

Firms lobby for subsidies along geographic, sector, or factor lines and, as a result, receive subsidies with a local, sectoral, or factorwide scope. This article investigates what determines the line of cleavage and thereby the scope of the subsidy. The factor mobility hypothesis, according to which an economic prior—the degree of factor mobility—determines the geometry of lobbying coalitions, misses the fact that factor mobility is as much the product of policy and policymaking as it is its determinant. This article argues instead that politicians maximize their chances of staying in power through the deliberate use of subsidies to structure the political debate and embed factor owners into stable policy networks. Individual factor owners, in turn, join these policy networks to lobby for monopoly rents capable of insuring them against adverse economic competition. The model yields two testable hypotheses. First, right governments favor subsidies to capital, whereas left governments favor subsidies to labor. Second, the degree of intensity of electoral competition determines the scope of the subsidy policy. Quantitative and qualitative evidence is offered for 21 Organization for Economic Cooperation and Development countries during the 1980s.

THE POLITICS OF PUBLIC AID TO PRIVATE INDUSTRY

The Role of Policy Networks

DANIEL VERDIER
European University Institute

Economic credits correspond to political debts.
—Alessandro Pizzorno (1981, p. 262)

All governments subsidize their industries, yet not in the same way or to the same extent. Recently released Organization for Economic Cooperation

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and Development (OECD, 1992) data show that Belgium and the United States tend to subsidize generic investment, mostly through tax write-offs, whereas New Zealand principally helps industry with the costs of training and of job creation. Spain, France, and Australia tend to focus on sectors, whereas Ireland, Finland, Italy, and Germany stress regional assistance. Why such diversity in methods?

Policy diversity raises a theoretical puzzle. What actually emerges from the OECD survey is that governments, when allocating subsidies to individual firms, locate firms into different reference groups: Belgium, the United States, and New Zealand address firms as users of a *factor* of production—capital in the United States and Belgium, labor in New Zealand; Spain, France, and Australia instead zero in on the *sector*—that is, a bundle of products (steel, textiles, microelectronics, and so on); Ireland, Finland, Italy, and Germany mail the goodies to the firm's *place* of production. Factor, sector, and place are cross-cutting lines of cleavage: The same factor is employed in several sectors and places; the same sector employs several factors and is present in several places; and the same place is home to several factors and several sectors. Factor, sector, and place are three possible groupings to which each firm potentially belongs—three ways of partitioning the pool of corporate petitioners. What gives a firm its welfare identity? What determines the lines along which industry coalitions cleave in the pursuit of subsidies?

One way of answering this question is to look for a constraint exogenous to politics. In an oft-quoted essay, Magee (1980) argues that *factor mobility* is responsible for the manner in which lobbying coalitions form: Low factor mobility causes lobbying to occur along sector lines, whereas high factor mobility causes it to occur along factor lines. The reasoning goes like this. The degree of mobility of a factor—that is, whether it can be gainfully employed in different sectors (and/or different places, although Magee does not specifically extend the analysis to geographic mobility) or instead can be reassigned only at a loss in efficiency—determines the price structure of this factor. Mobility makes a factor exchangeable at one single price across sectors (or places). Lack of mobility fragments the market for this factor and causes its price to vary with the sector (or place) of employment. When owners of a same factor, say labor, try to boost wages by lobbying for a tariff (Magee's study is on tariffs, not subsidies), they organize along factor lines if wages are the same for all of them or along sector lines if wages vary according to sectors of employment (and along geographic lines, one would add, if wages vary according to regions).

Applying Magee's insight to subsidies, the argument would be that subsidies reflect lobbying coalitions that, in turn, reflect different mixes of

factor mobility. Where both sector and geographic mobility are high, coalitions should form along factor lines and thus subsidies should be factorwide. Where only sector mobility is high, coalitions should form along geographic lines and subsidies should be directed to local governments. Where only geographic mobility is high, coalitions should form along industry lines with subsidies targeted to sectors. And where both kinds of mobility are low, coalitions should form along industry lines and within the boundaries of each region, with subsidies bound for area-specific sectors. This is a handsome set of hypotheses although not a directly testable one across OECD countries because of the lack of data on factor mobility. Yet, the test would probably be inconclusive because there is another aspect of the story that is missing from this account: collective action.

There are thousands of sectors, hundreds of places, but only two factors of production (I ignore land because I am interested only in industry here); factors are simply too large to organize on their own—and thus lobby on their own—but must instead be organized by politicians. Historically, factors have been organized by political parties—into classes. In light of this, should we argue, in accordance with the economic approach, that factor mobility is responsible for the class origins of party systems? Is politics the reflection of economic fundamentals?¹

I defend the opposite standpoint: By intervening in factor markets, politicians influence factor mobility. The theoretical claims of this article are that lines of political cleavage—sector, factor, and place—are endogenous to electoral politics; that lobbying is structured by the political game rather than by industrial and technological constraints; and that, within broad cultural and technological boundaries, input market competition is an outcome of political competition.

More specifically, I argue that politicians maximize their chances of staying in power through the deliberate use of subsidies to structure the political debate and embed factor owners into stable policy networks. Policy networks are defined as systems of informal relations between rational individuals that create a stable infrastructure for the exchange of personal favors.² Risk aversion justifies the building of policy networks. The political

1. It may seem like an arbitrary simplification to use the threefold factor categorization, given that labor can be skilled, semiskilled, or unskilled; that capital varies according to the type of technology used; and that land varies in its uses. The threefold typology, however, is central to the modeling of international trade (Magee, 1980) and justified by the universality of the urban-rural and class cleavage in the formation and evolution of Western party systems (Lipset & Rokkan, 1967).

2. Recast into negatives, the definition states that (a) unlike institutions, policy networks are informal; (b) policy networks are ties among individuals, not links between organized groups—lobbyists and politicians manage portfolios of names and corresponding phone numbers; (c) the

transaction—the exchange of a rent for campaign resources—is not a safe, enforceable transaction but is one that is ridden with risk and thus is one that can be sustained only within a policy network. In such conditions, lobbying for a subsidy requires declaring loyalty to a party or politician. Individual factor owners, in turn, join these policy networks to lobby for monopoly rents capable of insuring them against adverse economic competition.

Policy networks have definite consequences for factor mobility. Mobility stops at the boundaries of the network. For example, if a worker is involved in a local policy network (as opposed to, say, a sector-based network), this worker will be more willing to switch sector of employment so as to stay in the same place than to switch places so as to stay in the same sector. Political investment tends to channel economic investment. Generalizing, the more individuals are able to bring politics to bear on their economic station, the more heavily weighted politics is in the determination of factor mobility.

Further, variations in political competition determine variations in economic competition. On one hand, politicians may seek tenure by building narrow, dense networks capable of sustaining abnormally long incumbency—safe seats in the local districts, party dominance in government. In so doing, politicians invite rent seeking on the part of factor owners who, through membership in the policy networks, can win rents that they use to segment factor markets along sector or regional lines. On the other hand, politicians may broaden their appeal to include the median voter into large, factorwide networks. In so doing, politicians elicit strategies of market competition among owners of a same factor and lobbying for policies of class redistribution between owners of a different factor.

Last, whether politicians promote rent seeking or median voting, I argue, depends on how closely contested the elections are. Close electoral competition raises parties' interest in the median voter and calls for the substitution of general policies for rents, with the consequence of improving factor mobility and of making profits dependent on economic competition or interfactor (class) redistribution. However, weak electoral constraint encourages rent seeking, which fragments markets and makes profits dependent on sectoral or regional monopolies.

The article offers two testable hypotheses. First, subsidies are partisan. Governments of the right deliver subsidies to capital, whereas governments of the left deliver subsidies to labor. Second, subsidies are a symptom of

thought process by which individuals create, join, remain part of, or exit from policy networks does not necessarily assume that rationality is bounded; (d) unlike spot markets, networks sustain stable relations; and (e) the stuff of policy networks is not goods, assets, or wives but political favors.

electoral competition. Subsidies with a broad aim are linked to strong political competition. Electoral competition makes frontbenchers' preference for factor-wide subsidies prevail over backbenchers' preference for local subsidies. By contrast, targeted subsidies reveal anemia in electoral politics. In the absence of strong political competition, the two benches on the government side indulge in particularistic subsidies—local for the backbench and sectorwide for the frontbench. These predictions are systematically tested against OECD countries.

The article is organized as follows. I first stress the shortcomings of the dominant view of political transaction—the marketplace approach to lobbying—and then introduce the alternative network approach, explaining why politicians and individuals create and join policy networks. In a second step, I distinguish between policy networks according to membership identity (labor, capital) and scope (factor, sector, place) and then map out various politicians' and individuals' preferences for each. Third, I develop the role played by subsidies in network building, derive the two aforementioned hypotheses, and test them against the OECD data set. Finally, I confront the quantitative results with those fragments of qualitative evidence that are available in the literature and use the unexplained residual to raise new questions.

THE MARKETPLACE APPROACH TO LOBBYING

Lobbying has a cost; no one will dispute this claim. The structure of that cost, however, is a more difficult question, one pregnant with important political consequences and yet one that has received little attention. Political scientists and political economists alike usually treat the cost of lobbying as a transaction cost: a fee that is incidental to the transaction and thus fully dissipated by the consummation of the transaction. Rarely does the literature entertain the opposite idea—that is, that lobbying calls for an initial investment (a fixed cost), the full amortization of which can be claimed only over several transactions. In the first case, the marginal cost of lobbying is constant, whereas in the latter case, it decreases. Why does this matter? The cost structure of lobbying matters because it affects the mobility and versatility of lobbies. Constant costs make lobbying comparable with brokerage, consulting, and legal counseling—the barriers of entry are negligible and the costs of exit are nil. Fixed initial costs, however, not only raise barriers to entry but also make exit suboptimal because participants are loath to forsake the built-in economies of scale. Fixed costs foster political loyalty.

