State-business relations and the politics of state aid in the European Union: a multi-method approach to explaining aid allocations among member states

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List of abbreviations

AAP	Automotive Assistance Plan
ABER	Agricultural Block Exemption Regulation
ACEA	European Automobile Manufacturers Association
ADI	*Agence de l'Informatique*
AII	*Agence de l'Innovation Industrielle*
AMC	American Motor Corporation
ANFIA	*Associazione Nazionale Filiera Industria Automobilistica*
ANR	*Agence Nationale de la Recherche*
ANVAR	*Agence Nationale de VAlorisation de la Recherche*
APE	*Agence des Participations de l'État*
ARCP	Annual Reports on Competition Policy
BEIS	Department of Business, Energy and Industrial Strategy
BIS	Department of Business Innovation and Skills
BL/BLMC	British Leyland/ British Leyland Motor Corporation
BMC	British Motor Corporation
BMH	British Motor Holdings
BNDES	*Banco Nacional de Desenvolvimento Econômico e Social*
CAP	Common Agricultural Policy
CBI	Confederation of British Industrialists
CCFA	*Comité des Constructeurs Français d'Automobiles*
CDP	*Contratto di Programma*
CEO	Chief Executive Officer
CIASI	*Comité Interministériel de l'Aménagement des Structures Industrielles*
CICE	*Crédit d'Impôt pour la Compétitivité et l'Emploi*

CIDISE *Comité Interministériel pour le Développement des Investissements et le Soutien de l'Emploi*

CIG *Cassa Integrazione Guadagni*

CIPE *Comitato Interministeriale Politica Economica*

CIPI *Comitato Interministeriale Politica Industriale*

CIR *Crédit d'Impôt Recherche*

CIRI *Comité Interministériel de Restructuration Industrielle*

CME Coordinated Market Economy

CMP Comparative Manifesto Project

CNPF *Conseil National du Patronat Français*

CODIS *Comité d'Orientation pour le Développement des Industries Stratégiques*

CPRS Central Policy Review Staff

CSCA *Chambre Syndicale du Commerce de l'Automobile*

CSF *Comité Strategique de Filière*

CSIAM *Chambre Syndicale Internationelle de l'Automobile et du Motocycle*

DC *Democrazia Cristiana*

DG Directorate General

DTI Department of Trade and Industry

ECC Department of Energy and Climate Change

ECU European Currency Unit

EDC Economic Development Committee

EDM Early Day Motion

EEAG Environmental and Energy Aid Guidelines

EFTA European Free Trade Area

EMU Economic and Monetary Union

ENA *École Nationale d'Administration*

ENP Effective Number of Parties

EU European Union

FCA Fiat Chrysler Automobiles

FCE *Fonds de Compétivité des Entreprises*

FDES *Fonds de Developpement Économique et Sociale*

FDI Foreign Direct Investment

FIM	*Fonds Industriel de Modernisation*
FMEA	*Fonds de Modernisation des Equipementiers Automobiles*
FPTP	First-Past-The-Post
FSAI	*Fonds Special d'Adaptation Industrielle*
FSI	*Fonds Strategique d'Investissement*
GBER	General Block Exemption Regulation
GDP	Gross Domestic Product
GEPI	*Società per le Gestioni e Partecipazioni Industriali*
GIR	Government-Industry Relations
GM	General Motors
HC	House of Commons
IMF	International Monetary Fund
IMI	*Istituto Mobiliare Italiano*
IRES	*Istituto Ricerche Economiche e Sociali*
IRI	*Istituto Ricostruzione Industriale*
ISSP	International Social Survey Programme
JLR	Jaguar Land Rover
JPF	Jobs and Prosperity Fund
LDV	Lagged Dependent Variable
LME	Liberal Market Economy
M&A	Mergers and Acquisitions
Medef	*Mouvement des Entreprises de France*
MISM	*Ministero per gli Interventi Straordinari nel Mezzogiorno*
MP	Member of Parliament
MVI	Motor Vehicle Industry
NACE	European Classification of Economic Activities
NAS	National Account Statistics
NB	Negative Binomial
NEB	National Enterprise Board
NEDO	National Economic Development Office
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square

PBC	Political Business Cycle
PCSE	Panel-Corrected Standard Errors
PD-G	*Président-Directeur Général*
PFA	*Pact de la Filière Automobile/Plateforme de l'Automobile*
PQ	Parliamentary Question
PR	Proportional Representation
PS	*Parti Socialiste*
PSA	*Peugeot Societé Anonyme*
R&D	Research and Development
REST	Retreat of the State from Entrepreneurial Activities
RNUR	*Régie Nationale des Usines Renault*
RPR	*Rassemblement pour la République*
RVI	*Renault Véhicules Industriels*
SAAP	State Aid Action Plan
SAM	State Aid Modernisation
SMC	Single Member Constituency
SME	Small and Medium Enterprise
SMMT	Society of Motor Manufacturers and Traders
SMP	Single Member Plurality
SOGEPA	*Societé de Gestion de Participations Aéronautiques*
STV	Single Transferable Vote
TFEU	Treaty on the Functioning of the European Union
TSCS	Time-Series-Cross-Section
UDF	*Union pour la Démocratie Française*
UK	United Kingdom
US	United States
VIF	Variation Inflation Factor
VoC	Varieties of Capitalism
WTO	World Trade Organisation
ZINB	Zero-Inflated Negative Binomial
ZIP	Zero-Inflated Poisson

Summary

This thesis investigates state aid allocations in the European Union (EU) member states to answer two key research questions about the political management of a market economy. Today, government officials cannot be indifferent to business performance. When direct management of the economy is not feasible, the government's role is to *induce* business to perform well. One way to do so is through the allocation of targeted subsidies to firms. However, not all countries support domestic producers to the same extent. Thus, the first research question it seeks to answer is: why do some national governments grant more state aid than others?

In Chapter 2, I argue that political actors' incentives depend on the broad configuration of domestic and international political-economic institutions and structures, which interact to shape economic outcomes. My argument hinges on the two key words of responsiveness and accountability. With the former, I want to highlight the use of subsidies as a governmental instrument for the pursuit of a policy goal such as those mentioned above, and the degree to which these goals reflect the voters' preferences. By the latter term, I mean the possibility for the voters to identify who is responsible for policy decisions and to oust office-holders whose performance they find unsatisfactory. The need for politicians to secure re-election incentivises strategic policy-makers to use policies such as subsidies that can bring large and clear net benefits to voters, thus improving their electoral fortunes.

The results, expounded in Chapter 3, show that government responsiveness to societal demands is negatively affected by power-sharing arrangements, in particular the presence of coalition partners, and international commitments, such as the regulation of state aid. These results, however, become non-significant when, in Chapter 4, the analysis closes in on one key economic sector of several EU member states, the automotive industry. On the contrary, the accountability side of the story seems to be consistent across the two analyses. This leads to a further line of inquiry: how can we understand state-business relations in state aid politics in terms of responsiveness and accountability? This second question builds on the first one and expands the scope of analysis by looking not merely at the political

determinants of aid allocations, but rather at the very dynamics at the heart of state aid politics, showing how state and business interact in this domain.

To answer this question, I operate a dual shift of analysis, which was partially initiated with the within-sector investigation in Chapter 4. First, I shift the level of analysis from the macro-level to the meso-level by introducing the policy network approach in Chapter 5. This theoretical framework of interest intermediation based on resource exchange not only complements the macro-level account of state aid politics, but it is also better able to capture the relationship between firms and state agencies by providing a more fine-grained analysis thereof. Secondly, I also shift the methodological approach from regression-based to a mixture of comparative-historical analysis, which investigates state-business relations, and text and content analyses of parliamentary questions, which instead explore parliamentarians' incentives to support domestic producers for electoral goals.

To this aim, three member states were chosen as case studies to maximise variation across the independent variables when matched: Italy, Britain and France, which are analysed in Chapters 6, 7 and 8, respectively. In the first part of each chapter, I offer a historical analysis of state-business relations concerning subsidy allocations to the automotive industry. Then, I also provide an explanation, based on the policy network approach, as to why the particular configuration of state-business relations at one time led to specific outcomes of industrial policy and aid disbursement decisions in the industry. The second part of each chapter first presents the electoral system (or systems) of each country, along with other features that are relevant to electoral politics, such as candidate selection. After that, I investigate how parliamentarians approach questions by looking at the most frequently used words, at who asked the question, and whether or not the question could be seen as the parliamentarian engaging in constituency service.

Two findings of these case studies stand out. First, regardless of the political system, there is a persistent use of subsidies as a reactive policy tool, employed more as a means to maintain the status quo in the sector rather than innovate and set up an industrial agenda. This, instead, is better explained by the nature of the sectoral policy network in each country. Secondly, parliamentarians only partly follow electoral incentives when tabling questions. Part of their behaviour seems to be instead influenced by the typology of policy network within the sector, although the direction of the effect and the causal mechanism remain unclear. The case studies prove the usefulness of this double shift of analysis, which helped in at least two respects. First, it helped bridge the macro-level findings with the sectoral-level ones. Without the sectoral regression analysis, the rest of the findings would have been contradictory, leading to wrong inferences. Secondly, it showed that, unlike what the regression findings may suggest, there is no automatic translation of how electoral institutions influence legislative behaviour to lobby for subsidies.

The wider implications of this study travel across several literatures. The theoretical framework offered in Chapter 2 can be applied not only to state aid allocations, but to a variety of other policies of state intervention in business politics, such as foreign direct investment, mergers & acquisitions, privatisations, tariffs, and product market regulation. Further, other sectors beyond the automotive industry can be analysed in the same way to explore in particular the political clout that multinational corporations today have over national governments. Thirdly, by uncovering some of the shortcomings of the policy network approach that come to the fore particularly when considering the globalised and Europeanised economic environment of today, this work can contribute to its future developments. Finally, this work can also set an agenda to better investigate the interlinking of policy network and electoral politics.

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Chapter 1

Politics and business: subsidies as a political tool

1.1 Introduction: motivation for the project and research questions

In his seminal book *Politics and Markets*, Charles Lindblom assigns a central political role to business – the businessman as public official, as he calls it (Lindblom, 1977: 172). In a market economy, decisions about production, work organisation, location of industry, resource allocations or executive compensation are taken off the government's shoulders and delegated to business. It follows, as Lindblom writes, that jobs, prices, growth, production and many other market functions rest in the hands of firm executives. As a result, government officials cannot be indifferent to business performance.

When direct management of the economy is not feasible, as is usually the case in modern democracies, the government's role is to *induce* business to perform well. Such inducements include, for instance, tax breaks to increase investment, aid for research and development that can be conducive to innovation and efficiency, or even help to 'lame ducks' to avoid loss of employment for people working in declining industries (Cohen, 1995). Regardless of the political-economic system in which they act, whether a liberal market economy such as the Anglo-saxon systems, or a coordinated market economy like those of Germany, Austria or Sweden (see Hall & Soskice, 2001), the government has an active supporting role for business. Business and politics, then, inevitably overlap: economic problems are by necessity political problems, and we must consider the political dimension of economic management to understand why countries pursue certain economic policies (Hall, 1986: 259).

For all intents and purposes, the aforementioned inducements represent instances of particularistic policies where government overtly supports businesses. The political motivations behind particularistic economic policies, or policies benefiting special interests, have been known for a long time by political scientists (e.g. Mills, 1956; Olson, 1965; Schattschneider, 1960; Truman, 1971), though less is understood about variation in these policies among different countries and political systems (Rickard, 2018).

