher as some people may benefit indirectly and the owners of capital employed in the industry may also benefit.

electoral competition between candidates or parties or both (Cox, 1997: 38). These procedures comprise a multitude of items, such as the electoral formula, the ballot structure and the district magnitude.

Scholars have devoted substantial research to understanding the effects of electoral systems on everything from the number of parties in parliament and in government, to the representation of minorities, and voter turnout. Attention has recently turned to the policy effects of electoral systems (e.g. Persson and Tabellini 2003, Chang et al. 2010). Despite the growing attention to policy outcomes, no consensus has emerged as to which electoral system most incentivizes particularistic economic policies. Existing models make conflicting predications about the relationship between electoral institutions and economic policies.

Present arguments typically focus on one key aspect of the electoral system, namely the electoral formula. The electoral formula refers to the method by which vote totals translate into claims upon legislative seats (Cox 1990). Two main categories of electoral formulas exist: plurality and proportional. In a plurality system, votes are cast for individual candidates and the candidate with the most votes wins office (Cox, 1990: 906). In contrast, proportional representation formulas allocate legislative seats to parties in accordance with the proportion of votes polled by each party. Together these two formulas govern eighty percent of elections held across the world (Clark, Golder and Golder 2013, Inter-Parliamentary Union PARLINE database 2013).

The idea that the electoral formula is systematically related to economic policy has a long intellectual history. Studies by Ronald Rogowski (1987) and Peter Katzenstein (1985) suggested a natural affinity between trade openness and proportional electoral rules. However, recent studies reach conflicting conclusions. Some suggests that particularistic economic policies, like industry-specific tariffs, are more frequent in plurality systems, as compared to proportional systems (e.g. Grossman and Helpman 2005, Evans 2009). Yet, others show that particularistic economic policies are more frequent in proportional systems (e.g. Alt and Gilligan 1994, Rogowksi and Kayser 2002, Chang et al. 2010). The conflicting results raise questions about how democratic governance actually works in practice. Do the institutions in contemporary democracies create incentives for governments to act in ways that reflect democratic ideals? Or are some democracies more prone to special interest politics because of the institutions governing their elections?

Argument in brief

I argue that institutions alone cannot explain policy outcomes. Economic geography must be considered together with political institutions in order to understand economic policy outcomes. Electoral institutions generate incentives for politicians and parties to pursue certain (re-) election strategies. Geography determines which policies best accomplish the institutionally-generated electoral goals. In this way, geography qualifies the effects of electoral institutions on policy.

Institutions aggregate voters' preferences. Therefore, it is important to know what voters want. Equally important, however, is where voters with shared policy preferences live. The geographic location of voters with shared interests matters because different electoral institutions provide dissimilar incentives for politicians to respond to concentrated (or diffuse) groups. Knowing where voters with shared economic interests live is crucial for understanding how electoral institutions shape economic policy.

Voters' policy preferences depend, in part, on how they earn their living. Most people earn a majority of their income through their labor. Peoples' incomes are therefore closely tied to the economic fortunes of their employer.[14] People want their employer to be economically successful. Successful industries, for example, hire and retain more employees, typically offering more generous wages and compensation packages. Voters support government

[14] In the short to medium term.

policies that assist the industry in which they work so they can enjoy higher wages and stronger guarantees of employment.

Voters working in a given industry share a common economic interest in policies that support the industry, such as subsidies and tariffs.[15] Although shared, this interest can be described as "narrow" because most industries typically employ only a small fraction of a country's total population. The heavily subsidized US steel industry, for example, employs only 0.3 percent of the US population.

Narrow interests can be more or less geographically concentrated. It depends on the pattern of industrial employment. Although industries today have fewer constraints on where they locate and employees tend to be more geographically mobile, strong patterns of concentration persist at both a national and regional level in many economies (Krugman 1991, OECD 2008). However, not all industries are equally concentrated. While the US steel industry employs people in just a few locations, other industries employ people across the entire country. In many developed countries, for example, the tourism industry employs people in nearly all regions.

Geography in Plurality Systems

In countries with plurality electoral formulas and single-member districts, politicians have strong incentives to cater to geographically-concentrated groups. To win office in a country with such institutions, a politician must win a plurality of votes in their geographically-defined electoral district. To achieve this goal, politicians cater to the interests of groups concentrated in their district. By delivering economic benefits to their constituents, politicians develop a personal support base among voters (i.e. a personal vote).