Why should one believe that lobbying is more of the fixed-cost type than of the flat-fee type? Lobbying involves gaining privileged access to policymaking to exercise exceptional influence over the policy outcome. In most

OECD countries although perhaps not as much in the United States, neither access nor influence is a commodity that can be bought on some unofficial political market by means of an impersonal medium such as cash. Nor is it acquired through the hiring of a professional lobbyist or legal consultant. Access, first, and influence, second, require personal connections or networking—that is, a prior, irreversible investment in a portfolio of contacts.

In what ways does lobbying escape the impersonal law of supply and demand? It is useful to contrast two views of the political exchange: the classic political marketplace approach, used mainly by political economists, and the network approach defended here. Political economists conceptualize the political market as analogous to the economic market. The state is a marketplace in which economic actors seek monopoly rents from decision makers and offer campaign resources in exchange; in turn, politicians seek campaign funds and legislate rents in exchange. At equilibrium, the demand for rents equals the supply of rents at terms of trade decided by the relative strength of supply and demand. This model entails several consequences. The model first assumes a *dyadic* relation between buyer and seller. It also assumes that the lobbying transaction is *discrete* and has a unique, ever-changing *price* determined by supply and demand—the spot market price for pork. It assumes a modicum of *competition*; neither side enjoys a monopolistic position over the other, thanks to a potentially infinite supply of individual politicians and the posited rule that political parties never collude. Infinity of supply and noncollusion are also assumed on the lobbying side. Further, lobbying outcomes are locally *efficient*—that is, the highest bidder always gets its first choice. Politics is also an *open* arena; it is accessible to anyone who is willing to outspend its rivals. There are no barriers to entry and none to exit, and thus there is *little loyalty* built into the lobby-party relation. Lobbying involves no fixed costs, only *variable costs*; firms can give to all parties simultaneously to hedge their bets or sequentially based on satisfaction.

The marketplace approach to political transacting leaves two unexplained residuals. The first is an incapacity to account for policies aimed at large groups such as factorwide subsidies. Accelerated depreciation is a good instance. Accelerated depreciation allows a firm to depreciate an investment at a faster pace than its actual decline in value, thereby encouraging the substitution of capital for labor. Accelerated depreciation is a subsidy to capital across sectors and across locales, and it is used almost universally. No doubt, certain sectors are more capital intensive (and more profitable, as the firm usually has to make profits to claim the tax subsidy) than are others and thereby may have an interest in lobbying for accelerated depreciation under any circumstances. It is unclear, however, why such sectors should lobby for accelerated depreciation when they could invest the same resources into lobbying

more efficiently for a sectorwide policy. The marketplace approach fails to account for factorwide subsidies such as accelerated depreciation because it cannot explain rents in the absence of spontaneously organized demand, a condition that factors cannot meet on account of their extravagant size, sectoral diversity, and geographic diffusion.

Second, the marketplace approach cannot account for parties and partisan politics—the fact that parties adopt, and adhere to, different policy positions rather than endorse the median voter's policy preferences. Following Anthony Downs (1957), the marketplace approach predicts that parties compete for the median voter and thus converge in policy position, a prediction belied by observation. To be sure, political economists have found several ways of patching up this hole, notably through the mix of ideological preference and incomplete information. Politicians with divergent ideological preferences will offer divergent platforms to voters if voters' preferences are unknown to politicians, whether this ignorance is attributable to insufficient canvassing resources or to the unpredictable floating voter (Morton, 1993). This neat analytical solution raises new theoretical questions. First, why do politicians hold diverging preferences to begin with? Then, what can politicians do to know, or to anchor, voters' preferences? The answer to the first question is straightforward enough: Extremes have greater influence in party decisions than do moderates.³ By contrast, the second question has received less attention, perhaps due to a tendency in the field to treat political transacting as analogous to the dyadic, discrete, efficient, arm's-length buyer-seller transaction in the marketplace.⁴ The network approach to lobbying rejects this contractual view of politics by recognizing in politicians a capacity to structure the electorate. Lobbying locks individuals into policy networks.

A NETWORK APPROACH TO LOBBYING

The network approach propounded here differs from the marketplace approach in that it starts from the recognition that the political transaction is risky. The main idea is that politicians create policy networks to relax political risk and that individuals join policy networks to relax economic and policy risk.⁵ I first look at the politicians' rationale.

3. Another possible answer, not pursued here, is that policymakers have ideological preferences of their own.

4. An exception to this generalization is Galeotti and Breton (1986), who study parties as "networks of relationship based on trust" (p. 54).

5. The idea of network as a solution to the Hobbesian characteristics of market relations can be found in Granovetter (1985).

POLITICIANS' RATIONALE

Political transacting presents three sources of risk for politicians: illegitimacy, irreversibility, and cyclicity. First, lobbying, even if legal, is illegitimate. Lobbying implies circumventing the general channels of appeal offered to the general public and thus conferring preferments on some isolated individuals in the hearing of grievances. Moreover, the rent that lobbying may elicit, if successful, is simply scandalous, and its disclosure will hurt its sponsor.

The second source of uncertainty derives from the notion of reputation. Campaigning leads politicians and parties to unveil their positions and thus commit to a set of programs, which they will have to deliver, rain or shine, lest they waste their credibility. Commitment and reputation building have the three traditional properties of "sunk" costs: They are irreversible, create a barrier to entry, but by the same token, create a disincentive to exit as well—the cost of reputational injury.⁶

Finally, the lobbying transaction is extremely sensitive to the party cycle: Indefinite periods in opposition follow periods in government; parties need loyalists to limit damage and keep going when the floating vote temporarily steers for the other side.

Illegitimacy, irreversibility, and cyclicity make the political transaction risky—as risky as international trading was during the days prior to centralized states. Like medieval traders, risk-averse politicians will not transact absent a modicum of security. Among medieval traders, this modicum of security was provided by restricting dealing to members of one's family, tribe, or guild. Among modern politicians, insurance against risk takes remarkably similar forms: Transacting occurs with individuals with whom they share a common denominator—common background; common skin color; family relations; attendance to the same church, college, country club, fitness club, cocktail parties; involvement in the same ongoing business relations, syndicates, mafias, and so forth. In many European societies, being part of the upper class provides ready access to policymaking. And, indeed, if special access requires networking, ascription is functional. The local worthy *le notable* is the one who, in colloquial French, *a le bras long*—that is, the one whose arm is long enough to reach to higher spheres of decision.

The fact that political transacting is embedded in a policy network sets it apart from standard market exchange. It is not a one-shot renewable deal but one that extends over a *sequence* of exchanges. The unit of currency is not monetary but takes the form of *favors*. Favors escape precise pricing; granting

6. A sunk cost is an investment cost that cannot be recouped. On the commitment effect of sunk costs, see Jacquemin (1987).

a favor is tantamount to acquiring an option of which neither the exercise value nor the expiration date need be specified in advance—and, in the end, relatively little cash is actually exchanged or spoken of. Political transacting need not be dyadic either; favors can be redeemed through triangular or *polygonal* arrangements. Complex, nonmonetary, and with indefinite settlement dates, political exchange is locally *inefficient*. A long time horizon is functional in giving network members the confidence that exchange is sustainable.

If preferential access to policymaking requires long-term investment in political networking, then the cost of lobbying is best expressed by a cost function in which a *fixed cost* in lobbying resources must be incurred to produce any amount of rent. Fixed costs have the virtue of creating economies of scale: The more lobbying is endeavored, the lower the unit cost of lobbying because the fixed cost is spread over a larger lobbying activity.⁷

Economies of scale have well-known properties. In economic markets, the logical consequence of economies of scale is *concentration*. The epitome of monopoly in politics is the party machine, local or national. The machine is a politically efficient and unopposed system of distribution of rents and patronage. The logic of the machine is to establish a natural monopoly in the distribution of political services; the machine starts functioning like a monopoly when it has reached the threshold past, which any interest in need of a political service finds it to be more in its interest to join the local network than to support an eventual opponent. “If you can’t beat them, join them.” The compelling logic of the machine can unfold at the local or national level; it is a matter of how competitive the political market is because, in a perfectly competitive political market, Riker’s (1962) minimum winning majority (50% plus) is always more efficient (for politicians, that is) than is the machine.⁸ If the machine has not monopolized all political transactions, then it must be because lobbying is held in check by electoral competition. (I explore this relationship a bit further in a subsequent section.)

7. In formal notation, $C(q) = cq + f$, with $C(q)$ the total cost of lobbying, c the variable cost, q the total amount of rent transacted, and f the fixed cost. If the fixed cost were equal to zero, lobbying would be reducible to a transaction cost, equal to the amount of rent q times the variable cost of rent-seeking c . The idea that a fixed cost alone generates economies of scale is at odds with the standard assumption found in economics texts that the decline in the average fixed cost caused by an expansion in the scale of production is overwhelmed by a rise in the average variable cost. However, this is no more than a presentational contrivance that is introduced to yield a firm’s U-shaped long-run average cost curve, a curve with desirable mathematical properties, to be sure, but little empirical relevance (Lucas, 1967).

8. Weingast (1979) reaches a different result by considering only policies for which benefits strictly exceed costs, a condition that excludes most rents.

Besides concentration, economies of scale exhibit a second property known in evolutionary biology as path dependency: Specialization is cumulative and to a certain extent arbitrary, as only a slight initial difference in endowments can lead to radically different trajectories (Krugman, 1990). In the context of lobbying, path dependency implies that once an individual has become part of a given policy network or has established a personal relation with a politician, he or she has an interest in remaining active in the network or maintaining *loyalty* to the politician; he or she is locked into a set of relationships, a network, a party, an ideology, and an entourage.

The present notion of lobbying, that of a long-term investment in networking based on personal connections, may seem at odds with the conception that pervades the field of American politics. Lobbying in America has traditionally been compared to an auction in which the largest slice of the pork is allocated to the highest bidder. The fact is that America is a special case, one in which lobbying is pervasive but is also subject to rules of publicity and disclosure that are quite exacting by European and Japanese standards. Publicity widens access, invites competitive lobbying, and limits the efficiency of lobbying.⁹ Indeed, if the present analysis is correct, there is an inverse relation between the efficiency of lobbying and the degree of openness and competitiveness of policy networks. The marketplace quality of lobbying in the United States is evidence of its relatively benign character, a character that is a reflection both of the strength of the electoral constraint and of the greater relevance of the median voter theorem (in a sense to be made precise later).¹⁰

INDIVIDUALS' RATIONALE

Individuals are factor owners, identified by source of income—labor and capital (as already mentioned, I purposely ignore land here). Factor owners

9. Competitive lobbying reduces the efficiency but not the volume of lobbying in the sense that voters do not care whether Lockheed or Northrop wins the contract to develop the next generation of fighter planes as long as costs are kept reasonably low, whereas it may be a matter of survival for the two potential contractors.