One such policy, through which governments can support business, is subsidy spending, or state aid.[1] Hence, by analysing aid allocations, this thesis also attempts to better understand state-business relations, particularly those where there exists a privileged relationship of business *vis-à-vis* the domestic government. Governments will disburse aid to encourage economic activity in a region, slow the rate of decline of an industry, maintain the incomes of producers, correct market failures, or enhance employment (OECD, 2001: 7). Subsidies alter the use of resources in the sectors of the economy and achieve their goals primarily by operating in the private market 'by offering rewards to different groups as inducements to change their economic activities,' so as to 'counteract the allocation that market forces would otherwise produce' (Break, 1972: 2; Buigues & Sekkat, 2009: 3). The government remains at a relative arm's length *vis-à-vis* the markets and *induces* rather than *commands* economic performance. Hence, while there is widespread agreement that business performance can be indirectly steered thanks to the use of inducements, a far more contentious point rests within the degree to which governments are able or willing to do so and the subsequent variation in subsidy spending that arises as a result of differing strengths in state-business relations.

In this thesis I investigate state aid allocations in the European Union (EU), whose multilevel polity makes the interlocking of national and supranational necessary. In particular, the domestic governments (either central or local) of the member states act as the granters of aid, though they have to comply with EU law on state aid control, which is set exclusively by the European Commission (henceforth, Commission). This represents an example of Europeanisation of domestic politics (Featherstone & Radaelli, 2003; Ladrech, 1994; Olsen, 2002), where the interests of three different sets of actors must align: the necessity of the undertaking applying for the aid measures; the economic and political motivations of the domestic governments, which may deem the subsidy politically expedient; and the Commission, through Directorate General (DG) Competition, which has the goal of maintaining a level

[1] Throughout the thesis, I will use the words 'subsidies' and 'state aid' interchangeably.

playing field in the Single Market and which may allow subsidisation on the condition that it achieves particular goals – e.g. environmental, research and development (R&D), regional development – that must be in line with the overall objectives of the European agenda.

Subsidisation involves decisions about allocations of government goods and services to identifiable localities or groups (Golden & Min, 2013: 74). Hence, subsidies are a distributive policy insofar as they involve taxes and transfers, and concentrate the benefits to narrow recipients while spreading their costs across all constituencies through generalised taxation (Weingast et al., 1981: 643; see also Lowi, 1964; Rickard, 2018). This is not to say that subsidies cannot be welfare-maximising or to the advantage of the whole country. For instance, since 2014 the EU pursued an aggressive strategy on state aid for environmental protection and energy saving, which saw an increase in spending for this objective from €15.82bn in 2013 to €61.28bn in 2017, representing a jump from 26% to over 55% of total aid over this period of time (European Commission, 2018). In the long run, environmental protection and energy saving are to the advantage not just of specific and targeted sectors of the population, but rather of the whole country.

Another way to understand welfare maximisation is to look at the distribution of wealth in any country, which is skewed such that the median voter's wealth is below the mean level, so that a re-distribution of wealth would appeal to electoral majorities (Carey & Hix, 2013; Golden & Min, 2013; Meltzer & Richard, 1981). Thus, if the provision of public goods improves the condition of ordinary citizens, the subsidy would be understood to include a welfare-enhancing component. Usually, distributive policies of this kind include transfers to households such as welfare and unemployment benefits. These, in the EU context, would not be considered state aid as the beneficiaries are not undertakings. Yet, firms receiving aid could still employ the monies to improve the condition of ordinary citizens. Firms, for instance, could benefit from training aid to re-educate labour force with specialist knowledge, or they can receive regional aid to invest in depressed areas of a country, increasing the area's economic growth and lower its unemployment rates. Thus, welfare-enhancing effects of subsidies are positive externalities that can arise as a by-product of the objective the aid is meant to achieve.

Nevertheless, beneficiaries often remain circumscribed to specific economic sectors or actors, thus making subsidisation highly selective (Rickard, 2018: 18). In the EU, government support has been directed to airlines and car manufacturers, to banks, steel plants, railways or shipyards, which have all been recipients of governmental funds. For instance, Air France received aid worth over FRF 20bn in 1994, whereas the Spanish flagship carrier Iberia was beneficiary of two packages totalling over PTS 200bn in 1992 and 1996 (Chari, 2015: 73). Other companies like Alitalia, Sabena (Belgium), Lufthansa

(Germany), Austrian Airlines and Olympic Airways (Greece) have, at one point or the other, been kept afloat thanks to government policy (Amyot, 2008; Chari, 2015; Featherstone & Papadimitriou, 2007). Likewise, in the automotive industry, which will be subject to analysis in this thesis, states like Britain, Germany, Italy and France have not spared expenses in ensuring that their domestic car manufacturers become successful 'national champions', able to dominate the domestic market and skilfully compete abroad as well, though they have not always succeeded in doing so (Germano, 2009; Maloney & McLaughlin, 1999; Stephen, 2000; Wilks, 1988). Finally, the banking system has also been an important recipient of governmental support, particularly in light of the 2008 economic crisis, where it had become 'too big to fail' and needed to be bailed out (Chari & Bernhagen, 2011; Grossman & Woll, 2014; Smith, 2001b; Woll, 2014).

In many cases, selective subsidisation entails winners and losers (Zahariadis, 2013), and the benefits accrued by a firm or sector are to the detriment of their competitors. In other cases, the use of subsidies prevents the monies from being spent elsewhere. As an Indian government employee stated, 'every subsidy means a primary healthcare I cannot build' (cited in Rickard, 2018: 19), but it is also money that could have taken the form of direct welfare to help those workers hit by the forces of globalisation (see Cao et al., 2007; Rickard, 2012c). What this suggests is that when business dons the robes of public official and the government takes on a keen interest in making sure that business performs, a privileged relationship, in the form of either influence or money, or both, is created between the two parties (see Wilks, 2013).

This allows business to become an important and consistent target of governmental distributive policies, causing subsidy races, wastes of public funds, and ultimately undermining the maintenance and success of the EU Single Market project. Several Commissioners for Competition, from Mario Monti to Joaquín Almunia to Neelie Kroes have all underlined how public resources are 'wasted by selfish governments making "gifts" to particular firms, interest groups or sectors' (Mause & Gröteke, 2017: 188). Even national governments recognise these dangers. In June 2019, the Italian Ministry for Economic Development signed an act with which he asked the electronics multinational firm Whirlpool to give back the aid received in the previous years if the company fails to attain production and employment objectives at its Naples assembly plant.[2]

Although all member states face the problem of selective subsidisation, not all countries support their domestic businesses to the same extent. For instance, Germany consistently gives more aid than Britain as a percentage of GDP, and Ireland supports its industries more than Austria does (Chari, 2016). This

[2]https://www.mise.gov.it/index.php/it/198-notizie-stampa/2039819-whirlpool-di-maio-firma-la-richiesta-di-revoca-dei-finanziamenti

thesis investigates variation in the allocation of state aid among EU member states, and hinges around two research questions, contiguous with one another. *The first question is*: knowing the dangers of selective subsidisation, why do some national governments grant more state aid than others? For example, why did France, between 2000 and 2017, grant 0.60% of its GDP in subsidies, whereas this value was only 0.30% for Italy and 0.24% for Britain? Implicit in the question is the role of political institutions in accounting for different patterns of spending. Political actors' incentives depend on the broad configuration of domestic and international political-economic institutions and structures, which interact to shape economic outcomes (Franzese, 2002). Thus, the political institutional setting in a country may push the government to favour one type of subsidy over the others, or may offer politicians even more incentives to engage in wasteful spending.[3]

This question also touches upon the two more general topics of responsiveness and accountability. With the former, I want to highlight the use of subsidies as a governmental instrument for the pursuit of a policy goal such as those mentioned above, and the degree to which these goals reflect voter preferences (Break, 1972: 2; Golden & Min, 2013). As Powell (2004: 91) puts it, democratic responsiveness is what occurs 'when the democratic process induces the government to form and implement policies the citizens want.' Responsiveness therefore pays attention to how outcomes affect equity and inequality, that is, when policies and allocations are welfare-maximising (Golden & Min, 2013). By the latter term, I mean the possibility for the voters to identify who is responsible for policy decisions and to oust office-holders whose performance they find unsatisfactory (Persson & Tabellini, 2003: 12). The need for politicians to secure re-election incentivises strategic policy-makers to use policies such as subsidies that can bring large and clear net benefits to voters, thus improving their electoral fortunes (Franzese, 2002: 260). Answering this question is important because subsidies raise fundamental questions about the effective functioning of the economy and of the Single Market, and because they are a significant – albeit contentious – tool that can be used to achieve policy goals and translate economic support into political support (Zahariadis, 2002). A better understanding of state aid politics can shed light on several domains such as the retreat of the interventionist state in Europe (Zolnhöfer et al., 2018), the tensions at the heart of the integration process (Smith, 1998), or the importance of the configuration of the domestic political system in influencing the direction of economic policy (Franzese, 2002; Hall, 1986).

However, answers to this question alone do not tell us much about state-business relations in state aid

[3] This is not to say that institutions are *the* determinant of subsidy allocation, but that any account that involves policy-making cannot eschew institutions. By institutions, in particular, I mean the set of governmental arrangements of the political system, as well as the electoral rules governing the democratic process. A full account of all factors studied in the thesis is discussed in detail later below (Chapter 2).

politics. We cannot know, from analysing the determinants of allocation alone, how state and business interact. Nor does such an aggregated view of state aid politics allow us to distinguish between the interests of particular businesses or sectors and the wider collective interests of business (Moran, 2009). State aid can be granted to multinational corporation and small and medium enterprises alike, to firms operating in niche markets, as well as undertakings covering multiple sectors of the economy. *A second question*, therefore, is: how can we understand state-business relations in state aid politics in terms of responsiveness and accountability? This second question is contiguous with the former in the sense that it builds on the first question and expands the scope of analysis by looking not merely at the political determinants of aid allocations, but rather at the very dynamics at the heart of state aid politics, showing how state and business interact in this domain. This second part of the analysis, then, contributes to several literatures, ranging from our understanding of modern capitalism in Western democracies, particularly in Europe (Amable, 2003; Hall & Soskice, 2001; Schmidt, 2002; Shonfield, 1965), to the role of business in government-industry relations (Amyot, 2004; Lindblom, 1977; Moran, 2009; Schmidt, 1996; Wilks, 2013), and to the evolution of competition policy in an ever-changing European and global market (Chari, 2015; Damro & Guay, 2016; Thatcher, 2014).

In sum, this is a study of distributive politics, but also of state-business relations. It provides insight both on the determinants of aid allocations and the dynamics of state aid politics. It is a study about institutions and power, competition and industrial policy. All these elements are necessary to understand in a comprehensive manner state aid politics. Before engaging in an analysis of these relationships, however, it is first necessary to understand what is meant by the word 'subsidy' and why the EU has forcefully decided to rein in wasteful spending.

1.2 Contextualising state aid in the European Union: definitions and trends

In their review on government subsidies, Schwartz and Clements (1999: 120) write,

> In the most general terms, a subsidy can be defined as any government assistance that (i) allows consumers to purchase goods and services at prices lower than those offered by a perfectly competitive private sector, or (ii) raises producers' incomes beyond those that would be earned without this intervention.