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

Cultivating a personal vote is the optimal way to win office in candidate-centered electoral systems (Fenno 1978, Weingast, Shepsle and Johnson 1981, Cox and Rosenbluth 1993, Carey and Shugart 1995). Candidate-centered electoral competition encourages voters to see candidates as the basic unit of representation rather than a political party (Shugart, 1999: 70). Candidate-centered electoral competition often emerges in plurality systems with single-member districts. In such systems, legislators may seek to develop a personal vote by providing private or local public goods to their constituents (Cox and McCubbins 2001).

Subsidies can be used to develop a personal vote when the beneficiaries are geographically concentrated in a legislator's district. If an industry's employees are located in a given electoral district, a subsidy for that industry is roughly analogous to legislative particularism, or "pork barrel" spending. Bringing "pork" back to their own district helps politicians cultivate a personal vote and increase their re-election chances in a plurality, single-member district system (Ferejohn 1974, Fenno 1978, Wilson 1986). While the economic benefits of such a subsidy are concentrated in a politician's electoral district, the costs are spread across taxpayers dispersed throughout the country.

Subsidies to geographically concentrated groups are an efficient way to win elections in plurality electoral systems. In the United States, for example, a 30 percent tariff on steel imports was imposed by the Republican-led administration in 2002 to win key Congressional seats in the steel-producing states of Ohio and Pennsylvania (Read 2005). Leaders were able to provide economic benefits to voters in these states using particularistic trade protection precisely because the steel industry was geographically concentrated.[16] If the industry had been geographically diffuse, steel tariffs would have been an inefficient electoral tool (i.e. it would have bought votes in state where they were not needed).

[16] By doing so, the US risked violating their obligations as a member of the World Trade Organization.

When voters with shared economic interests are geographically diffuse, particularistic economic policies are inefficient electoral tools in plurality electoral systems. If an industry employs people country-wide, the benefits of an industry-specific subsidy accrue to voters in all districts. Promoting such a subsidy would be an inefficient way for politicians and parties to "buy" the votes they need to win. Politicians whose electoral success depends on support only from their geographically-defined constituents have few incentives to cater to geographically-dispersed groups. Doing so neither sufficiently rewards their efforts nor maximizes incumbents' chances for re-election because the electoral rewards from subsidies are spread across districts.

Geography in Proportional Systems

The geographic location of voters with shared economic interests is relatively less important in party-centered, proportional rule electoral systems. Party-centered electoral competition encourages voters to emphasize their party preference over that for specific candidates. In proportional systems, legislative seats are awarded in accordance with parties' vote share. Because every vote contributes to the allocation of legislative seats among parties, politicians and parties competing in proportional systems have incentives to cater to geographically-diffuse groups.

Winning the support of a small, geographically-diffuse group of voters is electorally valuable in party-centered, PR systems. Even a slight increase in votes can translate into a relatively large gain in legislative seats for a given party. In Norway, for example, the Liberal Party (*Venstre*) would have won 7 seats instead of 2 if it gained just 0.1 percent more of the national vote in the 2009 election (Aardal 2011). In this case, providing subsidies to an industry employing 0.1 percent of the labor force could have made a big difference to the Liberal Party's electoral fortunes.[17]

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[17] Or the credible promise of subsidies once in government.

PR systems often have minimum threshold requirements, which require that a party receive a minimum percentage of votes to obtain any seats in the parliament. In Norway, for example, there is a nationwide threshold of four percent.[18] Given such requirements, winning an additional percentage of the national vote could determine whether political parties are present in parliament or not.

Because the support of narrow, geographically diffuse groups is electorally valuable for parties competing in PR systems, these groups can and do win particularistic economic policies. In Sweden, the geographically diffuse forestry sector, which employed less than one percent of the country's total population, received ten percent of all government subsidies (Carlsson 1983).[19] In Norway, the geographically-diffuse tourism industry receives generous state support. In 2013, for example, the government made a deal with Disney regarding the marketing of the film "Frozen". For an undisclosed amount of money, the Norwegian government secured exclusive rights to use creative elements from the film, as well as the Disney logo and brand, in the marketing of Norway as a travel destination (Innovation Norway 2014b). The deal is credited with significantly increasing tourist numbers. Fjord Tours' sales in the American market doubled in the beginning of 2014, and ticket sales on the Hurtigruten coastal express increased by 24 percent (Innovation Norway 2014b).