10. Notice, however, that the folk image of open and relatively impersonal lobbying in the United States suffers two exceptions. First, the literature reports that campaign contributions may ensure access but do not necessarily buy favorable policy outcomes, at least not right away and thus not in a way detectable by a statistical regression run on lawmakers' voting during the congressional session immediately following election (Chappell, 1982; Welch, 1983). Unlike access, influence requires premeditation. Second, the importance of time and recurring contact between lobbyists and politicians has also been stressed by studies that stage lobbies as a "service bureau" (Bauer, de Sola Pool, & Dexter, 1963, p. 353) and "congressional informants" (Hansen, 1991, p. 5); it takes time, indeed, for these self-styled intelligence analysts to establish a rapport of trust with lawmakers.

are characterized by their degree of mobility. A factor is mobile if, in the pursuit of higher returns, it can freely move from one type of employment to another at little or no loss. Two types of mobility should be distinguished: intersectoral and geographic. In the case of labor, intersectoral mobility decreases with higher retraining costs; in the case of capital, it decreases with sunk costs, retooling costs, and the regulation of financial markets; and for both labor and capital, it decreases with barriers to entry and/or exit. Geographic mobility decreases with rising transportation costs, parochial prejudices, and so forth.

Input markets clear if factors are mobile. But factor mobility is a source of risk that individual factor owners insure themselves against by joining social networks. It is a well-known sociological fact that the great majority of individuals find jobs through friends and relatives (Granovetter, 1974, p. 5). Further, it is not hard to imagine that an individual who anticipates the possibility of a move at some point in his or her life, due to either self-advancement or layoff, prepares for this eventuality by investing resources in the appropriate type of network—sector, local, or class based. For example, if the individual anticipates relocation, he or she tries to meet other members of his or her trade (e.g., by becoming a trade union member); if the individual expects retraining, he or she spends more time meeting members from his or her locality. If the individual expects either or wants to keep his or her options open, he or she joins the national union and perhaps becomes active in a national (labor) party; if the individual expects neither, he or she joins a local trade union.

The same reasoning applies to capital. In the case of capital owners, opening a new business or simply spotting profitable investment opportunities requires acquaintances and thus membership in some kind of network. Local networks organize around chambers of commerce, local stock exchanges, country clubs, local party associations, and so forth; sector networks take the form of trade associations, trade fairs, and so forth; national networks take the form of participation in the employers' association, think tanks advising the conservative party, and so forth. Whether a capitalist decides to emphasize this network rather than that network depends on where and how he or she expects to move his or her capital and thus on the relative costs of relocation and specialization. What a capitalist joins now affects how he or she moves his or her capital tomorrow; and, vice versa, what a capitalist anticipates his or her next investment to be decides what he or she joins now.¹¹

The relation between social and policy networks varies in intensity according to the type of society. The more politicized a society is—that is, the

11. For a nuanced reduction of market (firm-bank) relations to networks, see Baker (1990).

more people see a relation between their political and economic station—the more important policy networks are in shaping social networks. There is a perfect parallel, in a regime clientelized in the oriental tradition, between political affiliation and economic position merely because there is no separation between the political and economic spheres. In a clientelistic structure in which jobs, contracts, loans, and so forth all flow between patrons and respective political clients, factor mobility is determined by the individual's location in the clientelistic network. By contrast, it would be difficult to imagine that kind of link in an ideal marketplace, one from which the state (and politics in general) is absent. OECD countries are somewhat stationed between the oriental and the metaphysical extremes with the result that, for those individuals who have the will and resources, politics can make the difference.

Finally, with respect to matters in which politics can help or obstruct, effectiveness requires that social networks do more than simply hire lobbyists and public opinion specialists; they must also be wired into critical policy networks. Indeed, a logical consequence of the illegitimacy of lobbying is its secrecy. Secret transacting between a lawmaker (or a bureaucrat) and an interest makes politics very unpredictable for third parties who might be injured by the rent. Laumann and Knoke (1987, p. 207) show that to avoid being taken by surprise, lobbies must be plugged into an informal communication network far in advance to intervene early enough and thus minimize potential damage.

In sum, if individuals seek to escape the uncertainty of market transactions by networking and if economic activity depends on (or is influenced by) politics or state regulation, then individuals get willingly trapped into the policy networks that politicians seek to create. It is in this very basic sense that policy networks channel factor mobility. Of course, recognizing this fact does not imply reducing all manifestations of factor mobility (or lack thereof) to politics; individuals can also be irreversibly trapped into politically inept social networks.

TYPOLGY AND ACTORS' PREFERENCES OVER NETWORKS

In their quest for policy contacts, politicians and individuals face a choice because policy networks vary in scope and membership. With respect to scope, I use the classic trinitarian distinction of place, sector, and factor. Local policy networks are organized at the level of the electoral district or the local government. Sectorwide policy networks are usually bureaucratic networks centered around technical ministries, bureaucratic corps, trade associations,

trade unions, and industry regulatory agencies. Factorwide policy networks are centered around class parties and complementary peak factor associations. More precisely, factorwide networks vary from the dense and closed coterie of party regulars to the thin and open crowd of local sympathizers and loyalists. Partisan allegiance, that sense of identity between one's political self and the fate of a party (sometimes a sheer psychological occurrence on par with partisanship toward the local football team), should be analyzed as a membership cost—a cost that is low and spread over many elections to be sure, yet a real one nonetheless.¹²

Networks also vary according to membership identity. With respect to membership, I use the standard economic distinction between capital and labor owners.

Who prefers what? I successively review the two categories of actors, starting this time with individuals.

INDIVIDUALS' PREFERENCES

The case of individuals is straightforward. With respect to membership, capital owners prefer networks with a high density of capitalists to those with a high density of workers (I ignore landowners). The reverse is true of workers. With respect to scope, and holding everything else constant, both categories of factor owners prefer small (local and sector) to large (factor) networks. Indeed, individuals network in proportion to expected returns. Because political benefits are more difficult to appropriate if they are delivered to a large group rather than to a small group, one expects investment in factorwide networks (parties, peak associations) to trail investment in sector-wide or local networks.

In fact, individuals do not always prefer specificity to mobility. Mobility is not always reducible to uncertainty, against which individuals seek to insure themselves, but is sometimes the avenue to higher gains, preferred by risk takers. Undoubtedly correct, this qualification does not upset the point that individuals generally underinvest in large policy networks for those individuals who, due to their particular situation or mindset, anticipate low mobility costs are also those who are the least in need of a political lift.

Given that politically active individuals have a constant preference for factor specificity and membership in particularistic networks, variations in factor mobility and network scope must reflect variations in the preferences held by the second category of actor: politicians.

12. On parties as "networks of trust," see Galeotti and Breton (1986).

POLITICIANS' PREFERENCES

Different politicians are affected differently by different mixes of factor mobility and thus by different types of networks. I first distinguish between four groups defined along two dimensions: (a) frontbench versus backbench and (b) right versus left.

Let me start with the backbench—right and left. Backbenchers are local representatives with little or no ambition of ever making it to the leadership of their party and thus to a cabinet or secretary position. They are the eternal followers whose only goal is to maximize tenure in their respective districts. The successful backbencher comes from a safe constituency in which he or she is guaranteed reelection provided that he or she showers the district with tangible rewards. The backbencher's ambition in the legislature is to squeeze rents from the frontbench, whereas in the district it is to stand at the center of a machine network and hammer a ring of loyal supporters; for this, backbenchers need rents and patronage.

Like the backbencher, the frontbencher also worries about establishing a solid position in his or her home district. Unlike the backbencher, however, the frontbencher also has governmental ambition; thus the frontbencher also worries about his or her party winning the election nationwide. Assuming that there are two parties (a party of the right and a party of the left), that the party of the right is capital oriented whereas the party of the left is labor oriented, and that voters are arranged along a labor-capital axis according to their respective mix of earnings in the form of wages and capital returns, then each party leadership must worry about producing a platform that is sufficiently broad-ranging to include the median voter (who owns a mix of factors). The support of the median voter, unlike that of the local voters, cannot be had by the promise of rents; local politicians can justify the legislating of rents to their local supporters on the ground that the burden will be borne by the nation at large—a discourse that is not possible when the electoral district is the nation at large.

The frontbench and backbench are thus on a conflictual course. Frontbenchers have an interest in passing general measures that, far from fragmenting the electorate, are designed to engineer a broad coalition—a wage-earner-based coalition (blue and white collars) for the party of the left, a rent-on-capital-earner-based coalition (stockholders, landowners, farmers, merchants, crafts people, self-employed, professionals) for the party of the right—that can include the median voter. Frontbenchers, in a situation of electoral competition, therefore seek to rest their political future on the support of factors of production at large.

By contrast, backbenchers, especially the most senior among them, have an interest in passing measures with a local scope, which can help them sustain the local machine in charge of securing their tenure. Notice, however, that this is not necessarily the case for all backbenchers, only for those representing safe constituencies. Party candidates running in marginal constituencies in which the median voter is, by definition, identical to the median voter in the national election have the same preferences as the frontbench; the frontbench targets the party platform to these marginal constituencies because these are the constituencies that decide national election outcomes. Yet, despite the importance of marginal constituencies to the party's governmental ambitions, it remains that the backbench is always dominated by those candidates elected in safe, nonmarginal constituencies because they are the only ones to have the leisure to acquire party seniority. Backbenchers elected in marginal constituencies are knocked off regularly by the swing of the electoral pendulum.