This kind of government assistance can take several forms, ranging from cash to loans to guarantees to tax breaks. Most of these tools are recognised as instruments of subsidy spending and are not particularly contentious. More problematic in the literature, however, is what exactly constitutes a subsidy. It should not surprise that Schwartz and Clements's definition is rather vague, precisely because there exists no agreement about what a subsidy is. Table 1.2.1, adapted from Buigues and Sekkat (2011), presents the different approaches of subsidies in four different systems: the National Account Statistics (NAS), the EU, the Organisation for Economic Co-operation and Development (OECD), and the World Trade Organisation (WTO).

Table 1.2.1: Different approaches of subsidies

Sources	**Transactions covered**	**Sectoral coverage**	**Measurement basis**	**Country coverage**
NAS	Cash subsidies	All	Gross cost to government	UN countries
EU	Cash subsidies Soft loans Guarantees Equity subsidies Tax subsidies+sale of inputs below market price+purchase above market prices (but no transfers from Community budget[a])	All	Grant equivalent	EU countries
OECD	Cash subsidies Soft loans Guarantees Equity subsidies Tax subsidies	Manufacturing	Net cost to government	WTO countries
WTO	Financial contribution by a public body which confers a 'benefit' For EU countries, it includes transfers from the Community budget[a]	Services are *not* covered	Net cost to government	OECD countries

Source: Buigues and Sekkat (2011). Notes: [a]means that the EU Scoreboard does not include transfers undertaken by the Commission from the EU budget.

The table clearly shows that the approaches differ in the coverage of countries, sectors, and kind of transactions, as well as in the measurement basis. Thus, for instance, the EU has the smallest geographic scope, but covers more types of transactions, whereas the NAS has the highest geographic scope, but only covers cash subsidies. The type of transactions covered also explains the measurement basis. Therefore, the NAS, covering just cash subsidies, can only account for the gross cost to government, since other tools such as guarantees and tax deferrals do not directly impinge on the public coffers. The OECD and the WTO, for their part, do not cover services, which are however becoming an increasingly bigger part of modern economies. One only need think about the financial bailouts that banks received, or the use of state aid in Ireland for the National Broadband Plan (NBP), which aims to bring internet coverage in the rural parts of the country,[4] or even of the recent high-profile state

[4]See `https://www.nationalbroadbandireland.ie/`.

aid cases involving technology giants like Apple, Amazon and Starbucks, all of which the Commission found to have unduly received tax breaks from the governments of Ireland, Luxembourg and the Netherlands.[5] Due to these issues in international comparison of subsidies, and in light on the theoretical focus on the EU, the thesis will adopt the definition, conceptualisation and operationalisation of state aid as delineated by the Commission, and explained below.

In the EU, state aid refers to 'an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities' (European Commission, 2018). To qualify as state aid, such a measure needs to satisfy four criteria: cost to public resources, economic advantage, selectivity, and effect on competition and trade (Buigues & Sekkat, 2011: 11). State aid in the EU is controlled by DG Competition,[6] and is in principle prohibited because it poses a danger to competition in the Single Market.[7] Nonetheless, DG Competition acknowledges that in particular circumstances, subsidies may be warranted in order to correct market failures and/or achieve policy objectives, usually in line with the European agenda (Ferruz & Nicolaides, 2013). Hence, the Treaties do no abolish all state aid – rather, they provide for the 'development of a system for the evaluation of the compatibility of each individual aid scheme' (Lavdas & Mendrinou, 1999: 50).

State aid control is part of a long-standing European tradition that puts competition at the heart of the Single Market. As Aydin and Thomas (2012: 534) write,

> within the context and ambitions of a customs union it would have been simply counter-productive to dismantle trade barriers between the member states if private industry had been allowed to remain free to engage in cartel-like restrictions on competition and to undermine the advantages of opening up the markets in the first place.

Restriction of anti-competitive behaviour of private actors was central to this goal, but insufficient by itself: distortions caused by government intervention by granting of aid to particular firms or sectors were also a danger to competition and the customs union and needed to be regulated accordingly (Kassim & Lyons, 2013: 5). Though there is abundant evidence of decreasing levels of state aid (Blauberger, 2009b; Hölscher et al., 2017), they not only persist, but also significant variation in how Member States allocate aid remains. The Commission keeps a catalogue of all aid given by member state in the State aid Scoreboard (European Commission, 2018), which includes,

> all existing aid measures to manufacturing industries, services... agriculture, fisheries and transport for which the Commission adopted a formal decision or received an information

[5] See `https://europa.eu/rapid/press-release_IP-16-2923_en.htm`, `https://europa.eu/rapid/press-release_IP-17-3701_en.htm` and `https://europa.eu/rapid/press-release_IP-15-5880_en.htm` respectively.

[6] Sometimes referred to also as DG COMP.

[7] State aid regulation is codified in Articles 107-109 of the Treaty on the Functioning of the European Union (TFEU).

fiche from the Member States in relation to measures qualifying for exemption under the General Block Exemption Regulation (GBER), Agricultural Block Exemption Regulation (ABER) or the Fishery and Aquaculture Block Exemption Regulation.

By means of an economic cost-benefit analysis that weighs the positive social welfare effects of the aid against its negative repercussions (see Coppi, 2011), the Commission can assess the necessity of the measure, investigate allegedly unlawful aid and even require national governments to seek recovery of the monies. This approach has strongly influenced the member states' fiscal policies and the room of manoeuvre national governments have at their disposal when allocating subsidies. As an example, aid to the automotive industry declined from ECU 29bn in 1977-1987 to just €1.3bn[8] in the 2007-2014 period (European Commission, 1990a, 2014b). This trend is reflected in Figure 1.2.1, which shows how, between 1992 and 2011, aid to industry and services in the EU-27 was almost halved.

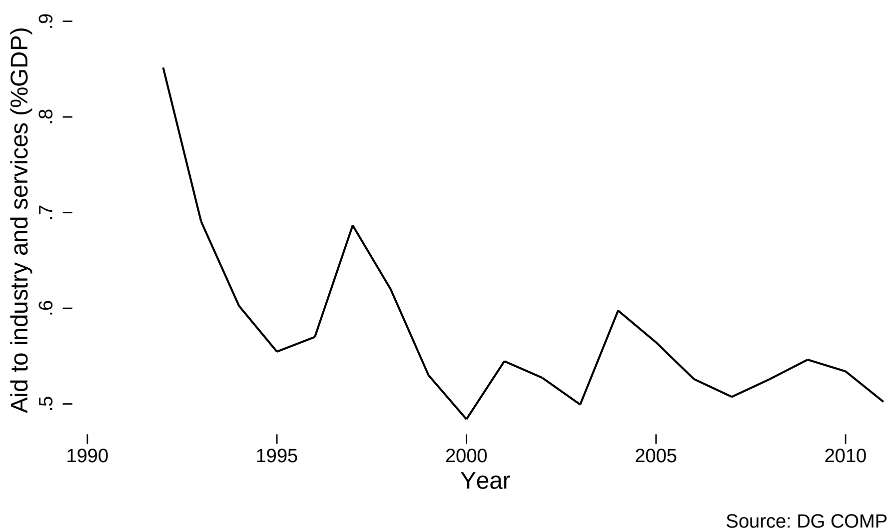

Figure 1.2.1: State aid over time in the EU-27 (1992-2011)

Figure 1.2.2, instead, shows variation in aid allocation aid by member state. In some countries, such as the Netherlands, Estonia and Britain, subsidisation is very low, whereas others like Hungary, Malta and Portugal give on average more than 1% of their GDP in aid. Therefore in some cases, and despite

[8]Excluding crisis aid.

the strict control regime, some national governments in the EU provide sizeable subsidies to companies. The dashed line is the average for all countries over time and sits at about 0.56% of a country's GDP. Despite an overall downward trend in aid allocation, cross-country variations persist, suggesting that governments do not face similar challenges and pressures, such as globalisation and Europeanisation, in the same way.

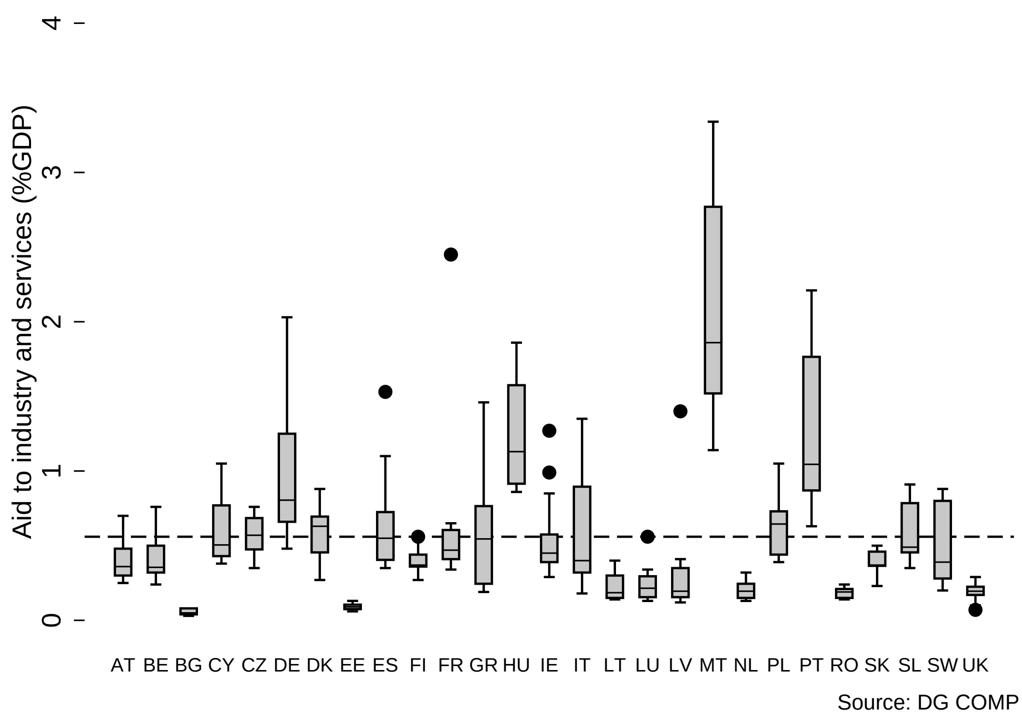

Figure 1.2.2: State aid by country in the EU-27 (1992-2011)

How can such variation be accounted for? The section below summarises the argument of the thesis, in which motivations for giving aid are driven by the attainment of policy goals, electoral pragmatism, and international constraints (Hofmann, 2016: 3-4). Following Golden and Min (2013), these claims are tested by putting the concepts of responsiveness and accountability at the core, thus exploring the effect of political motivations on the economic policy output of interest. Such an account should provide a more complete picture of aid allocations than those present within the extant literature. It can help us understand whether policy is responsive to the preferences of voters, and under which circumstances the provision of support to specific constituencies is due to electoral considerations that may be independent of considerations of economic efficiency. Further, it shows when domestic (e.g.

veto players) and international (e.g. the European Commission) agents have the necessary clout to shape domestic policy-making and the very policy objectives of the government.

1.3 The argument in brief

As suggested in the previous section, the thesis has two points of departure. The *first* one is Herwig Hofmann's claim that governments give state aid because they are concerned about attaining certain 'policy goals' or objectives; because they are electorally pragmatic; and because increasing Europeanisation has curtailed the room of manoeuvre of national governments when intervening in the economy (Hofmann, 2016: 3-4). In particular, the policy objectives may be 'reflective of a more "public" or "general" interest that guides states' such as steering national economic development and preserve employment in certain regions (Hofmann, 2016: 3). In this case subsidies incentivise individual behaviour (i.e. the 'inducements') to influence collective performance. One clear example of behaviour influence is the use of state aid through procurement by the Irish government via the NBP to incentivise network providers to expand the outreach of high-speed internet in rural counties, where firms would otherwise have little incentive to invest. This suggests that the policy goals guiding governments essentially consist of the economic policies they pursue and their underlying ideological preferences. The willingness to engage in distributive policies such as subsidisation, that is, the predisposition to give subsidies, might partly explain the extant variation across countries. A government that has prided itself of being liberal and pro-market might be less predisposed towards subsidisation than a government that is willing to be involved in the direction and management of the economy.