In sum, geography provides a bridge between two prominent, rival arguments about the effect of electoral institutions on economic policy. While some scholars argue that plurality systems lead to the most narrowly targeted policies, others reach the opposite conclusion. I argue that both types of electoral systems incentivize the provision of "narrowly-beneficial" policies under certain conditions. Leaders in plurality systems have incentives to supply

[18] However, if a party reaches 12 percent in one electoral district, it will be represented even if it does not reach the 4 percent level nationally. Nobody has been elected based on the 12 percent rule up through the 2010 election.

[19] During the mid-1970s.

particularistic economic policies when the citizens that benefit from such policies are geographically concentrated. When the beneficiaries are geographically diffuse, leaders in PR systems will provide more particularistic economic policies, as compared to plurality systems.

Contributions

In this book, I bring together institutions and geography and show how they interact to shape economic policy. My argument provides a solution to the impasse reached by purely institutional accounts of policy making. Understanding why scholars have reached this stalemate is important. Democratic theorists have long worried about the power of special interests. "Special interests seeking subsidies not only pervert the meaning of democratic accountability but they also create deadweight losses and distort economic incentives" (Cox and McCubbins, 2001: 48).[20] Given this, it is important to understand what make politicians most responsive to groups that seek benefits for themselves at the expense of taxpayers.

I offer a simple solution to this debate: geography. Economic geography qualifies the effects of political institutions on economic policy. The institutions governing democratic elections create optimal strategies for politicians and political parties to win office. Economic geography determines which policies most efficiently realize the institutionally-generated re-election goals. As a result, identical institutions may produce different policies depending on a country's economic geography.

Although I am not the first to suggest the importance of geography for politics,[21] previous studies fail to consider the interactive effects of geography and electoral institutions.[22] Many focus exclusively on either institutions or geography. By examining only one or the other, the two literatures miss an important part of the story and reach incomplete – even inconsistent – conclusions.

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[20] See also Stigler (1971) and Becker (1985).
[21] See, for example, Rodden (2010).
[22] Although see Barkan, Densham and Rushton (2006).

My conditional argument stands in contrast to "pure" institutional stories that suggest institutions are the key determinant of countries' economic policies. Institutions have been held responsible for variation in countries' economic growth rates and levels of social welfare spending (e.g. Persson and Tabellini 2003). These institutional arguments typically ignore geography. Some overlook geography entirely. Others make strong assumptions about the geographic distribution of economic activity. Many models explicitly assume that each electoral district contains one unique industry that is entirely concentrated within the district (McGillvray, 1997: 588 and 590, Grossman and Helpman 2004, McGillivray 2004). In effect, these studies only allow "narrow interests" to be concentrated geographically.

Ignoring the geographic dispersion of voters with shared economic interests may be innocuous if politicians elected via different rules are equally responsive to concentrated (or diffuse) interests. But electoral institutions influence the responsiveness of politicians to concentrated interests. Therefore, geography must be part of any institutional explanation of policy outcomes. Purely institutional theories reach inconsistent conclusions precisely because they ignore geography. The assertion that politicians in plurality systems are more responsive to narrow interests assumes that these interests are highly concentrated geographically. Once we acknowledge that narrow interests may be more or less geographically concentrated then existing predictions about how electoral institutions influence particularistic economic policies no longer hold.

Conventional wisdom about the political effects of geographic concentration similarly unravels when electoral institutions vary. Concentration is widely believed to be politically advantageous for interest groups. This belief stems from research conducted in plurality systems. McGillivray (2004) examined the effects of geographic concentration in two plurality countries: the United States and Canada. In these countries, McGillivray found that concentrated industries tend to win more trade protection than diffuse industries. Similarly, Hansen (1990) established that geographically concentrated industries are more likely to secure protection from foreign import surges in the United States. Milner (1997) showed that concentrated industries in the United States made fewer trade concessions in negotiations over the North American Free Trade Agreement (NAFTA).

Although geographic concentration is politically advantageous for groups in plurality systems, it is unclear what role geography plays in proportional electoral systems.[23] Cognizant of this limitation, McGillivray (1997) recommended that future research investigate the effects of geographic concentration in proportional systems (p. 604).[24] My research responds to her appeal by examining the effects of geographic concentration across various electoral systems. To the best of my knowledge, this book provides the first quantitative test of the policy effects of geographic concentration in multiple countries with different electoral systems. I find that the effects of geographic concentration vary across electoral systems. Geographic concentration is not always a political asset.