There is finally a third case in which one party, for exogenous reasons, regularly wins all electoral contests (think of the liberals in Japan, the Christian Democrats in Italy). In this case, the logic observed at the level of the local (safe) seat is reenacted at the national level. There is no reason for the frontbench to be concerned about creating a broad, factorwide coalition of voters as such efficiency not only would be unnecessary to ensure victory but would be suboptimal as well because it would lead frontbenchers to forego a unique opportunity to enrich themselves and their followers. In a case of party dominance, frontbench politicians run the government like a local machine, using the resources of the office to create a network of financially committed supporters. They distribute rents to nationally organized sectors, which in exchange for such favors, finance the party's political (and other) needs. Party dominance reproduces the backbencher's machine dynamic on the national scale.

In addition to front and back seating assignments, politicians differ along a second dimension—the right-left cleavage. Irrespective of the nature of the electoral competition and what bench they sit on, members of the same party share a preference for the welfare of a certain factor of production—capital for the right, labor for the left. Historically, the factor became associated with parties with the advent of mass politics. In the second half of the 19th century, parties were interested primarily in large-scale constituencies, and they formed around two distinctive lines of cleavage—farm-factory and employer-employee—defining in the process three distinctive socioeconomic groups: farmers, workers, and capitalists (Lipset & Rokkan, 1967).¹³

13. Is the four-bench model valid under any type of (a) party system and (b) electoral system? With respect to party systems, first, the four-bench model assumes two parties. But it functions equally well in a multipartisan context if the class cleavage is articulated by the party system

If politicians value factor identity and factor mobility differently depending on their political standing, then it is necessary to clarify the differential impact of various subsidies on factor mobility.

THE IMPACT OF SUBSIDIES ON FACTOR MOVEMENT

Subsidies are addictive; behind the bait, there is the hook. Subsidies have two series of impacts on factor movement: a first through factors' relative earnings (this is the bait) and a second through the cost of lobbying (this is the hook). Whereas the former is consumed immediately, the latter sticks. Although it is important for the sake of clarity to present both effects, only the latter is necessary to the argument.

THE IMPACT ON FACTORS' RELATIVE EARNINGS

A subsidy to a factor has the direct effect of raising the price of that factor (wages of labor, or the rental on capital); such is, after all, the rationale for lobbying for a subsidy. The indirect impact on factor specialization and location is straightforward; a subsidy to a labor-abundant region, for example, raises workers' expected revenues for staying in that region (a parallel reasoning applies to sectors). But as soon as the subsidy is ended, the benefit disappears and excess labor migrates elsewhere. The earning effect has an impact on the workers' decision to relocate but not on the workers' mobility *per se* (understood as the capacity to relocate).

Not only does the anticipated earning effect have no consequences for factor mobility, but factor mobility actually determines the magnitude of that effect. The more mobile a factor, the quicker the benefits to a subset of the factor will disseminate to the other members of the factor (Stolper &

and right and left coalitions alternate in government (e.g., Sweden, France since 1981). However, when other issues interfere with the class cleavage (i.e., when partisan competition is hindered in a way to be specified later), centrist government coalitions are more likely. With respect to electoral systems, second, the four-bench model is not entirely applicable in the Dutch case, a country in which the single-district system eliminates the tension between the frontbench and the backbench, thereby invalidating the prediction concerning local subsidies. All other OECD countries, whether they resort to single-member districts (plurality and majority rule) or multiple-member districts (proportional representation), fall within the boundaries of the model, irrespective of district size. Contrary to Duverger's (1951) classic argument, district size is irrelevant; the British minuscule districts have consistently supported two of the most disciplined parties in the world. Plural, majoritarian, or proportional representation determine only the number of parties, not partisan discipline.

Samuelson, 1941). Economists, however, evade the question of the origins of factor mobility.¹⁴ I submit that subsidies impact factor mobility.

THE IMPACT ON COSTS: FACTOR MOBILITY

Less noted than, but as important as, the earning effect is the impact of subsidies on factor mobility. Subsidies can be categorized into two groups depending on whether they have the effect of increasing or decreasing factor mobility. Subsidies that have a *general* scope and that are allocated more or less automatically on the basis of objective and well-publicized criteria rarely interfere with factor mobility. They do not because they do not elicit meaningful lobbying; their generality and automaticity give them a collective-good quality, which private lobbies cannot fully appropriate and, as a result, underseek. The type of subsidies that fit into the category of general subsidies usually target generic investments (e.g., accelerated depreciation), retraining, geographic relocation, research and development (R&D), and export orientation. General and automatic subsidies directly target a factor of production without mediation by sector or region.

The second category of subsidies, those with a *particular* scope, include those that are also destined to factor owners but, unlike general subsidies, are targeted to individual firms through the mediation of local or sector agencies. Particular aid is neither general nor automatic but involves instead a quid pro quo: The recipient is expected to commit itself to some kind of investment, which is negotiable and of which all obligations need not be specified *ex ante*. Whether this commitment is meaningful or nominal will of course depend on the access and influence that the recipient enjoys with the officials in charge of distributing the aid. Local and sectorwide (and, *a fortiori*, firm-targeted) subsidies invite capture through lobbying because their scope is narrow as opposed to general and because their allocation is discretionary as opposed to automatic. Policies of regional development, industrial policy, aid to small business, and rescue of lame ducks belong to this second category. Along with regulatory rents and public procurement policies, regional and industrial policies are the modern equivalents of 19th-century patronage; they provide the fuel that keeps the local machines humming and the bureaucrat-industrial networks machinating for the greater good of insiders and early-retiring officials.^{15,16}

14. Economists treat factor mobility as a parameter to be estimated through econometric techniques.

15. The general-particular distinction is not to be confused with the distinction between "market-conforming" industrial policy and "dirigist" industrial policy, of which the analytical usefulness is debated. At first introduced to justify why the Japanese "strong" state, unlike its French

THE POLITICS OF SUBSIDY: PREDICTIONS

The four-bench model of party politics combined with the surmised impact of subsidies on factor mobility implies that different categories of politicians each have a different stake in factor mobility and a different interest in using subsidies to shape factor mobility accordingly. Three specific propositions follow.

First, backbenchers favor subsidies that strengthen local specificity and feed the local networks that are essential for tenure. They want subsidies to local development. Depending on party affiliation, which is likely to be a reflection of district factor intensity, they prefer subsidies favoring local capital to subsidies favoring local labor.

The second prediction applies to frontbenchers engaged in a close political race for the support of the median voter. Although frontbenchers and backbenchers share a common partisan bias toward one factor of production, frontbenchers favor subsidies that are sufficiently general to encompass the median voter in a factorwide coalition. The conservative frontbench want to increase the mobility of capital through aid to generic investment, to R&D,

equivalent, hatched so few *Titanics* of the *Concorde* and *Superphoenix* types (Johnson, 1982), this distinction raised the intriguing question, How could a state that pursues a market-conforming policy be strong? Samuels (1990) unraveled the paradox for Japan by showing that state "jurisdiction" over industrial change does not necessarily imply "control." In Samuels's words, "[Japanese] private firms have learned to surrender jurisdiction while retaining control of markets" (p. 58).

16. The economic analysis of elasticities throws what could potentially be a monkey wrench into the present speculation by demonstrating, under certain conditions, the irrelevance of the nominal beneficiary. There is indeed no reason, in theory, that the nominal recipient of a subsidy should be the real beneficiary. For example, an income tax break for all employees will be pocketed by employers if the demand for labor is inelastic whereas the supply of labor is elastic. New workers will enter the job market and bid down the existing wage rate to the level where it equals the initial wage rate diminished by the amount of the subsidy. If, conversely, the supply of labor is inelastic whereas the demand for labor is elastic, then the subsidy will stay with its initial recipients—the employees. More generally, subsidies reward the inelastic more than they do the elastic, irrespective of whether the nominal recipient is the buyer or the seller (U.S. Congress, 1972, p. 59). Were elasticities to figure prominently into rent seekers' and politicians' calculations, it would be impossible to code observable policies properly without an exhaustive knowledge of relevant factor-price elasticities, which is unavailable. Although it is plausible that directly involved participants hold local information on supply-demand elasticities, it is also conceivable that in the second-best world of market economics—one in which information is scarce and market clearing problematic—the nominal recipients believe that they are the real beneficiaries. In any case, such is what is assumed hereafter.

and to export, whereas the leftist frontbench typically want to increase the mobility of labor through aid to retraining.¹⁷

But if their party enjoys an uncontested position of dominance, the same frontbenchers will want to subsidize sectors or individual firms that enjoy a position of monopoly in their sector. Through sector subsidies, they have an opportunity to maximize cash payments and build a nationwide party machine parasiting the state bureaucracy. There, too, ideological persuasion influences the identity of the sectors preferred, with the left favoring labor-intensive sectors and the right favoring capital-intensive ones.

Which bench and which policies will prevail? An investigation of all potential determinants—economic, geographic, climatic, historical, cultural, and institutional—would take us afar. Instead, I limit the analysis to a necessary intervening variable through which the action of all unincluded determinants must pass: the intensity of electoral pressure.

The conflict between the frontbench and the backbench is decided according to the degree of electoral pressure. Following Tsebelis (1990), I assume that the backbenchers appoint the frontbench. The backbenchers' preference is to appoint a frontbench who is responsive to the party's loyalists (those specialized owners of factors of production, capitalists for the conservative, full-time employees for the left) and who understands the need to legislate rents. The backbenchers' choice, however, is constrained by the need to win the next election, which, if closely contested, requires the appointment of a moderate leadership. The more contested the national election, therefore, the less likely the backbenchers are to get their choice in favor of rents. However, if electoral competition is nominal—that is, if the dominance of one party or coalition is uncontested—then backbenchers enjoy enough leeway to appoint a leader who is more sympathetic to their outlying preferences.

Combining these separate scripts, the model yields two testable predictions:

Prediction 1 (factor content of subsidies): A government of the right will give subsidies to capital, whereas a government of the left will give subsidies to labor.

Prediction 2 ("pie-to-pork" ratio): In the presence of electoral pressure, parties will prefer general measures ("pie," as in apple pie), which increase factor mobility; absent electoral pressure, parties will condone particular subsidies (pork), which reduce factor mobility.