Further, subsidies can be used to increase a politician's chances of re-election 'by signalling their commitment to supplying public goods' so that voters would reward conspicuous spending (Dewatripont & Seabright, 2006: 514). In this case subsidies as a political tool to maximise votes would be akin to other macroeconomic policies used by governments in pre-electoral years, such as social transfers (e.g. Franzese, 2002; Hicks & Swank, 1992). Finally, increasing Europeanisation has meant that there are few policy areas where the EU is not involved, and that direct management of the economy is no longer feasible. Hence, public authorities may look for alternative, or even creative, methods of intervention that hinge on inducement rather than direction of ownership or public monopolies (Clift, 2013; Hofmann, 2016; Lavdas & Mendrinou, 1999).

France is probably the best example to understand this kind of development. The *étatisme* that characterised the country in the post-war period (Cohen, 1989, 1995; Hall, 1986; Schmidt, 1996; Shonfield,

1965) where the government used what is known as 'high-tech Colbertism' to intervene in industrial policy by means of monopolies of general interest in the more innovative industries, and which was characterised by a marked protectionism of domestic producers would no longer be feasible under the new competition rules (Buigues & Cohen, 2020; Cohen, 2007). Rather, today France engages in 'clusters of competitiveness' (*pôles de compétitivité*), based on a logic of territorial aggregation where the main actors are private business and experts rather than the government (Buigues & Sekkat, 2009; Cohen, 2007).

However, Hofmann does not test these claims, nor has the literature so far attempted to provide an account for how these claims collectively influence aid allocations. Thus, and *secondly*, this thesis contextualises state aid within the broader literature on distributive politics, and follows the research agenda set by Golden and Min (2013) to attempt a more complete account of distributive politics by joining the two perspectives of responsiveness and accountability. In so doing, it provides a contextual framework within which Hofmann's three claims can be tested.

My main argument is that effective supply of aid allocation depends on how the political-institutional environment affects the responsiveness of government, and creates incentives to incumbents for political survival through its electoral institutions. Attainment of policy goals, electoral pragmatism, and Europeanisation (or more generally speaking, transnational interdependence) are therefore the three key mechanisms through which this thesis attempts to explain state aid allocations. While the first and third mechanisms operate through the responsiveness channel whereby there exist incentives and constraints for politicians to engage in policies that may be favoured by the electorate, the second mechanism responds to the logic of accountability: in their quest for vote maximisation, politicians recognise that the democratic structure in which they operate poses both incentives to take credit and opportunities to be blamed. Subsidies, therefore, as other macro-economic policies used for electoral pragmatism, are a tool with which to maximise the credit while minimising the blame. Chapter 2 develops this argument more in depth by offering a literature review and generating hypothesis from these intuitions. Overall, this study represents one of the first attempts to join the perspectives of responsiveness and accountability to provide a more complete understanding of aid allocation and of distributive politics in a multilevel polity such as the EU.

1.4 The empirical strategy

To answer two different research questions, a study cannot rely on a single empirical strategy. This thesis is therefore structured on two overlapping levels of analysis. The first one is methodological: this study employs both regression-based analyses and in-depth case studies, putting this work in the recent and expanding tradition of multi-method research. Multi-method research is increasingly common within political science, as exemplified by the growing literature that tackles the issue at length (e.g. Goertz, 2017; Seawright, 2016b; Weller & Barnes, 2014).[9] Although there have been questions as to the effectiveness of multi-method research (e.g. Ahmed & Sil, 2012), 'putting the qual in the quant' (Elman et al., 2016) can be useful for a variety of reasons, one of which is the identification of causal mechanisms, or pathways.

The central idea of multi-method research is to use each method 'for what it is especially good at, and to minimise inferential weaknesses' (Seawright, 2016b: 9). Likewise, Beach (2020) recognises how quantitative and qualitative methods can supplement each other's weaknesses *because* they ask different questions. Whereas variance-based approaches such as large-N statistical analysis ask 'what is the causal effect of X on Y?' case-based approaches ask 'how does it work *here*?'[10] By orienting themselves each towards a somewhat different goal, the 'quant' and the 'qual' inform each other in a useful fashion (Gerring, 2017: 28). In Lange's (2013: 124-5) words, this double approach is a case of methodological complementarity, whereby one method is used for one type of insight and another for a different type, and the combination of the two strives to offer a more complete picture of the phenomenon. A description of both the quantitative and qualitative data and methods is provided in the empirical chapters.

The second level concerns the unit of analysis, and involves a shift from a macro-comparative analysis to a meso- or industry-level one. The reason for this shift lies in the diffidence that scholars and practitioners have towards macro-comparative analyses (e.g. Kittel, 2006), as not all sectors of the economy can be treated in the same way (see particularly Chapter 5 of Rickard, 2018). The classic approach, which takes the nation state as the unity of analysis, suggests that the state is identified by 'characteristic features which exhibit themselves across policy sectors and networks,' and therefore that 'certain values and traditions exist autonomously, independent of actual relations between state and societal actors' (Maloney & McLaughlin, 1999: 4). One typical example is the huge Varieties

[9] See Gerring (2017: 28-31) for a meta-analysis of multi-method research. Seawright (2016b: 3) shows a marked increase in references to multi-method and mixed-method scholarly research.

[10] This differs from triangulation, which treats all insights equally. As Seawright (2016b: 4) puts it, triangulation designs 'involve asking the same question of causal inference using two different methods, and checking that the same substantive conclusions are produced by both.'

of Capitalism (VoC) literature (Hall & Soskice, 2001; Hancké et al., 2007), which attempts to find institutional foundations to explain variation in economic performance among democracies.

Yet, the distinction between 'weak' and 'strong' states (Krasner, 1978), which describes the level of state intervention, is too crude to 'account for the rich variety of state-society relations' (Atkinson & Coleman, 1989). Any attempt to provide a convincing analysis of the state-business relations must identify the actors involved, their needs and the nature of their interdependence (Wright, 1995: 356). A call for a disaggregated view that looks at the meso level, that is, the different sectors of the economy, becomes warranted. Here, the political system breaks down into a series of sub-systems where it becomes possible to identify a variety of policy-making styles (Maloney & McLaughlin, 1999: 6).

Nevertheless, it is important not to lose sight of the bigger picture, since the rules of the game at the sectoral level 'draw significantly from [...] macro conditions' (Atkinson & Coleman, 1989: 67). Hence, the shift from macro to meso is not total. Rather, the meso-level analysis is integrated in and complements the macro-comparative one within the same framework of responsiveness and accountability. The degree of responsiveness and accountability is set by the institutional rules and legacy, but how policy-makers act on them is a story that can be told at the meso-level, where groups and policy-makers become the main characters. What happens within a given sector of the economy is still dependent on the constitutional rules of the polity and the international setting in which states operate, thus ensuring the linkage between the two levels of analysis.

To achieve this goal, the thesis looks in particular at one key sector of the economy: the automotive industry (or MVI, for motor vehicle industry). This sector, as Chapter 4 shows, is characterised by three important features: high levels of industry concentration, meaning that it is dominated by few, important firms; it is politically sensitive due to the large amount of value added to countries' economies where such a sector exists; and it is amongst the highly regulated industries in the EU. Thus, while it may not be possible to translate the findings relative to this industry to *all* sectors of the economy, the MVI still represents a crucial test case for state-business relations, especially for what concerns the dynamics between state agencies and big business (Germano, 2009; Hart, 2004; Stephen, 2000). It is to such sensitive sectors where private actors have important political clout that governments must pay the most attention to ensure business performance, and cannot afford to ignore the wellness of the industry (Wilks, 2013; Woll, 2019).

The dynamics of state aid politics in the MVI will be analysed in two ways. First through a large-N regression-based analysis of aid allocations to the MVI in 16 EU member states, and secondly, with a series of in-depth longitudinal case studies of the Italian, British and French automotive industries, and the involvement of the national governments therein. When analysing the relationship that firms in this sector have had over time with their respective national government, it is easy to notice the diverging paths they have taken. In the United Kingdom (UK) the national industry, which had been reticently supported until the early 1980s, was later substituted with foreign companies through foreign direct investment, which still dominate the sector today (Pardi, 2017; Wilks, 1983, 1988). In Italy, the peculiar system of state holdings that was in place until the late 1980s, allowed for a mixture of private and public participation in the industry, where there were strong linkages between business and the state, either in the form of clientelism or by means of political kinship (Germano, 2009; Pirone & Zirpoli, 2015; Prodi, 1974). As the system came to an end, however, these relationships relented and eventually broke off (Germano, 2012). Finally, in France the state has continued to be supportive of the sector throughout, although the partial privatisation of one of the key manufacturers, Renault, led the successive governments to use a less direct approach to supporting the industry, and willingly sidestepped to reduce its involvement in the sector (Chari, 2015; Clift, 2013; Pardi, 2020).

1.5 Structure of the thesis

The thesis is structured along several chapters, as follows. Chapter 2 provides a literature review of the existing explanations of state aid allocations. These are regrouped in three categories, which broadly mirror the three explanations adduced by Hofmann (2016). First are globalisation studies, which look at how the forces of globalisation (but also Europeanisation) have created winners and losers and how subsidies are used to compensate these losers and potentially spur them to innovate so as to compete internationally. A second category fits within the partisan theory of economic policy-making (Alesina & Rosenthal, 1995; Hartmann, 2014; Hibbs, 1977, 1992) and attempts to understand whether subsidies, like other macroeconomic tools, may be ideologically motivated, and whether parties with a particular ideological leaning have co-opted their use. These kinds of explanations are also often complemented by institutional accounts, which put the role of political institutions at the heart of policy-making (Hall, 1986; Hartmann, 2014; Persson & Tabellini, 2000, 2003; Tsebelis, 2002). Finally, a last strand of the literature analyses the effect of electoral institutions on economic policies (Carey & Hix, 2013). These studies differ widely for what concerns the mechanisms by which electoral systems affect policy outputs, but their premise holds still: different electoral systems create different incentives for office-seeking politicians to cater to a particular segment of the population in attempts to maximise votes.

After reviewing the extant literature, the chapter proposes an alternative account of state aid politics, based on the model of democratic policy-making by Persson and Tabellini (2003), and which focuses on the supply-side of the story: the incentives that politicians have in allocating aid rather than the demands for aid from business and other representatives of civil society. From this account, four hypotheses are proposed, three of which go along the lines of responsiveness, whereas the last one involves accountability.

Chapters 3 and 4 are dedicated to hypothesis-testing for the first research question: why do some countries give more aid than others? Both chapters are quantitative in nature and employ regression-based analyses. However, whereas Chapter 3 focuses on aggregated aid, Chapter 4 analyses aid to the automotive industry only. Each chapter includes a description and operationalisation of the variables, alongside several robustness checks. Both chapters analyse the same time frame, from 1992 to 2011, but while Chapter 3 analyses all 27 member states,[11] Chapter 4 only includes the 16 states with an active automotive industry. The period 1992-2011 is partly a limitation of the data, as aid previous to 1992 is not properly recorded in the Scoreboard; partly, it is also a way to avoid issues of measurement error. In 2012 the European Commission approved a plan called the State aid Modernisation (SAM), which re-categorised some types of aid and restructured the objectives for which aid is employed, making comparability over time less certain (Micheau, 2016).