Implications

I develop my argument in the context of economic policy. However, the logic of my argument is general and applicable to other issue areas. Whenever voters with shared preferences exhibit varied geographic patterns, my argument provides useful insights. One example may be ethnic politics (Horowitz 1985, Mozaffar et al. 2003, Lijphart 2004). My argument suggests that the influence of an ethnic group's shared policy preferences will depend on the country's electoral institutions and the group's geographic distribution. When an ethnic

[23] Busch and Reinhardt (2003) argued that geographic concentration may be an asset regardless of a country's electoral rules drawing on survey evidence from the Netherlands.

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

group is geographically diffuse, their preferences will have greater expression under proportional electoral rules than plurality rules. In this situation, it may be inopportune to introduce plurality electoral rules – particularly in an ethnically diverse country.[25]

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

Additionally, my argument has implications for countries' international economic relations. First, my argument suggests when violations of international economic agreements are most likely to occur. Many international agreements seek to limit particularistic economic policies, such as industry-specific barriers to foreign trade. Restrictions on narrowly-targeted policies have long been the focus of international treaties because they are believed to cause significant economic distortions (Rickard 2010). My argument identifies the countries most likely to violate these international restrictions. Democracies with plurality electoral systems and geographically-concentrated industries are likely offenders because of the powerful incentives to supply subsidies generated by the combination of plurality electoral rules and geographically-concentrated producers.

Second, my argument suggests which countries are most likely to impede future international cooperation. Governments that rely on subsidies to win (re-) election will tend to resist new international restrictions on subsidies. The Indian government, for instance, froze

[25] Of course, future research is needed to determine the full extent to which my argument applies to ethnic politics.

multilateral negotiations about trade facilitation measures because of subsidies (Schott and Hufbauer 2014). India's objective was to permanently exempt certain subsidies from international restrictions (Schott and Hufbauer 2014). Similarly, subsidies to 13,000 Canadian dairy farmers nearly scuppered the Trans-Pacific Partnership (TPP) agreement – an agreement negotiated by twelve countries over five years that would cover nearly 40 percent of global trade.[26] This small group of farmers enjoyed such influence because of their geographic concentration and Canada's electoral institutions.

These examples serve as a reminder that all politics is local. Violations of international treaties or contentious international trade negotiations can ultimately be traced back to countries' electoral institutions and economic geography. Countries' international economic relations are shaped by the interactive effect of domestic political institutions and economic geography.

Roadmap

In the following chapter, I provide a more detailed introduction to electoral institutions and outline the ongoing debate over their policy effects. I argue that economic geography can help to resolve this debate. In Chapter 3, I discuss economic geography, which refers here to the geographic patterns of employment. Some industries employ people in just a few parts of a country while others employ people across the entire nation. I describe how I construct a politically-relevant measure of economic geography using disaggregated employment data. These data specify employees' geographic location as well as their sector of employment in 20 economically-advanced countries over two decades thereby making it possible to empirically measure the distribution of voters in different economic sectors. With this variable, it is no

[26] The finalized TPP proposal was signed by 12 countries. However, the 12 countries must now complete their respective domestic treaty-ratification processes before the agreement can come into force.

longer necessary to make simplifying assumptions about were employees are located. Instead, their actual geographic distribution can be measured.[27]

These data confirm that industries rarely align with politically-relevant boundaries. In fact, it is difficult to find a district that looks like those constructed by assumption in existing models. Relaxing these restrictive assumptions reveals new predictions about institutions' policy effects and provides a resolution to the on-going debate over which electoral system generates the most particularistic economic policies.

Chapter 4 develops my argument in full. Although the logic of my argument is general, in Chapter 5 I test the hypotheses derived from my theory using data on government-funded subsidies. Government spending on subsidies provides information about how leaders weigh parochial demands against broader societal interests because subsidies typically benefit relatively small groups at the expense of many.

Statistical tests of subsidy spending in high-functioning democracies over nearly two decades show that economic geography conditions the effects of electoral institutions on subsidies – while controlling for international subsidy rules, trade openness, country size, economic development and various other features of a country. Subsidies for manufacturing industries constitute a larger share of government expenditures in plurality systems than in PR systems when manufacturing employment is geographically concentrated. When employment is diffuse, governments in PR systems assign relatively more of their budgets to subsidies than governments in plurality systems, holding all else equal.[28]

Chapter 6 provides a closer examination of the mechanisms linking electoral institutions and economic geography to economic policies via qualitative evidence from two cases. I examine two government subsidy programs: one that supports French Cognac

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

[28] These results are robust to alternative model specifications including those that relax the assumption that electoral systems are exogenous.