17. Aid to retraining is not the only, nor the most important, way to engineer labor mobility; centralized wage bargaining and an active labor market policy to keep unemployment low are also important. But data with respect to the latter are not included in the OECD subsidy data set, the analysis of which constitutes my present topic.

Although these predictions are necessary implications of the policy-network model, one must ask whether they are sufficient to provide a test of that model. Prediction 1, policy divergence, is compatible with other lines of explanation; one does not need networks to say that left parties favor workers and right parties favor shareholders and managers. Prediction 2, by contrast, is specific to the policy-network model. Rents, the argument goes, sustain dense networks, which make local constituencies safe and tenure in office at the national level long and rewarding. Strip the argument from the network effect and Prediction 2 collapses, as rents alone cannot buy abnormally long tenure. Indeed, parties could enter into a bidding war for rent seekers' support without the latter ever pledging financial loyalty to either party. In such a case, excessive competition would be observable in relation to rent seeking, thereby falsifying Prediction 2.

Conversely, general policies, the argument goes, sustain diffuse networks, which marginalize local constituencies and make tenure in office short and frugal. Here again, the argument requires the network mediation for without it, the possibility that general policies could buy abnormal longevity can no longer be ruled out *a priori*. Hence, if we can establish a relation between policy scope and political competition, we owe it to networking.

SYSTEMATIC EVIDENCE: THE OECD DATA SET

Recently released subsidy data by the OECD for the 1986-1989 period provide us with the possibility of submitting the two predictions to a systematic test.¹⁸ This data set offers for each country a breakdown of subsidies (including grants, tax deductions, cheap loans, loan guarantees, and equity)

18. The OECD data set, which covers the period 1986-1989, was preferred to four other data sets (Commission des Communautés Européennes [CEC], 1989, 1990; European Free Trade Association [EFTA], 1991; OECD, 1990) for its overall merit. The EFTA data set is simply too small (6 observations). The two CEC data sets are larger (10 observations for the first, 12 for the second), but the observations, with a few exceptions, are concentrated in a narrow band of variation for most of the variables used in the regression, thereby reducing their usefulness. As to the first OECD data set (covering the years 1982-1986), not only does it fail to offer complete data for all the members (only 13 countries could have been used against 21 in the 1986-1989 data set), but its methodology is of doubtful merit; drawn from total budgetary outlays, the subsidy measures do not permit the identification of the subsidy component in the cases of loans, guarantees, and equity and therefore are not strictly comparable across instruments and countries. Regressions similar to those performed on the 1986-1989 OECD data set revealed, in the case of the four excluded data sets, correctly signed coefficients but lower or inconsequential levels of significance.

by objectives—R&D, small- and medium-sized enterprises (SMEs), export, general investment, specific sectors, rescues, regional development, and so forth.¹⁹ For example, we are told that, in 1986, Iceland distributed 11% of its industrial subsidies through sectorwide programs, 54% in the form of R&D support, 20% in rescue aid, and 14% in export promotion (OECD, 1992, p. 52). We are not told how much.²⁰ I used this breakdown to build the dependent variables of Prediction 1 (the factor content of subsidies) and Prediction 2 (the degree of generality of subsidies).

Consider Prediction 1 first. It states that partisan orientation influences the factor content of subsidies—right favors capital, left favors labor. To measure the factor content of each national program, defined as the relative capital and labor intensity of each subsidy program, I grouped each category of subsidies into two sets depending on its average factor content. In the group of subsidies favoring capital more than labor, I included general investment, R&D, export, and aid to SMEs. By contrast, in the group of subsidies favoring labor more than capital, I included retraining and subsidies to traditional sectors. (Note that, due to a coding constraint, the variable labor content is not quite the inverse of capital content; for the construction of the factor content variables, see the appendix.)

The independent variable in Prediction 1 is the partisan orientation of the government. For each country, I averaged the partisan orientation of governments during the 1980s.²¹ Each government orientation, in turn, is an average

19. Important transfers to factors of production that are not covered by this data set include cheap power, unemployment benefits, and low taxes.

20. During the early 1980s, member states agreed to communicate data to the organization on the condition that absolute numbers (as opposed to noncomparable indexes) be kept secret, thereby rendering them improper for econometric use. The organization has promised to release a more complete set of data at some indeterminate point in the future; it is hoped that this will occur before the data lose too much of their timeliness.

21. The partial chronological overlap between the two variables (1986-1989 and 1980-1989) is intentional; it better captures the electoral orientation of the period. Indeed, what shapes policy at time t is not only who governs at time t but also who governed at time $t-1$, as past choices constrain present ones, and who is expected to govern at time $t+1$, as a government with a short anticipated political life is unlikely to pursue a policy with as much partisan zeal as a government with a longer anticipated life span. A good illustration of this can be found in the full-employment policy pursued by the first, electorally fragile, conservative coalition in Sweden during the years 1976-1982, which rather than breaking with the Social Democrats' orientation, perpetuated their prior policy. The role of electoral expectations in policymaking was underlined most clearly by Stigler (1972). More generally, taking the average government orientation over a decade is more likely to reflect expectations than would a 1- or 2-year snapshot. Part of the reason that I selected 1980 as starting point for the measure of government orientation stems from the opinion that the 1979-1982 economic crisis dramatically realigned electoral expectations in most OECD countries (Verdier, 1994).

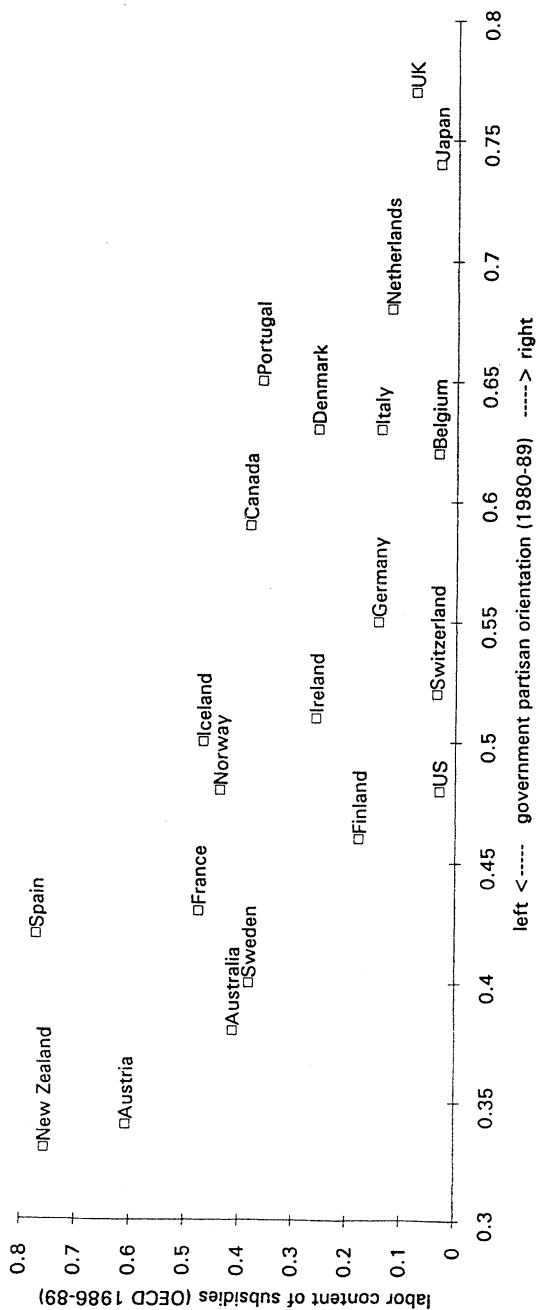


Figure 1: Labor Content of Subsidies as a Function of Government Partisan Orientation (Prediction 1)

Table 1

Factor Content as a Function of Government Partisan Orientation (OLS estimates)

	Labor Content as Dependent Variable	Capital Content as Dependent Variable
Constant	0.97 (5.88)	0.78 (0.03)
Government partisan orientation	-1.26 (-4.16)**	0.94 (2.09)*
R^2	.48	.19
Number of observations	21	21

Note. *t* values are in parentheses below their corresponding coefficients.

*Significant at the .05 level using a two-tailed test; **significant at the .001 level using a two-tailed test.

of its component parties' orientations. Each party orientation, finally, is calculated by ordering parties on a left-right axis and using their respective electoral weights to locate them on a 0-1 ratio scale (this weighted index is also defined in the appendix).

I ran a linear regression with no other variable than the independent variable. The results are summarized in Table 1. Prediction 1 is correctly signed and significant for both labor content and capital content. Figure 1 graphs Prediction 1 (with labor content as the dependent variable); it shows a strong linear relation between the partisan center of gravity of governments throughout the 1980s and the factor content of the subsidies distributed to industry during the period 1986-1989.

Now consider Prediction 2. It states that competition produces policy generality (the closest approximation of good government), whereas lack of competition entails particularism (the code word for rent seeking). To build the dependent variable—the degree of generality of the subsidy (the pie content)—for each country, I rearranged subsidy programs into two groups: general aid (general investment, R&D, export, aid to retraining) and particularistic aid (sector, regional, SMEs, rescue aid). (One variable will suffice, generality being the inverse of particularism. The determination of the degree of generality of each objective is justified in the appendix.)

The independent variable in Prediction 2 is an index of political monopoly. The index used here builds on the simple idea that, in a perfectly competitive electoral system, a party's percentage of time in government should be proportional to its share of the popular vote. Any gross deviation from this strict equality indicates a slide toward political monopoly.²² For example,

22. My thanks to Jim Fearon for suggesting this elegant measure. This measure is meaningful only in the context of formal democracy, characterized by the existence of a formal majoritarian system open to all and basic political freedoms of speech and organization.

with 39% of the vote, the Italian Christian Democrats have been in government since the war without interruption; or, discounting for the fact that the Christian Democrats often governed in coalition with other parties, their office share amounts to 80%—41% above the competitive benchmark of 39%. Equivalent figures for the Italian Communists are 25% and 0.5%, yielding a deficit of 24.5% for that party. By way of contrast, with 45% of the vote, the German Christian Democrats scored an in-government index of 53%—an 8% “super profit” only. The corresponding ratios for the German Socialists are 37% and 31%, yielding a deficit of only 6%. From these individual scores, it is possible to construct a systemic index that summarizes, for each country, the degree of monopolization of the party system as a whole (this index is defined in the appendix).