Chapter 5 introduces the second research question: how can we understand state-business relations in state aid politics in terms of responsiveness and accountability? It provides a detailed account of how to undertake sectoral analysis, based on the work by Atkinson and Coleman (1989) and more generally the policy network approach (e.g. Börzel, 2011; Jordan & Schubert, 1992; Rhodes, 2006; Rhodes & Marsh, 1992), as well as a justification for case selection, based on the variables used in the quantitative analysis.

Chapters 6, 7 and 8, are qualitative in-depth case studies on the state aid politics to the MVI in Italy, Britain and France respectively, and take a longer time horizon than the quantitative analysis. Each is formed by two parts. In the first part of each chapter, I offer a historical analysis of state-business relations concerning subsidy allocations to the automotive industry. Then, I also provide an explanation, based on the policy network approach, as to why the particular configuration of state-business relations at one time led to specific outcomes of industrial policy and aid disbursement decisions in the industry. The second part of each chapter focuses on the link between state aid allocations and electoral politics. Here, I follow recent work by Shane Martin (2011a; 2011b) and

[11] Croatia is excluded, as it became a member in 2013.

Stephanie Rickard (2018) to investigate how parliamentarians can table questions to the government, relative to state aid to the MVI, as a way to show engagement in constituency service. Finally, a conclusion summarises the thesis's findings and the wider implications of this study, while sounding for future potential venues of research.

Chapter 2

Literature review, thesis and hypotheses

2.1 Literature review

2.1.1 An overview

Governments in the postwar era committed themselves, to varying degrees, to the management of the macroeconomy (Franzese, 2002). This involved economic policy agendas including provisions of social insurance for disability, old age or unemployment; provision of public goods and services; and management of the macroeconomy through fiscal and monetary policies. Since the 1980s, however, developed democracies have experienced a retreat of this 'entrepreneurial state' (Engler & Zohlnhöfer, 2019; Schuster et al., 2013; Zolnhöfer et al., 2018). Factors like globalisation and Europeanisation pushed interventionist policies like tariffs out of fashion, and deprived national governments of direct control over some economic policies, such as monetary policy in the eurozone. This restricts the room of manoeuvre national governments have at their disposal, and forces them to be 'creative' to continue supporting national industries (Clift, 2013). As Schmidt (2002: 57) notes, in a globalised world, the European nation-state wears multiple hats, playing several roles at the same time:

> The nation-state continues to act as a 'travelling salesman' for home-grown companies by promoting the purchase of domestic products and services by foreign governments and corporations; as a 'seducer' for foreign investment by providing incentives for foreign companies to set up operations in-country; as an 'advocate' in the EU by promoting regulations

> and standards that benefit its own industries and opposing those that do not; and even occasionally as a 'shield or protector' for strategic industries as well as a 'cushion' for major firms in need of subsidies or tax relief, although nothing like in the past.

To borrow from Hall (1986), 'governing the economy' has become increasingly difficult for national governments. In such a changed environment, where spending is curtailed, political leaders may want to prioritise cost-effective forms of 'fiscal protection,' such as subsidies rather than social insurance programmes (Rickard, 2012c: 1172). Nevertheless, there is little agreement in the literature over the factors that explain this type of distributive allocation. In this literature review I will mostly focus on studies that have employed quantitative methods to explain subsidy spending. This is because quantitative studies are able to provide several alternative explanations which can be more easily tested in a comparative manner. A few more studies that have used qualitative methods will be instead presented in Section 2.1.5, as they can give useful insights regarding the causal mechanism, which is not always explicit in regression-based analyses. Scholars conducting quantitative studies explain variation in aid allocation looking mostly at three variables: globalisation (Aydin, 2007; Rickard, 2012c; Zahariadis, 2001, 2008); partisanship (Engler & Zohlnhöfer, 2019; Neven, 1994; Zahariadis, 2002, 2010b); and electoral competition (Franchino & Mainenti, 2013; Rickard, 2012a, 2012b; Verdier, 1995; Zahariadis, 2005). A fourth variable, Europeanisation, is mostly used in qualitative works to study case-specific interactions between the Commission and the member states (Featherstone & Papadimitriou, 2007; Smith, 2000; 2001a; 2001b; Zahariadis, 2010a being an exception). These studies offer different political-economic facets of the puzzle. Significant findings in one aspect of state aid politics do not invalidate those in a different one. Nevertheless, these works fail to offer a comprehensive account of the politics of subsidisation.

2.1.2 State aid and globalisation

Studies on globalisation differently stress the usefulness of subsidies as a strategic trade policy tool. In particular, they claim that with the progressive dismantling of trade barriers thanks to the WTO, there has been a progressive rise in non-tariff barriers, such as higher standards of production (especially common in the EU) or subsidies (Zahariadis, 2008). As Blais (1986) notes, as the rates of tariffs have decreased in the industrialized world, governments have found it necessary to increase disbursement of subsidies. The main argument advanced by these scholars is that, under the threat of international competition caused by increasing globalisation, governments will be more likely to disburse producer subsidies, either to protect their domestic industries, or to ensure that they can compete internationally

(Zahariadis, 2008).

Thus, some scholars support the compensation hypothesis, whereby subsidies work as a safety net for the losers of globalisation (Hwang & Lee, 2014; Rickard, 2012c; Zahariadis, 2001, 2008). Some scholars call this 'protection for rent' (Grossman & Helpman, 1994; Zahariadis, 2008), and see a political exchange taking place in aid allocation, where national governments protect domestic producers in exchange for political campaign contributions. Others find evidence in favour of the efficiency hypothesis: with increased trade openness, subsidies become a less efficient way to maintain levels of competition, and governments have to find other means to avoid falling behind (Aydin, 2007; Zahariadis, 1997). In the context of the EU, however, viewing subsidies exclusively as a trade policy tool may be misleading, as they are historically more tied to industrial policy (Amyot, 2004; Hall, 1986). Thus, the subsidies-as-trade-tool argument may be less relevant in the EU context. In other words, studies on globalisation have mostly failed to properly account for the traditional role of the interventionist states within their models of international economic competition.

2.1.3 State aid and partisan theory

Another strand of the literature, instead, looks at policy-makers' objectives and whether subsidies are in line with their ideological leaning. Subsidies become a fiscal instrument of distributive policy whose purpose is to 'improve the private sector's allocation of resources among alternative uses' to achieve particular economic goals (Break, 1972: 1; see also Buigues & Sekkat, 2009; Golden & Min, 2013). This 'partisan theory' of macroeconomic policy-making (Hibbs, 1977) applied to state aid has so far found very questionable evidence in the literature. Some scholars contend that an interventionist policy like subsidisation, which involves market interference and reallocation of financial resources, should be more common in the presence of leftist parties (Blais, 1986; Garrett, 1998; Zahariadis, 1997). Engler and Zohlnhöfer (2019) recently showed that this is true only if subsidies favour the working-class part of the leftist electorate, rather than the middle-class.

Others assert that, since subsidies favour the producer rather than the consumer, they are more likely to be allocated by governments more in line with business interests, usually right-wing ones (Neven, 1994; Rickard, 2012b; Zahariadis, 2010b). Within the context of industrial policy, this may indeed be sensible. For instance, as Hall (1986: 189, 194-5) shows, France hiked up expenditures on industrial policy under the centre-right Barre government (1976-1981), much of which was aid to specific sectors. Under the leftist Mauroy (1981-1984), instead, interventionist measures took the form of direct welfare to the unemployed, family allowances, and health insurance benefits. Nevertheless, several other studies also find a non-significant effect for government ideology (e.g. Franchino & Mainenti, 2013; Rickard, 2012c), which seems to suggest that governments of either inclination may be interested in using subsidies as a way to achieve policy goals. Some studies see the partisan effect as conditional on globalisation: governments of a certain political leaning will only act in a certain way towards subsidisation when the international economic conditions incentivise them to do so (Cao et al., 2007; Garrett, 1998; Hwang & Lee, 2014).[1] This thesis, instead, argues that a more promising strategy of looking at responsiveness is not to use partisan theory as a proxy, but rather to be explicit about a government's willingness to engage in distributive measures. Only in this way can we know, as Hofmann (2016) claims, whether subsidies are used to achieve policy objectives.

2.1.4 State aid and electoral institutions

Finally, the literature finds state aid allocations to be influenced by the incentives that a country's electoral system offers to incumbents (Aydin, 2006; Franchino & Mainenti, 2013; Rickard, 2012a, 2018). As Verdier (1995: 3) argues, 'politicians maximise their chances of staying in power through deliberate use of subsidies.' In doing so, incumbents are effectively showing their constituents that they are committed to supplying public goods (and therefore use distributive policies), even if it leads to a waste of public resources (Dewatripont & Seabright, 2006). Carey and Hix (2013) provide a review of the connection between electoral systems and economic policies of distributive and re-distributive nature. Although the mechanisms adduced differ, and are sometimes even in opposition to one another, most arguments rest on a distinction between 'narrow' and 'broad' socio-economic interests and suggest that different electoral systems can favour one set of interest or the other depending on the incentives the systems give politicians.

There is agreement among scholars in support of the 'protectionist bias' of majoritarian politics (Grossman & Helpman, 2005b): plurality systems, characterised by smaller districts and stronger links between the politician and the constituents (Lancaster, 1986; Persson & Tabellini, 2000), tend to have higher levels of distributive measures, as politicians can better deliver special benefit programmes, and it is easier for voters to identify who is responsible for these decisions. Grossman and Helpman's (2005b) argument is that in a majoritarian system, the governing party is unlikely to represent all districts, whereas this may be more likely in a PR (proportional representation) system. Hence, in the latter case, welfare-maximising policies that cater to broad swathes of the population may be preferred, whilst majoritarian systems will lead politicians to supply more particularistic economic

[1] A similar argument is applied to tariffs, see Dutt and Mitra (2005).

policies, such as sector-specific subsidies (Rickard, 2018: 11). On a similar vein, Milesi-Ferretti et al. (2002) show that majoritarian systems in OECD countries may be conducive to those expenditures typically targeted along geographical lines,[2] whereas Persson (2002) and Persson and Tabellini (2003) show that welfare policies, which are far broader in scope than subsidies, are more likely to be carried out in PR systems.

On a different note, Rogowski and Kayser (2002) contend that politicians in proportional systems can better deliver such benefits because fewer votes are ‘wasted’, and benefits move from broad (i.e. consumer) to narrow (i.e. producer) categories. Likewise, Park and Jensen (2007) argue that, since PR systems are characterised by low thresholds for representation, they can better pander to narrow constituencies, which in turn produce high levels of agricultural subsidies.[3] Rickard (2018) tries to reconcile these views by showing that under some conditions, which she identifies with economic geography, PR systems may also cater to narrow interests, though her analysis is limited in scope since only subsidies to manufacturing are considered.

An alternative extension of this synthesis involves a conditional effect of district magnitude on cultivation of personal votes (Carey & Shugart, 1995; Franchino & Mainenti, 2013). When intra-party competition exists, as is the case in PR systems, high district magnitude encourages candidates to appeal to narrow groups (Carey & Hix, 2013), whereas such incentives should not exist in single-member districts, where there already exists a protectionist bias. For instance, Crisp et al. (2010) show that incentives to cultivate a personal reputation, and therefore distinguish oneself from other candidates, encourages protectionism through particularistic subsidies and regulations for targeted industries. In sum, not only are the findings on the effect of electoral systems on economic policies varied, but also the way these expectations are tested differs widely: from a dichotomous distinction between proportional and plurality systems, to the use of institutional differences among electoral systems. The present study looks more explicitly at the electoral rules of the country, and particularly the difference in expectations between party- and candidate-centred systems.