producers, and another that assists farm-gate wine merchants in Austria. Given the ubiquity of government subsidies, it would be easy to cherry pick cases that fit my theory. To guard against this, I use a methodical, multi-step selection criterion, as described in Chapter 6. The two cases examined are the universe of cases that meet the selection criterion. Both conform to my theoretical expectations. In France, where legislators compete in single-member districts, subsidies tend to be geographically targeted to concentrated producers – as in the Cognac example. In Austria, however, subsidies tend to be more broadly-beneficial. Austrian legislators compete in party-centered elections in multi-member districts. Legislative seats are filled via proportional electoral rules and party leaders determine the identity of the candidates that fill the party's seats. Given these institutions, my theory predicts that the government will be responsive to the economic interests of geographically-diffuse groups. As expected, the geographically diffuse farm-gate wine merchants (i.e. wine makers who sell their wine at the place of production) won financial support from the Austrian government.

While government spending on subsidies varies across countries, it also varies within countries. Subsidies are often more generous for producers located in some parts of a country than others. In Chapter 7, I explore the within-country variation in subsidies using novel quantitative data on the geographic location of subsidy recipients and qualitative evidence from interviews of government ministers and bureaucrats responsible for the administration of subsidy programs. These data come from Norway, which is a particularly useful case for several reasons. First, Norway uses proportional electoral rules. To date, most studies of particularistic economic policies have been conducted in plurality countries, most notably the United States. Far less is known about the politics behind particularistic economic policies in PR countries. Second, Norway, like most PR countries, has multiple, geographically-defined electoral districts in which several parties compete for multiple seats. Most legislative seats are awarded to parties proportionate to their share of district-level votes – rather than the national vote. As a result, the competitiveness of elections varies across districts. District-level competitiveness may shape parties' election strategy and policy priorities. Finally, Norway is a "least likely" case for particularistic economic policies because it lacks the institutional attributes usually associated with pork-barrel politics. Few expect policy targeting in a parliamentary system, with strong parties and party-centered elections (Shugart 1999, Denemark 2000, Crisp et al. 2004, Morgenstern and Swindle 2005, Tavits 2009).

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

Chapter 7 shows that government parties can sufficiently discipline their legislators to target benefits to safe districts in a closed-list PR system. Previous studies of open-list PR systems, such as Italy and Brazil, demonstrate that parties are less able to discipline their own members of parliament to target benefits to the parties' areas of core electoral strength (Golden and Picci 2008).[29] These contrasting results suggest that important variation exists among PR countries. I explore the institutional variation among PR countries in Chapter 8. By doing so, I move beyond the simple PR/plurality dichotomy often used in research on the policy effects of electoral institutions.

[29] Undisciplined legislators seek to target benefits to their core constituents who are typically localized in bailiwicks (Ames 1995). Individually powerful legislators in open-list PR countries can secure resources for their own constituents at the expense of the governing parties (Golden and Picci 2008).

In Chapter 8, I investigate the effects of two features that vary among proportional systems: list type and district magnitude. List type determines the order in which a political party's candidates receive seats in the legislature. District magnitude refers to the number of candidates elected to parliament from each district. Both district magnitude and list type differ across PR countries and these institutional features may meaningfully influence policy outcomes.

List type influences the nature of electoral competition. In closed-list systems – where voters select only a party at the ballot box – elections are party-centered. In contrast, open list systems allow voters to select an individual candidate to support from a party's list. The nature of electoral competition shapes the optimal (re-) election strategy of candidates and parties and consequently their policy priorities. The nature of electoral competition may also interact with district magnitude to shape leaders' incentives to supply particularistic economic policies, like subsidies (Carey and Shugart 1995, Shugart, Valdini, and Suominen 2005, Chang and Golden 2007, Carey and Hix 2011).

Statistical tests show that subsidy spending is relatively higher in closed-list systems when the beneficiaries are geographically diffuse. When beneficiaries are more concentrated, subsidy spending is relatively higher in open-list systems, all else equal. Furthermore, when beneficiaries are geographically concentrated, increases in mean district magnitude correlate with greater subsidy spending in open-list PR systems.

I supplement the cross-national tests with a quantitative statistical analysis of sector-specific subsidies in a single closed-list PR system. The single-country study holds constant institutional features, such as list type, and consequently isolates the effects of economic geography, which varies across sectors within the country. I find that subsidies are more generous for geographically-diffuse sectors, as compared to concentrated sectors, in a closed-list PR country. The single-country results confirm the multi-country results.

The conclusive chapter reviews my proposed theory on the role of economic geography and electoral institutions in economic policy making. The final section extends the implications of the argument for a broader theory of policy making in a globalized international economy.