Figure 2 graphs Prediction 2. A quick look at the country ordering along the monopoly scale confirms our intuitive evaluation of cross-national levels of political competition—with the United States and the United Kingdom competitive but with Italy and Japan monopolistic. Table 2 quantifies the negative relation between monopoly and generality for several combinations of countries. The first measure reported includes the 21 countries for which subsidy data exist. The second measure excludes Portugal, for which the index of generality is, by the OECD’s own admission, incomplete.²³ The third measure excludes Portugal and Spain on the grounds that the 12 years of democracy that these countries enjoyed before 1990 are insufficient to build a reliable monopoly index. Finally, in addition to excluding the two Iberian countries, the fourth measure also excludes the United States. The exclusion of the United States is justified by the special construction of the monopoly index for that country, required to accommodate occurrences of divided government (see the appendix for a full account). Table 2 demonstrates that, whichever way we look at it, the negative relation between monopoly and generality is robust. The idea that electoral competition increases the pie-to-pork ratio seems to find confirmation.

Although the type of quantitative evidence supplied here is key in administering scientific proof, it is insufficient in several ways. First, I hardly need to stress the excessively aggregate complexion of the dependent variables for Prediction 1 and Prediction 2. The truth is that all the aforementioned policy objectives contain both capital- and labor-oriented measures as well as both

23. Data for Portugal “do not take into account the impact of large-size regional, sectoral and structural adjustment programmes co-financed and co-managed with the EEC [European Economic Community]” (OECD, 1992, p. 55). Although data for other countries also exclude EEC programs, nowhere is the omission as decisive as in the case of Portugal, where EEC programs allow Lisbon to post very few sectoral programs and no regional development program of its own. This omission artificially boosts the index of generality for Portugal.

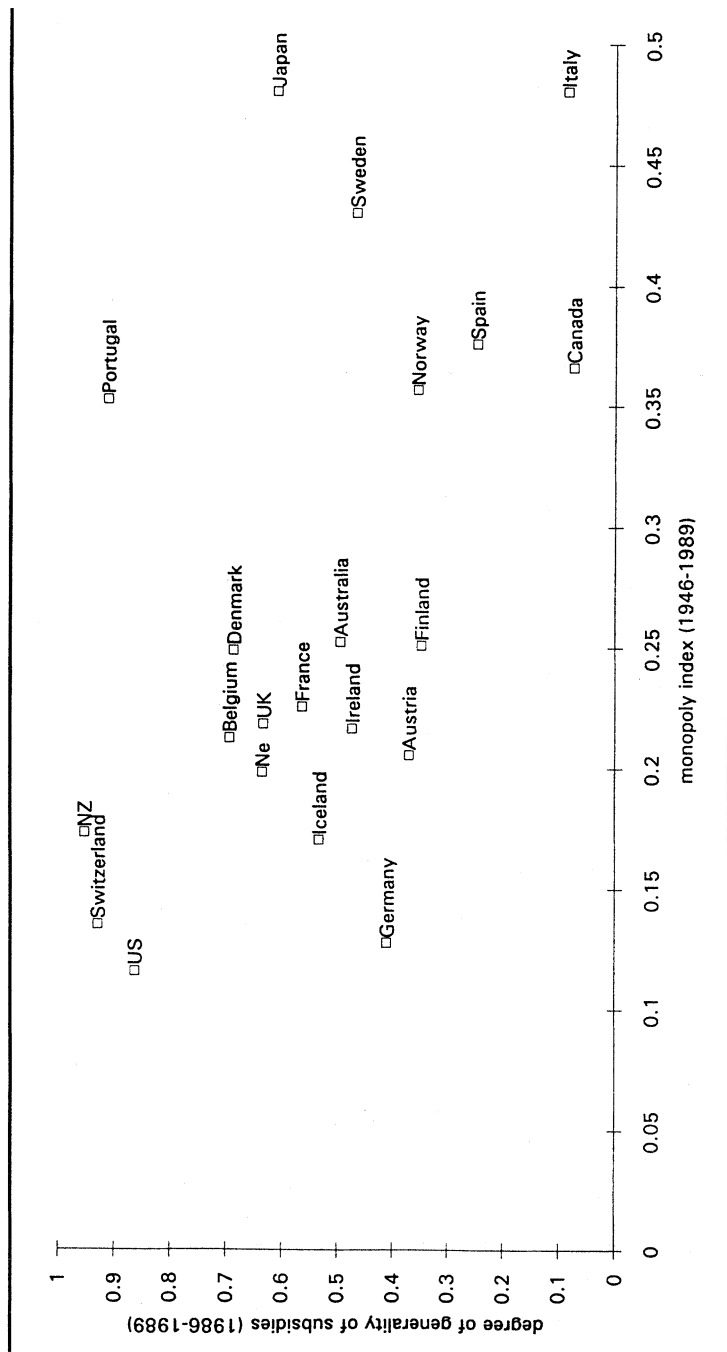


Figure 2: Generality as a Negative Function of Monopoly (Prediction 2)

Table 2

Generality of Subsidy as a Function of Political Monopoly (OLS estimates)

	Includes 21 Countries for Which Subsidy Data Exist	Excludes Portugal	Excludes Portugal, Spain	Excludes Portugal, Spain, United States
Constant	0.82 (6.40)	0.84 (7.31)	0.83 (7.05)	0.79 (6.23)
Generality of subsidy	-1.07 (-2.39)*	-1.23 (-3.04)***	-1.17 (-2.75)**	-1.06 (-2.36)*
R ²	.23	.34	.31	.26
Number of observations	21	20	19	18

Note. *t* values are in parentheses below their corresponding coefficients.

*Significant at the .05 level for a two-tailed test; **significant at the .02 level for a two-tailed test; ***significant at the .01 level for a two-tailed test.

general and particular ones. However, in the absence of a more detailed breakdown, it is not possible to be more precise. The empirical tests should be construed as only first steps leading toward a more thorough verification. Second, the quantitative evidence dilutes exceptions, those few cases that fail to fit but whose in-depth analysis might be revealing. Third, the test confirms a correlation between two variables of the model (electoral competition and subsidy policy) but does not directly bear on the third (the shape of the policy networks). It is indeed not possible at this stage of the research to quantify the variable policy network. The test must be supplemented with an examination of the fragments of qualitative evidence made available by the specialized literature. This article concludes with a survey of what is known about network building in OECD countries and isolates an unexplained residual.

QUALITATIVE EVIDENCE

Prediction 1, that governments of the right favor capital whereas governments of the left favor labor, has already been observed with respect to policies of macroeconomic management (Alesina & Sachs, 1988; Hibbs, 1977), welfare (Esping-Andersen, 1985), and tariffs (Verdier, 1994). The victory of the French left in 1981 provides longitudinal evidence that subsidy programs also have a partisan content. The change in government led to a corresponding shift in emphasis away from policies of sector restructuring toward policies of retraining of the workforce (Verdier, 1994, Table 12.1). Symmetrically, the victory of the British conservatives in 1979 led to a move

away from a policy of aid to (labor-intensive) sectors toward one of aid to general investment (OECD, 1983, p. 49; Shepherd, 1987, pp. 169, 174). A second class of evidence comes from contrasting the policy mix of a country with a longstanding conservative government with one with an equally lasting government of the left. Japan's aid to industry is primarily aid to capital, taking the form of aid to the sector, investment, and R&D (Johnson, 1982). By contrast, Sweden's aid to industry has for a long time been limited to an active labor market policy.

Prediction 2, that political cartelization breeds rents allocated through policy networks, received unequivocal confirmation in the cases of postwar Italy and postwar France. Sartori (1976) showed that the exclusion of the Communists from government resulted in centrism; the range of political competition was restricted to a rotation between coalitions of the right (including right and center-right) and coalitions of the center (center-left and center-right), with the center-right in the enviable position of pivot. And, indeed, Italy was governed from the center-right by the Christian Democrats, whereas France was governed first by centrist and rightist coalitions under the Fourth Republic and then by a right coalition under the Fifth Republic until the Socialist victory of 1981. Both states, French and Italian, during this period became known for their vigorous presence in industry. With planning, *encadrement du crédit*, de Gaulle's *grands projets*, Pompidou's "national champions," Giscard and Barre's "strategic industries," plus a slew of aid packages to traditional sectors, the French state acquired an interventionist panoply with no equivalent in the industrialized world. Friedberg and Desjeux (1973) and Desjeux and Friedberg (1973) showed how these policies were managed through policy networks featuring *hauts fonctionnaires*, each a graduate of a *grande école* and a member of a *grand corps*, in constant contact with large trade associations, large public enterprises, and large private firms, with the latter gaining access to such dizzying heights by systematically recruiting bureaucrats that had retired or were on temporary leave from their official assignments. These networks were dismantled on the change in government in 1981 (Berger, 1985). The Socialists nationalized the national champions and put their own people in place but soon after switched to a hands-off approach. Since 1983, aid to sectors and individual firms has declined continually.

Italian policy toward industry never reached the same degree of centralization as that of the French but was run, instead, through the mediation of a series of state holding companies (IRI, ENI, EFIM, EGAM, GEPI) that bought majority positions in private firms, thus providing them with the risk capital that a weak banking system could not deliver. Pontarollo (1983)

showed that these holdings were well managed at first but then were used in more lucrative ways by Christian Democrats (and their Socialist allies past 1962) to artificially boost investment in electorally marginal districts (the southern boot and Sicily) and line their pockets with generous kickbacks.