[2]The authors actually include subsidies to firms in a different category: transfers targeted to groups of individuals with certain social characteristics, thus equating them to social expenditure due to methodological constraints. However, they recognise that ‘pork-barrel’ expenditures (i.e. distributive measures) aimed at pleasing one’s constituency fall under the definition of expenditures along geographical lines (Milesi-Ferretti et al., 2002).

[3]Though, as Zahariadis (2008) notes, subsidies to agricultural may be a ‘special’ case due to their high level of organisation, homogeneity in interests, and other external policies such as the European CAP (Community Agricultural Policy).

2.1.5 Qualitative studies on state aid politics

Qualitative studies on state aid politics often focus on single events or countries, and are therefore very limited in terms of generalisability of the determinants of aid allocations. Rather, their usefulness lies in their account of state-business relations. For instance, analysing the policy process wherein aid is granted to the airline industry in Spain and Ireland, Chari (2004) finds that in the Spanish case consensus was achieved by informal bargaining and each actor was motivated by symbiotic self-interest, whereas the Irish case resembles a 'social partnership' model where a wide range of actors, like bureaucrats, mangers and trade unions were involved in the proceedings. In the same industry, Chari (2015) shows how aid was used to promote mergers and acquisitions (M&A), and consolidate the position of bigger flagship carriers, since these would be now more likely to acquire firms with less debt. Featherstone and Papadimitriou (2007), instead, analyse the restructuring of Greece flagship carrier Olympic Airways, where they find that institutional constraints prevented the Greek government and the Commission from cooperating to achieve common, compatible goals. These in particular involved highly clientelistic practices and interventionist strategies that conflated political and management roles, which resulted in the inability of the Olympic chairman to operate without the consensus of the Greek government.

A similar situation is described in the automotive industry by Pirone and Zirpoli (2015), who analyse the relationship between the management of Alfa Romeo, a subsidiary of state holding Finmeccanica, and the Italian government. This mixed public-private model created a parentela relationship between the two, so that the CEO of Alfa Romeo was chosen by the governing party (usually the Christian Democrats), and followed government policy, even if this entailed economically inefficient strategies. A different type of relationship was instead created between the Italian government and the main domestic car manufacturer Fiat, a private enterprise. Here, subsidies were the result of a clientelistic relationship and the belief that 'what [was] good for Fiat [was] good for Italy,' in a coincidental, if eerie, mirroring from across the pond that 'what is good for business is good for America' (Woll, 2019).[4] Hence, Fiat benefited from several measures in its favour, which were often (though not always) pushed by the governments themselves (Germano, 2009), although this relationship has changed with the turn of the new century and the increased rules on state aid control (Germano, 2012). But the automotive industry in general, being one of the largest in Europe, employing millions of people and adding non-negligible percentage points of value to the countries' GDPs, is one of tight relations between industry and governments, which ensures that large amounts of aid were granted to consolidate firms' power in

[4] Or, more narrowly, 'what is good for General Motors, is good for America.'

the Single Market, as well as expand globally (Chari, 2015; Maloney & McLaughlin, 1999).

Finally, other sectors such as banking (Woll, 2014), wine-making (Rickard, 2018) and public utilities Chari (2015) also benefited from public support. Banks, in particular, being 'too big to fail', were situated in a privileged relationship whereby they did not even need lobby the government in order to receive support. As Cornelia Woll (2019) colourfully described the situation in an online article for the *American Affairs Journal*,

> the actual bailout plans were devised by governments, supervisors, and central banks, often against the will of individual institutions who insisted that they merely had temporary financing difficulties and requested additional liquidity. [...] [T]he CEOs and lobbyists of the major financial institutions could have gone off to distant islands slurping cocktails rather than meet with public authorities during the crisis.

These studies, therefore, show two elements that are not well-captured by macro-comparative analyses. First, as Moran (2009) reminds us, the collective interests of business and those of particular sectors or firms need not always coincide, and are actually difficult to even reconcile. Even within the same industry firms face different relationships *vis-à-vis* the government. This was clear in the previous example of Alfa Romeo and Fiat: although both enjoyed a privileged position within the industry, their approach to governmental relations fundamentally differed.

Secondly, and most important, it shows the *structural* power of business in a market economy: the very way business is organised confers privileged power on big enterprises (Hart, 2004; Moran, 2009) which is different from the power enjoyed by other undertakings, such as small and medium enterprises or other interest groups. In these cases, and as Lindblom (1977: 172) justly remarks, there is not even a need for business to covertly manipulate the government – the latter will often do so of its own volition. To quote Woll once again, corporate lobbying is often neither sufficient nor necessary to explain particularistic policies (Woll, 2019). Hence, an important element that macro-comparative studies often miss lies in the importance of a structural analysis that examines sectors or industries to unearth unobserved state-business dynamics.

2.1.6 Taking stock of the literature: shortcomings and possible solutions

In sum, not only are the politics of state intervention important to our understanding of the management of the economy, but a plethora of alternative explanations have been advanced to explain subsidisation. Nonetheless, much of the variation in the results comes down to the samples analysed, which differ starkly in the time frame, number and type of countries, and the dependent variable used.

If globalisation- and partisanship-focused studies stress politicians' responsiveness to societal demands, studies that accentuate the electorally relevant aspect of resource distribution offer an accountability perspective: politicians protect themselves from the consequences of government termination by targeting electorally relevant groups or districts.

However, studying accountability before responsiveness is like 'putting the cart before the horse' (Golden & Min, 2013: 75). The desire to retain political office cannot abstract from the issue of whether allocations reflect the interests of voters. At the same time, responsiveness can only go so far, since institutions and the capacities of governments 'determine to what extent socio-economic factors exert an influence on the policy output' (Hartmann, 2014: 21). In reality, accountability and responsiveness are two sides of the same coin. As Hall (1986: 271) puts it, 'the nature of electoral competition renders the government more or less responsive to certain economic demands.'

This thesis addresses two shortcomings in the literature. *First*, by proposing a more complete account of the *politics* of state aid, based on the democratic policy-making process model by Persson and Tabellini (2003), it attempts to join the responsiveness and accountability perspectives to provide a homogeneous theoretical framework to explain aid allocations. I put to test and expand Hofmann's (2016) three claims and contextualise them within the domains of responsiveness and accountability, as suggested by Golden and Min (2013).

The first claim is that states give aid because they are concerned about attaining 'policy goals', and that these consist of the policies governments pursue and for which they use public resources (Break, 1972). This policy-seeking approach should reflect the government's responsiveness to voters and the degree to which such a policy would be welfare-maximising. This idea also follows from the Commission's own economic approach, whose investigations assess whether subsidies bear positive welfare effects. Absent welfare maximisation in the allocations, Grossman and Helpman (1996) suggest that political capture by special interests, such as industry lobbies, exists. Though this is certainly a possibility, it would be difficult to infer from the present analysis alone that it is the only alternative outcome. The second claim is that incumbents may be guided by a 'desire to improve their chances of re-election by signalling their commitment to supplying public goods' (Dewatripont & Seabright, 2006: 514). Subsidies are one such economic policy that can be employed as a means to political survival for office-seeking politicians (Verdier, 1995). The last claim is that the Europeanisation of domestic policy-making has decreased the room of manoeuvre of national governments (Featherstone & Radaelli, 2003; Ladrech, 1994; Schmidt, 2002). Governments steered from direct public intervention to the use of incentives as a tool for regulatory policies, thus making subsidies the most important *remaining* form of state intervention (Clift, 2013; see also Lavdas & Mendrinou, 1999: 122). Hence, the degree to which governments are able to attain certain policy goals such as market failure correction would be conditional upon international commitments.

The *second shortcoming* lies in the impossibility, using aggregate data, to have a full understanding of state-business relations. As was suggested above, we cannot infer, from macro-comparative analyses, whether subsidies are due to political capture by special or particularistic interests. Herein comes the usefulness of qualitative case studies. Through the case studies, the dynamics of state aid politics can more easily come to the fore, thus offering a solution to the shortcoming arising from a purely macro-comparative research design. By being able to explicitly describe and analyse state-business relations, the thesis attempts to understand whether and how business can benefit from government support. Hence, the second part of the thesis analyses state-business relations in a sector of the economy where there historically have been tight industry-government relations – automotive (Maloney & McLaughlin, 1999; Stephen, 2000). The next section lays down the theoretical framework that will be used in the thesis by providing a possible macro-level account of the policy process involving state aid politics and how institutions affect aid allocations.[5]

2.2 An account of state aid politics

This section proposes an account of state aid politics, exemplified in Figure 2.2.1, which is based on Persson and Tabellini's (2003: 3) model of democratic policy-making. In Persson and Tabellini's (2003: see in particular 2-3, 26) model, the external economy, through the effects of globalisation, creates economic outcomes such as price differentials, unemployment, or variation in remuneration in different sectors of the economy. Citizens and groups have conflicting preferences over the course of action to take, and therefore which economic policy to enact. Political institutions aggregate these preferences into specific political outcomes (e.g. party structure, type of government, or legislative majorities) following well-defined constitutional rules such as electoral institutions and the form of government. These political outcomes, in turn, may have moderating effects on economic policy-making, which dilutes the ability of the winner(s) of the electoral competition to enact the preferred public policy. Eventually, public policies interact with the markets, creating new economic outcomes,

[5]With 'possible' I want to underline how alternative accounts that focus on different relationships can also bear explanatory leverage. These include, for instance, the electoral system-geographic distribution nexus as proposed by Rickard (2018), or variation in asset specificity, which relates to the ease with which factors of production can be moved across industries (e.g. Zahariadis, 2001, 2008).

which feed back into the political domain, starting the cycle anew.[6]

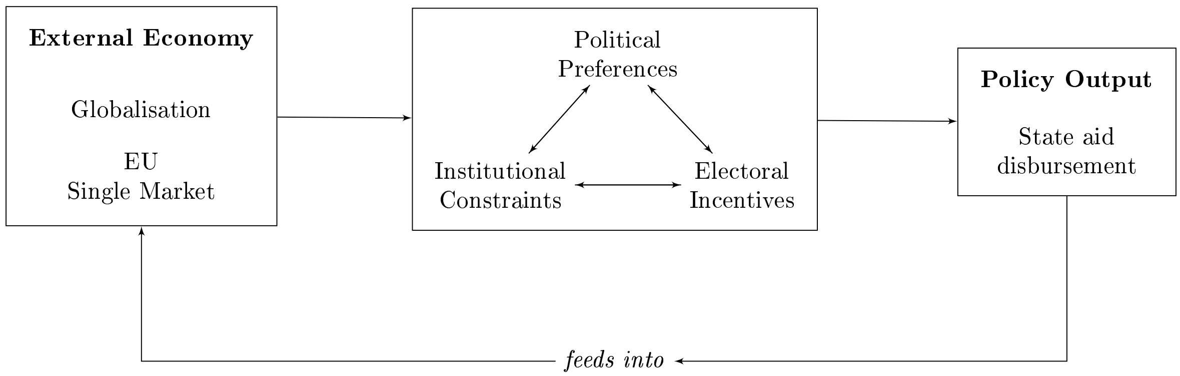

Figure 2.2.1: An account of distributive politics: state aid in the European Union

Similarly, in Figure 2.2.1, the winner(s) of the electoral competition want(s) to implement the preferred policies and may use state aid to achieve particular policy goals, as Hofmann (2016) suggests. If, for instance, the external economy creates particular economic outcomes that alter the allocation of resources, creating market failures, subsidies are a tool that governments can use to redress the situation. The government will act accordingly to its preferred policy positions (the 'political preferences' in the figure), but will be constrained both domestically (i.e. coalition partners and veto players) and internationally (e.g. state aid control) when enacting the preferred measures (the 'institutional constraints'). The degree to which the pursuit of these policy goals is able to reflect the interest of voters (particularly the median voter) determines the level of responsiveness of the government (Golden & Min, 2013).