Another country that has been the locus of deals involving public officials and the management of large companies is Japan. As in Italy and Gaullist France, the systematic exclusion from power of the left in Japan went along with unbounded state intervention in industry. Japan is the prototypical case of a country in which political cartelization goes hand in hand with public-private collusion. The justification for the lack of political competition is not clear whatsoever; it is not due to ideological polarization as it is in postwar France and Italy (there is more on this difficult question in the following section). In any event, Samuels (1987, p. 9) shows that, under the uncontested hegemony of the liberals, business and bureaucrats established a relation of "reciprocity." In the same vein, Daniel Okimoto (1988, p. 314) calls Japan a "network state," characterized by "overlap between public and private sector" and "a vast network of 'intermediate organisations.' " As Johnson (1982) recalls, the typical career path of a Japanese bureaucrat resembles that of the French: Retire early and join the board of directors of an ex-corporate petitioner. The liberals' hegemony allowed Ministry of International Trade and Industry (MITI) to pursue a highly selective policy of aid to industry, unhampered by unions' demands or taxpayers' electoral retribution. MITI's industrial policy today involves no tariff and very few subsidies (except to R&D)—only coordination. This recent rollback reflects greater economic competition at home, the growth of a modern financial market, and external pressure.

Britain and the United States stand on the other end of the political competition scale. Politics in Britain is highly competitive, and industrial policy is eminently general. British governments do not recoil from subsidizing industry, but they keep at an arm's length from industrialists. Aid, when not merely aimed at relieving sick companies, is indirect and nonselective. The main tools have traditionally been R&D and aid to general investment, yet with a strong regional development component (Hall, 1986, chaps. 2-5).²⁴ The United States has no civilian industrial policy; most of the aid distributed by the federal government takes the form of tax write-offs and defense procurements. To be sure, defense contracts have a strong written-in compo-

24. Wilks (1990) found that relations between the British motor car industry and government were "underdeveloped." Grant (1990) found that relations between British chemical giant ICI and government were "harmonious" as long as governments maintained a Keynesian orientation, but they deteriorated after 1979 after the Thatcher government cut regional grants.

nent of particular aid, yet it is symptomatic that particularism in the United States feels the need to wrap itself in the guises of national security (Hooks, 1990).

In three federal states—Canada, Germany, and the United States—party politics is competitive at the federal level but not at the local level: Canadian parties have provincial strongholds, German Conservatives tend to be stronger in the southern *länder* and Social Democrats stronger in the north, and partisan parochialism is even more pronounced in the United States. The combination of decentralization and limited competition at the local level translates into a channeling of industrial aid into regional development. Fragmentary evidence on local networks can be found in all three countries. Tupper (1982) reveals that Canadian industrialists strongly endorse regional subsidies: “The current constitutional arrangements provide business interests with a capacity for trading off governments and pursuing their interests in ways unavailable to them in a unitary state” (p. 88). In Germany, it is interesting to note that the few exceptions to the no-aid-to-sector rule at the Bund level are regionally concentrated industries—coal in Northern Westphalia, steel in the Saar, and shipyards in coastal *länder* (Abromeit, 1990; Bucaille & Costa de Beauregard, 1988, pp. 167-173). In the United States, collusion is rampant at the district level, but the sums reserved for industrial aid are very modest in comparison to those of Canada and Germany (Eisinger, 1990, p. 529).

The qualitative evidence is unhelpful in the two cases of Switzerland and Austria, two countries where political competitiveness and its impact on policymaking are difficult to assess. On one hand, party competition is checked by consensual devices: The Swiss have a collective executive in which every party is represented, whereas the two main Austrian parties often resort to grand coalitions and *Proporz* to allocate offices. On the other hand, through collusion, the elites have the capacity to disregard their respective supporters’ particularistic interests and entertain, if they wish and within limits, more general goals. Both Katzenstein (1984) and Scharpf (1987) maintain the latter view. In Austria, Scharpf argues, union leaders take the long view because their close ties with the Socialist party allow them to aspire to state officialdom, whereas the existence of a large competitive public industrial sector allows them to accede to the management of large industrial concerns. In both Switzerland and Austria, Katzenstein argues, the small size of the countries makes rent seeking self-defeating and collectively efficient goals thus enforceable.

THE UNEXPLAINED RESIDUAL

The present analysis generates more questions than it can solve in the cases of Sweden and Japan. Sweden (and Norway by extension) is a country in which the factorwide networking of the labor market by the left, essentially through policies calculated to maximize factor mobility, was so successful that it made the left dominant (Esping-Andersen, 1985; Pontusson, 1992, chap. 5). Hence the following conundrum: Either the Social Democrats did indeed manage to gain a position of dominance (in which case, the theory predicts they should have made the most of this relaxation of electoral pressure by indulging in the creation of particularistic networks, which they declined to do) or (more likely) their electoral success all along was contingent on the left's capacity to protect the factorwide coalition from particularistic splintering (in which case, the theory predicts the right should respond with an equivalent capitalwide coalition—including industrialists, stockholders, real estate, farmers, and other earners of rents on capital—as they finally did during the 1980s). The puzzle, therefore, is the incapacity of the right to respond in kind not until the 1980s because, in a frictionless and self-contained competitive regime, a majoritarian rule is bound to deliver minimal-winning majorities on both sides. One is left to believe that there was sufficient friction among the Swedish right to obstruct balancing until the oil shocks, yet not enough to allow the Social Democrats to indulge in particularism—a plausible, although conceptually unappealing, hypothesis.

The case of Japan raises questions of another nature. The Japanese case exhibits the expected correlation between political monopoly first, the dominance of local and sector networks second, and the pursuit by the state of particularistic policies last. But the reason for this being the case is puzzling. It is not possible to explain liberal hegemony in terms of curbed electoral pressure. The electoral system certainly raises entry costs for parties other than the liberals to the point that ambitious politicians find it easier to compete within than with the liberal party, but the Japanese electoral system can account neither for the establishment of liberal hegemony during the 1950s nor for its demise during the 1990s.²⁵ An alternative explanation would look for the success of the liberals somewhere else: Thanks to their exclusive relations with business, the liberals had an exclusive access to the extraordinary resources generated by Japan's foreign trade, which they used to bribe median voters into their particularistic networks. The recent dilution of liberal hegemony would reflect foreign pressure for Japan to reduce its trade surplus. This remark suggests

25. Thanks to Peter Gourevitch for this insight.

a new line of inquiry on the ways in which majoritarian governments can lessen the pressure of domestic competition by means of international trade.

CONCLUSION

I have used recent subsidy policy programs in OECD countries to advance a broad theoretical claim: Politicians soften electoral competition through the creation of networks of loyal supporters. Politicians and factor owners share a common interest in relaxing competition—electoral and economic, respectively—by joining the same networks. Politicians can help factor owners secure monopolistic profits by legislating rents, whereas factor owners can in turn help make politicians' survival less uncertain (especially during these times when they face the prospect of an indefinite stay in opposition) by pledging long-term support. Common membership in a network is what helps keep these deals self-enforcing.

More specifically, the article has revealed two facets of an OECD-wide correlation between electoral competition and subsidy policy, which can be construed as providing surrogate evidence for the importance of policy networks. First, networks provide a sufficient (though not necessary) explanation for why subsidies are partisan: The left subsidizes labor, whereas the right subsidizes capital. Second, networks provide a necessary and sufficient explanation for why subsidies vary in scope along with electoral competition: Subsidies have a broad scope when party competition is vigorous but turn into rents when competition slackens. Small, dense policy networks are heavy consumers of rents; their ranks thin out in rent-depleted environments, when partisan competition for marginal constituencies is fierce.²⁶

More generally, the article has argued for a reconsideration of the dominant view of political competition as synonymous with market competition. The political marketplace, in which a generic product—be it pork or good government—is allocated to the highest or more numerous bidders, is not an accurate depiction of reality. The derivative image of democracy, that of a potentially infinite supply of political entrepreneurs ready to jump in at the slightest policy malpractice committed by incumbents, is not simply a remote image of democracy but a misleading one; if politics were so unforgiving,

26. Network analysis offers another contribution (not developed in this study) unmatched, so far, by distributive and informational theories of electoral politics: It rationalizes voting as an investment—an investment in network membership. Whether individuals vote to please their parents, to secure the right to credibly discuss politics with their colleagues at work, or to greet the local fox at the poll station, they do so to earn or confirm membership in a network that they value. On this, see Coleman (1990, p. 291).

few would risk it. A more accurate image is that of competing politicians *qua* parties relaxing competition by embedding supporters into stable policy networks. The partisan Procrustes fragment the demand for the generic political product (good government) into a series of independent clienteles seeking differentiated products (progressive government, liberal government, etc.), with each competing party enjoying market power over its clientele. As a result, each party behaves like a monopoly with respect to the core of its clientele and like a competitor with respect to the marginal (median) voters only.

This model is more apt to account for the political dynamic than is the marketplace model because, in politics, competition does not increase with the number of politicians *qua* parties, as it does in the classic competitive model, but the causal relation instead is reversed; 2 is more competitive than 3, and 3 is more competitive than 435. The most competitive setup is 2 parties (or coalitions of parties) competing for votes organized into 2 factors of production, whereas the least competitive is 435-plus politicians and local parties vying for votes partitioned into as many districts. The more fragmented the electorate, the less competitive the political dynamic.²⁷

The axiomatic reality of policymaking is that it is characterized by economies of scale. The reason lies in the network basis of political support. Networks are systems of informal relations, which create an infrastructure for the exchange of personal favors and in which participants are each provided with a portfolio of contacts—names and corresponding home phone numbers. Policy networks charge entry costs or at least function as if they did. And entry costs create economies of scale, with the manifold consequences that members are locked in, outsiders locked out, and politicians' futures made more secure.

Policy networks also have implications for political alignments. To the longstanding question in the field of comparative politics of what explains the origins and maintenance of the political lines of battle—class, regional, or sectorwide—I submit that politicians do.

27. The argument is not that all networks are bad for voters. In the polar case of complete network dilution—the case that corresponds to the median voter theorem—platform convergence may lead to cutthroat behavior, with parties outbidding each other at the risk of moral and budgetary bankruptcy. For an analysis of British politics during the 1970s along such lines, see Beer (1982), who showed that the decline of partisan allegiance led British parties to scramble for the median voter through targeted welfare and other subsidies, a solution that is socially suboptimal when voters are also taxpayers and is politically inefficient as well because median groups can keep playing off one party against the other without ever having to choose a camp. The optimal setup, from the median voter's perspective, is that of politicians seeking to include the median voter into a thin, factorwide network along with loyalists.