Once we see whether policy is responsive to voters' preferences, we can ask how politicians benefit electorally from their distributional strategies. In face of government termination, strategic policy-makers will use electioneering, including subsidy spending, to ensure their political survival. Since the support of legislator is essential for the party or coalition of parties in power (Franchino & Mainenti, 2016: 414),[7] different electoral systems may be conducive to different distributional strategies (the 'electoral incentives'). In other words, governments may want to target those constituencies that maximise the governing party's electoral fortunes (Rickard, 2018). Finally, the eventual policy output (the level of subsidies) feeds back into the market by affecting the allocation of resources, thus creating new economic outcomes and demands.

[6]For the sake of correctness, although the authors stylise such a model whereby constitutional rules and policy outcomes are mediated by political outcomes, their research question is limited to the effect of constitutional rules on economic policy outcomes, without trying to discern any effect that runs through political outcomes such as party structure (Persson & Tabellini, 2003: 30).

[7]Excluding Cyprus, which is a presidential system, all countries in the EU have some sort of parliamentary (or quasi-parliamentary) system. Results do not vary with the inclusion or exclusion of Cyprus.

In the remainder of this chapter, based on the overview of the literature so far and the schematisation of the account of state aid politics in Figure 2.2.1 I develop four hypotheses that address the three claims made by Hofmann (2016). The first three hinge on the set of the literature that deals with the responsiveness (or lack thereof) of governments to voters' preferences, given domestic and international constraints. The fourth hypothesis is instead based on the literature on vote maximisation and explores politicians' accountability to voters and how they can use subsidies to retain power.

2.2.1 Responsiveness

Following Grossman and Helpman (2005a), I assume that political parties are differentiated by policy goals, which are presented in the electoral competition stage, and that they seek office to pursue their agendas. Parties offer a limited set of 'ideological packages' from which voters must choose in order to express their views in the political arena (Hall, 1986: 272). In the realm of economic policy, these 'packages' are different insofar as parties have different ideas about how the economy works. The literature identifies parties' preferences over their goals with partisanship. However, as Rickard (2018: 53-4) notes, not only do scholars not properly justify how partisanship would affect *particularistic* economic policies, but also since all governments face demands for subsidies, both left- and right-wing parties may be willing to engage in spending. To overcome this issue, first I focus on one particular policy goal, correction of market failures; and second, I understand these preferences to be about a government's willingness to disburse aid to address these failures, regardless of the broader partisan standing. This strategy brings two advantages. First, it allows to properly ask whether the subsidy is welfare-maximising, as suggested by Golden and Min (2013), and therefore whether the policy is responsive to voters' preferences. Secondly, in so doing responsiveness is independent of other general goals of the parties in government, and can be analytically distinguished in presence of the so-called 'overlap issues' (Chari & Cavatorta, 2002) – that is, when aid disbursement is conditional to other measures such as liberalisation or privatisation, which is rather common in the EU context.

Democratic responsiveness requires a positive association between public support for a policy and the likelihood of the policy being adopted (Gilens, 2012: 70). As Thomson et al. (2017) put it, 'if parties channel societal demands into government policies effectively, there should be a substantial level of congruence between the policy content of their election programmes or manifestos and subsequent government policies.' In this case, the policy goals, the intended recipients, and the actual recipients of public allocations should align, and the enacted policies can be said to be preferred by the median voter (Golden & Min, 2013: 74, 87). This suggests that, regardless of the electoral rules, during the electoral competition there exists a link between the committed ideological position of the parties (i.e. the alternatives they offer) and the median voter (Huber and Powell 1994; Kang and Powell 2010).

In a majoritarian system, a simple Downsian model of electoral competition suffices. In such a model, two political parties compete and 'formulate policy in order to win the election, rather than win elections in order to formulate policy' (Downs, 1957: 28). In their quest to gain the highest number of votes, electoral competition will lead to the expectation that the party closest to the median voter will receive a parliamentary majority (Kang & Powell, 2010). In a multi-party system things get more complicated. A variety of alternatives is offered so that all voters can find compatible parties. Parties, however, will converge towards the centre only if voters are located very close to it (Huber & Powell, 1994: 299). Multi-party systems seldom offer a clear winner in the electoral competition, meaning that coalition bargaining at the government formation stage becomes necessary, but also that coalitions will likely integrate the party closest to the median position (Blais & Bodet, 2006: 1245).[8]

Despite its simplistic assumptions and shortcomings,[9] the Downsian model of electoral competition forces us to consider cases when policies are 'patently at odds with the preferences of the median voter' (Golden & Min, 2013: 87). When the policy goal is to correct market failures due to the outcomes of the external economy, which induce redistribution in resource allocation, subsidies are a good indicator of government responsiveness and of whether they are welfare-maximising. Hence, the median voter theorem offers a 'natural benchmark' against which to assess policy distortion of allocative measures; and since the median voter's income is below average (Franzese, 2002; Meltzer & Richard, 1981), such policies should favour below-average incomes (Golden & Min, 2013: 90). If this is indeed the case, then the government would be said to be responsive – at least with regard to correction of market failures – and that subsidies are used to achieve policy goals that benefit not only narrow interests, but also broader sectors of the country.

H1: State aid is higher when the political preferences of a domestic government signal its willingness to undertake distributive measures.

The voters, however, recognise that while the campaign promises may influence the subsequent legislative deliberations, they do not fully bind the actions of the elected politicians (Grossman & Helpman, 2005b: 1240). Domestic and international institutions can affect a government's ability to undertake the preferred policies. Particularly in systems where coalition bargaining is a necessity and parties are forced to compromise, the policy sets that the parties presented before the election will ultimately not

[8] The position of the median voter, however, is not always guaranteed to be reflected in the government, especially when there is a high level of polarisation (Ferree et al., 2013: 814).

[9] Such shortcomings are that voters must behave rationally, and that the model does not work well on more than one policy dimension. See Mueller (2003: 23ff)

govern the voters (Hartmann, 2014: 47). The presence of multiple parties in coalition governments and of veto players whose agreement is necessary for the policy to be finalised, can dilute a government's partisan influence on public policy (Franzese, 2010; Hartmann, 2014; Tsebelis, 2002). For instance, in the presence of coalition governments, the partners 'must be able to overcome the inherent tension between their *collective* interest in mutual accommodation and their *individual* incentives to pursue their particular policy objectives' (Martin & Vanberg, 2011: 4, emphasis in original). Coalitions also create a 'common pool resource' problem in budgeting: the fact that parties in a coalition government can be held separately accountable provides 'reasons for each to push for spending on priorities that its constituents favour' (Martin & Vanberg, 2013: 953). The severity of these common-pool problems further increases the greater the effective number of policy-makers, as more voters must divide credit for delivering benefits (Franzese, 2010: 348).[10]

The presence of veto players, instead, constrains the leeway of governments to implement their desired policies due to the need to compromise with other actors (Hartmann, 2014: 78). The basic premise is that governments as agenda setters strive to implement their favoured policies, but that they need to deal with veto players, since they are by definition actors 'whose agreement is required for a change of the status quo' (Tsebelis, 2002: 17). All veto players generated by the constitution are considered to be institutional veto players, whereas partisan veto players are generated by the political game (i.e. coalition partners). While veto player theory does not make any predictions regarding the *levels* of policy output (but rather only the probability, pace and magnitude of policy *change*), it allows to test for the potential for policy gridlock (Franzese, 2010: 344). Theory suggests that, in the presence of many veto players, governments adjust less swiftly to economic shocks (Franzese, 2002: 268), which might indirectly affect the level of allocations that a government is able to carry out due to the reduced policy-making manoeuvrability. The veto player function is calculated looking at the number of veto players, their maximum ideological distance, and the coherence of individual veto players (Jahn, 2011; Tsebelis, 2002). A high number of ideologically distant veto players may prove detrimental to the success of a policy.

A final constraint to the responsiveness of governments is their responsibility towards international commitments (Rose, 2014). The effective control governments have in determining the fate of the political community is 'circumscribed by a wider context of interdependence' (Kassim & Lyons, 2013:

[10] Reading the other side of the coin, this means that there are fewer incentives to electioneer. I talk about effective rather than raw number of policy-makers because common-pool problems increase as the number of policy-makers increases, but diminish when some of these actors are more encompassing, as they can better internalise the costs (see also Bawn & Rosenbluth, 2006). Common pools are less problematic in a situation where three policy-makers represent 49%, 49% and 2% of the total, than in one in which each is 33%. In the first case, the third actor is less problematic because she will get less credit (blame), so the effective number of actors is 2, though she remains an important veto player.

16). In particular, the literature on Europeanisation shows how this process re-orients the political and economic dynamics of the EU so that they become part of the organisational logic of national politics and policy-making (Ladrech, 1994: 69). Decision-making at the EU level and its outcomes generate 'the economic, institutional, and ideational forces for change in member states' policies, practices, and politics' (Schmidt, 2002: 42). The basic idea, therefore, is that the room of manoeuvre for national governments declines the more a policy area becomes 'Europeanised'. Since subsidy spending in the EU falls within the area of competition policy, which is highly (though not completely) centralised at the supranational level, within DG COMP, government responsiveness may be strongly conditional upon the degree of institutionalisation of the policy. In state aid policy, the Commission 'hardened' its regulatory approach since the late 1990s, to the point it now affects both the total level of disbursement and which type of aid is allocated (Blauberger, 2009b; Cini, 2001).

While the literature (e.g. Franchino & Mainenti, 2013; Neven, 1994; Obinger & Zohlnhöfer, 2007; Rickard, 2012a, 2012b) has included all these variables as control when testing for partisan or electoral effects, Hartmann (2014) contends that they condition the *content* of the policy.[11] This prediction, however, has not been tested for the policy *output.* Thus, I would expect these mediating variables to negatively conditions the effect of the political preferences on aid allocation – or in other words, that the effect of the political preferences on state aid would be less impactful.[12]

H2a: The political preferences of a domestic government on distributive measures are less impactful the greater the number of effective partners in government. This leads to lower state aid.

H2b: The political preferences of a domestic government on distributive measures are less impactful the more numerous and ideologically distant partisan and institutional veto players are. This leads to lower state aid.

H3: The political preferences of a domestic government on distributive measures are less impactful the more the policy area is Europeanised. This leads to lower state aid.

2.2.2 Accountability

After considering whether policy is responsive to voters' preferences, the account must turn to the question of how politicians benefit electorally from their distributional strategies (Golden & Min, 2013:

[11] Hartmann (2014) only tests this assertion for *domestic* factors (coalition governments and veto players).

[12] Hypotheses based on interactive effects are symmetrical by nature (Berry et al., 2012). Although the present account does not make any prediction regarding the effect of domestic and international institutions on aid allocation as the political preferences of the government change, these are nonetheless tested for and discussed. This should hopefully improve our understanding of the politics of state aid by providing an even fuller picture.