Finally, policy networks have implications for factor mobility. Policy networks channel factor mobility and do so in proportion to the importance of political intervention in the economy. This proposition turns upside down, although it does not necessarily invalidate, the economists' claim that factor mobility is responsible for the manner in which lobbying coalitions form. A more general claim is that there is a mutually reinforcing correspondence between the scope of input market competition and the scope of political competition (Alt & Gilligan, *in press*). Whereas Stigler (1971) showed how individuals could take advantage of deficiencies in political competition to check market competition, the present analysis shows how politicians in turn can take advantage of individuals' inclination to curb factor mobility to relax electoral competition, subject to electoral constraint.

To evidence these more general implications, it will take more than simply looking at subsidies because politicians are multi-issue agents. How generalizable to other policies the present findings are is unclear. Yet, the choice of subsidies as empirical referent for this study was not wholly contingent. Unlike tariffs or other regulatory measures, subsidies are infinitely malleable and thus ideal subjects for investigation. Moreover, with the General Agreement on Tariffs and Trade restricting the use of tariffs, quotas, and other nontariff barriers, subsidies are becoming the universal mode of state intervention in industry.

Appendix

DESCRIPTION OF THE DATA SET

The OECD survey covers 22 member countries (excluding Greece and Luxembourg but including Turkey, which I did not include in the analysis) for the period 1986-1989. The new data provide a measure of the net cost to government of subsidy programs. These measures are comparable across instruments and countries.²⁸

CONSTRUCTION OF THE VARIABLES

Labor/Capital, General/Particular

As a requisite to this construction, one must first review the categories identified in the data set and determine for each one of them two characters: factor content and degree of generality (pie content). The present discussion can be read in relation with Table A1.

28. For a detailed description of the data set, see Ford and Suyker (1990, pp. 74-78).

Appendix continued

Table A1
Dependent Variables

OECD Data Set Objective	Dependent Variable			
	Labor	Capital	General	Particular
General investment		x	x	
Research and development		x	x	
Export		x	x	
Small to medium firms		x		x
Regional aid				x
Sectoral programs	x			x
Crisis aid	x			x
Employment/training	x		x	

Subsidies to *general investment*, as their name suggests, are general. They come mainly in the form of tax deductions (such is the case for about 90% of subsidies distributed by OECD countries; OECD, 1992, p. 25, Table 7). Any firm in any sector can take advantage of this form of subsidy to finance about any type of capital investment. These subsidies are also automatic because all the criteria that a firm needs to meet to collect the aid are public and impersonal. With respect to the second variable, factor content, aid to general investment is a direct subsidy to capital. To be sure, it could be an indirect subsidy to labor if, for instance, the firm claiming it were labor intensive. The aggregate character of the data, however, requires an aggregate assessment. Bearing in mind that the bulk of general investment aid is distributed in the form of tax credits, which only firms declaring profits can claim, and that profitable industries in OECD countries tend to be capital intensive with labor productivity rates well above the world average, I assume that capital is the primary beneficiary of that type of aid.

Given in the form of either tax concessions or outright grants, R&D subsidies have a strong general support content although not an exclusive one. Many R&D programs tend to focus on special technology areas, especially microelectronics, computers, and telecommunications. The OECD data, unfortunately, do not permit their isolation. Their inclusion in the general R&D category can be justified only on the grounds that high tech generates positive externalities, benefiting a large number of industries. With respect to factor content, R&D subsidies are characterized by a strong capital orientation; the goal (and effect) of R&D has consistently been to raise labor productivity.

Export subsidies are general; they are never focused explicitly on one sector or several sectors (even though in practice they may well be; the U.S. Eximbank for many years was dubbed "Boeing bank"). They are biased toward capital because OECD exports on average are capital intensive.

Subsidies to *SMEs* owe their existence to the political necessity in which governments find themselves to “prove that they are doing something for small business, as big business is favoured in other ways” (Blais, 1986, p. 137). Aid to *SMEs* is particular. Aid to *SMEs* is a direct subsidy to capital although the indirect impact (not taken into account here for reasons that are explained in Note 16) is indeterminate.²⁹

Regional aid is particular by definition. But its immediate beneficiary—labor or capital—is unclear. In countries with centralized political institutions, the objective of regional aid is to maintain employment in slow-growing geographic areas threatened with outward migration. In countries with decentralized institutions, however, regional subsidization policies, wherever they exist—in Canada or Australia, for instance—have a universal logrolling quality.³⁰ I did not include regional development subsidies in the construction of the factor content variables.

Sector-specific and *crisis* aids are particular by definition, and labor is their beneficiary. During the period under review, sector-specific aids went mainly to declining, import-sensitive sectors. The OECD data reinforce this bias by including subsidies to high-tech sectors under the R&D rubric. Almost every OECD country has special programs for textiles, coal, steel, shipyards (for the coastal countries), timber, and paper (for the Scandinavian countries). These sectors are labor intensive.

The final category, *employment and training-related* subsidies, includes only those programs that “reduc[e] employment and training costs of enterprises, when these very costs would otherwise have been borne by enterprises themselves” (OECD, 1992, p. 27). They are available to all lines of production. They also include employment creation schemes. These subsidies are evidently general and labor oriented (again dismissing the issue of relative elasticities; see discussion in Note 16).

Table A1 summarizes the construction of the four (two for each prediction) dependent variables.

Government Partisan Orientation

Most indexes of partisan orientation are nominal; they rely on the name and declared intentions of each party. The construction of this type of index requires two qualitative (and thus debatable) assessments: a first one to rank parties within a given party system on a left-right scale axis (e.g., are French Gaullists on the right or on the left of French Republicans?) and a second assessment to rank similar parties across different party systems (e.g., should the French Socialists receive the same score as the Swedish Social Democrats?). Whereas the first drawback is technically unavoidable, it is surmountable; all it takes is to consult standard electoral reports (I used Leonard and Natkiel [1986]). The second drawback, by contrast, is insurmountable, especially in the type of cross-national analysis attempted here. Yet it is avoidable. It is possible to build an index that scores parties relative to one another irrespective of

29. Whether it indirectly benefits labor or capital, aid to small business has the indirect, yet intended, effect of weakening organized labor. See Weiss (1988).

30. OECD data for the United States do not include state-level aid to industry. State spending, however, is rather low, representing “a few dollars or cents per capita” (Eisinger, 1990, p. 529).

Appendix continued

their denomination. For example, according to the index to be used here, if a party that claims to belong to the extreme right were to capture 100% of the popular vote, its partisan orientation p_i would be median (equal to 1/2).

The index of partisan orientation of the government is an average calculated over the period January 1, 1980 to December 31, 1989. The index was calculated, first, by assigning to each party a positive integer i ($i \in \mathbb{Z}^+$) according to the ordinal pattern: 1 to the most leftist party, 2 to the next to the most leftist, and so on until all parties are ordinally arranged on a left-right axis. Each i was then assigned a positive real number p_i ($p_i \in \mathbb{R}$: $0 < p_i < 1$) to reflect each party's share of the electorate according to the formula

$$p_i = \frac{r_i}{2} + \sum_{j=0}^{i-1} r_j,$$

with r_i party i 's percentage of votes and j an integer representing the parties on the left of i , with $0 \leq j < i$ and $r_j = 0$ if $j = 0$.

Last, the government orientation index p_g ($p_g \in \mathbb{R}$: $0 < p_g < 1$) was calculated by averaging the p_i 's for those parties in government at any point during the 10-year period:

$$p_g = \frac{1}{T} \left[\sum_{t=1}^T \sum_{i=1}^N (p_{it} * G_{it}) \right],$$

with $G_{it} = [0,1]$ depending on whether party i at time t is part of the government ($G_{it} = 1$) or not ($G_{it} = 0$), T = the number of years, and N = the number of parties.

Political Monopoly

In a perfectly competitive electoral system, a party's length of stay in government should be proportional to its share of the popular vote. The farther away a party is from this competitive equilibrium, the more monopolistic the party system is. The index calculates for each party the difference between the average electoral score

$$\sum_{t=1}^T \frac{1}{T} \frac{V_{it}}{V_t},$$

with V_{it} party i 's total votes at year t (for years without elections, I used the prior election-year results), V_t the total number of votes cast at year t (same qualifier), and T the number of years, and the number of years in government (weighted by the relative electoral weight in the coalition in the case of a coalition government):

$$\sum_{t=1}^T \frac{1}{T} G_{it} \frac{V_{it}}{V_{gt}},$$

with V_{gt} the number of votes received by the parties forming the coalition government at year t (same qualifier as for V_{it}), $G_{it} = [0,1]$ depending on whether party i at time t is part of the government ($G_{it} = 1$) or not ($G_{it} = 0$), for the period starting in 1945 or 1946, depending on when the first elections were held (but no later than 1946), and ending December 31, 1989. (The period for Spain is July 1977 to December 1989. The period for Portugal is April 1976 to August 1978 and January 1980 to December 1989.)

Party indexes in each country sum up to 0 because one party's surplus is another party's deficit. For each country, a systemwide index M was calculated as the Euclidean distance between share and profit in an N -dimensional space, with N representing the number of parties (MeR : $0 \leq M \leq \sqrt{2}$). The formula for a country's party system monopoly index is

$$M = \left(\sum_{i=1}^N \left(\sum_{t=1}^T \frac{1}{T} \left[\frac{V_{it}}{V_t} - G_{it} \frac{V_{it}}{V_{gt}} \right] \right)^2 \right)^{1/2}.$$

To take into account the peculiarity of the U.S. case (presidential, with several occurrences of divided government), I made two assumptions. First, there exists four parties: Republican Congressional, Republican Presidential, Democratic Congressional, and Democratic Presidential (dividing their actual results by half so that the V_i/V_t ratios add up to unity). Second, all governments are coalition governments that include a Congressional party and a Presidential party.

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Daniel Verdier is a professor in the Department of Political and Social Sciences at the European University Institute in Florence, Italy. He is the author of Democracy and International Trade: Britain, France, and the United States, 1860-1990 (Princeton University Press, 1994).