96). In a democratic system, citizens can hold governments accountable for the country's economic performance. Facing government termination, incumbents will use all available policies to obtain their desired electioneering surges (Franzese, 2002: 260). The incentives and capacity for electioneering should vary depending on a country's electoral rules. Different electoral institutions, such as district magnitude, which determines the number of legislators acquiring a seat in a voting district (Persson & Tabellini, 2003: 16), create different incentives for politicians to allocate resources. Larger voting districts diffuse electoral competition, and induce candidates to seek support from broad coalitions in the population, whereas smaller districts can steer electoral competition towards narrower, geographical constituencies (Persson, 2002: 887). This is because lower district magnitudes imply fewer votes-to-seats translations, and therefore a more direct tie of the incumbent's identity to the territorial base (Lancaster, 1986). Smaller districts provide politicians with more incentives to enact distributive measures, since they also foster greater accountability – it is easier to understand who is responsible for what compared to larger multi-member districts, where multiple candidates (possibly from different parties) are elected (Persson & Tabellini, 2000, 2003).

As Carey and Shugart (1995) argue, however, district magnitude is only one of several electoral rules. Other key features include the extent to which electoral systems 'create incentives for legislators to cast personal votes' (Edwards & Thames, 2007: 340), which also better serve parochial interests. If such incentives exist, the system is candidate-centred, and incumbents pander to their own constituents; if they do not, the system is party-centred, and candidates curry favours with party leadership in order to obtain a higher place on the party's list (Rickard, 2018: 124). As was mentioned in the literature review, when intra-party competition exists, as is the case in PR systems, high district magnitude encourages candidates to appeal to narrow groups (Carey & Hix, 2013), whereas such incentives should not exist in single-member districts, where there already exists a protectionist bias.

Therefore, in those countries where the electoral system pushes candidates to cultivate a personal vote, the government, whose survival depends on the support of legislators whose incentives may not be aligned with the collective vote of the governing party, may be forced to cater to narrow and geographically targeted interests (Franchino & Mainenti, 2016: 414). For instance, analysing subsidies to the French wine sector, Rickard (2018) finds that individual legislators from a few constituencies were able to successfully lobby the government to support winemakers in their regions, as the French electoral system was conducive to the cultivation of a legislator's personal reputation, thus catering government goods to narrow geographical interests. Likewise, Golden and Picci (2008) show how the open-list system in post-war Italy (1953-1994) allowed legislators to channel infrastructure investment to the preferred constituencies.

The literature has found wide support for the importance of cultivating a personal reputation in affecting economic policy outcomes (e.g. Crisp et al., 2010; Edwards & Thames, 2007; Franchino & Mainenti, 2013; Hallerberg & Marier, 2004; Park & Jensen, 2007; Rickard, 2018), yet few combine its effects with those of other electoral institutions, namely district magnitude (Edwards & Thames, 2007; Franchino & Mainenti, 2013).[13] When the system is candidate-centred, voters elect directly the person (re-)running for office, and a high degree of accountability between the incumbent and her constituency exists. Incentives to cultivate a personal reputation, therefore, are all the more important when the incumbent needs to distinguish herself from other candidates (Carey & Shugart, 1995: 430). Hence, the more candidates there are (i.e. the higher the district magnitude), the more it becomes important to cultivate a personal reputation. Likewise, incumbents will be more motivated to cultivate a personal reputation when the system shifts from party- to candidate-centred. The effect will be more pronounced for higher levels of district magnitude, as intra-party competition becomes more intense. The impact of district magnitude on aid allocation should therefore be conditioned by incentives to cultivate personal votes, and vice-versa.

H4: State aid is positively related to incentives to cultivate personal votes as district magnitude increases, but negatively when district magnitude decreases. Likewise, state aid is positively related to increases in district magnitude when the electoral system is candidate-centred, but negatively when the electoral system is party-centred.

Chapters 3 and 4 test these hypotheses respectively at the national level, using aggregated data on state aid, and at the sectoral level, using data from the MVI only. As will be shown particularly in Chapter 4, there exist subtle differences in the interpretation of the first hypothesis on a government's willingness to engage in distributive measure. In fact, looking at a sector such as automotive entails that aid to the industry strongly deviates from the median voter's preferences. Hence, the variable here will not capture responsiveness to voters, but rather the alignment of the government preferences with those of the specific industry.

[13] Edwards and Thames (2007) do not test for particularistic policies, but rather for general expenditures. Franchino and Mainenti (2013), instead, aim to put to test the prediction by Carey and Shugart (1995) by looking at the different effects that the components of their personal vote index have on distributive spending.

Chapter 3

Testing state aid politics: a macro-comparative analysis

3.1 Introduction

So far the thesis has laid down the theoretical foundations for a more comprehensive account of state aid politics.[1] It explored the literature to find that existing works do not properly account for the existence of the two mechanisms of responsiveness and accountability, with scholars focusing either on one or the other. To fill this gap, Chapter 2 developed a series of hypotheses based on possible incentives politicians may have to allocate subsidies, as suggested by Hofmann (2016). It then contextualised these goals within the literature of distributive politics to understand how each relates to the ideas of responsiveness and accountability, based on the work by Golden and Min (2013).

This chapter provides a first test of the hypotheses developed in Chapter 2. It is organised as follows. Section 2 operationalises the variables and presents the statistical model to be used for testing. Section 3 presents the findings from the model, as well as interaction plots of significant correlations. Section 4 includes a series of robustness checks, whereas Section 5 concludes by summarising the chapter and suggesting the way forward.

[1]This chapter is based on Schito (2020a).

3.2 Operationalisation and statistical model

The hypotheses developed in Chapter 2 are tested by means of time-series-cross-section (TSCS) regression analysis. The dataset includes 27 EU Member States from 1992 (or date of accession) to 2011, for a total of 381 observations. The dependent variable is state aid to industry and services, operationalised as a percentage of the country's GDP to take into account the different economic size of the member states. I use official data from the Commission Scoreboard, which includes all 'aid measures to manufacturing industries, services... agriculture, fisheries and transport for which the Commission adopted a formal decision or received an information fiche from the member states' (European Commission, 2018).[2]

Compared to other measures of subsidy spending, such as those of the International Monetary Fund (IMF, which uses the NAS), WTO or the OECD, the Scoreboard offers three advantages.[3] First, it provides the most encompassing definition, covering multiple kinds of transactions in all economic sectors, whereas the IMF and OECD definitions only cover manufacturing. Secondly, since transfers from the Community budget are excluded in the Scoreboard (unlike in the WTO), issues of endogeneity are avoided. Finally, the EU, compared to other jurisdictions, has a very strict supranational state aid control, managed by DG Competition, which should lower the expectations regarding the influence of domestic factors in subsidisation. As a result, finding evidence of the validity of the politics of state aid adds theoretical weight to the argument (e.g. Zahariadis, 2010b: 437).

There are two downsides to using the Scoreboard.[4] First, the data are narrow in geographical scope, which poses limits in terms of generalisability of the findings. Second, since the Scoreboard only includes aid that has been approved by the Commission, the effective allocative values may be higher than what the Scoreboard data suggest, though there exists no clear indication as to the amount of aid that may not have been notified. For this reason, I include a robustness check with a different operationalisation of the dependent variable, using OECD data from the REST (Retreat of the State from Entrepreneurial Activities) database, which does not rely on notification to the Commission.[5]

Policy preferences and domestic institutions

[2] The data are not inclusive of what the Commission calls 'crisis aid', such as aid provided under the Temporary Framework following the 2008 crisis. This aid is excluded for two reasons: first, it is often orders of magnitude higher than non-crisis aid. For instance, Ireland's banking sector received aid amounting to over 30% of the country's GDP (Chari & Bernhagen, 2011). Secondly, it follows a different logic, which is dictated more by urgency and economic trends than by political incentives.

[3] See Chapter 1 and Buigues and Sekkat (2011) for issues on international comparisons of subsidies.

[4] Since the State Aid Modernisation (SAM) of 2012, there have been changes in methodology for the Scoreboard (Hölscher et al., 2017: 787; see also European Commission, 2014a for an example of new types of environmental aid). However, the sample only goes up to 2011, making this a non-issue.

[5] See `http://www.rest.uni-bremen.de/`. However, there are downsides to using this measure, too: only Western European countries (excluding Luxembourg) are part of the sample; and only manufacturing subsidies are counted.

Policy preference is understood as being a government's willingness to undertake distributive measures to address market failures. Following Hofmann (2016), these are the policy goals that governments pursue when attempting to induce certain behaviours on undertakings in order to steer the economy. These policy goals can be extracted by looking at data from estimated party positions during electoral competition. This choice echoes Persson and Tabellini (2003: 17), whereby economic policy outcomes are determined by the parties' commitment to their platform, which in turn should reflect voters' preferences. Data are taken from the Comparative Manifesto Project (CMP, Volkens et al., 2017), which analyses parties' election manifestos in order to study their policy preferences. The indicator used here is `per402`, on 'positive attitude to incentives'.[6] This variable is operationalised as an average government position weighted by the number of cabinet seats each party has, and by the number of months in office of the government for each year.[7] Higher values suggest more willingness by the government to engage in distributive measures.

I follow Franzese (2010) and Hartmann (2014) in operationalising domestic institutions. *Coalition* shows the effective number of parties in the government, which reflects the common-pool problem coalitions face.[8] Following Jahn (2011), *Veto players* measures the ideological range between relevant political actors on the Left-Right spectrum. Veto players are coalition governments, second chambers, and Presidents. It is calculated by looking at which of the three actors are relevant, and what the position on the spectrum is (most extreme positions for coalition partners, and median position for second chambers). For instance, in the UK in 2002, the only relevant veto player would be a coalition partner (no President, and upper house not relevant); however since the Labour governed alone, the score is 0, meaning there were no veto players necessary for the policy to be adopted. In the same year, in Portugal, where the President is a relevant policy-maker, but the system is unicameral, there was a coalition government, hence there are only two relevant actors. The range of veto player is found

[6] To be sure, this policy position is not confined to addressing market failures: '[N]eed for wage and tax policies to induce enterprise; encouragement to start enterprises; need for financial and other incentives such as subsidies.'

[7] Independents were scored as 0. This also reflects the idea exposed by Franzese (2010: 350-2) that the resulting policy from a set of policy-makers with different preferences will be a convex combination, or weighted average, thereof. Some may argue that portfolio allocation in coalition governments may be important in this respect. Common sense suggests that the preferences of the Minister of Industry in matters of state aid must weigh more than those of the Minister of Education, if the two belong to different parties. However, I do not differentiate portfolio allocations for two reasons. First is analytical simplicity. In many cases, subsidies reflect the overall government strategy rather than the individual ministries', and distinguishing portfolio allocations would needlessly complicate the model. Secondly, empirical evidence found that correlation between portfolio preferences and cabinet posts is rather weak and that the theoretical assumptions about the importance of portfolio allocation on policy output are not convincing (for a review, see Hartmann 2014: 94-9).

[8] The formula for effective number of parties (ENP) in government is calculated following Laakso and Taagepera (1979): $\text{ENP} = \frac{1}{\sum_{i=1}^{n} p_i^2}$ where n is the number of parties with at least one seat and p_i^2 is the square of each party's proportion of all seats. Thus, if there are three parties with 50%, 40%, and 10% of the seats in the cabinet, the resulting ENP is $\frac{1}{0.5^2 + 0.4^2 + 0.1^2} = 2.38$, which is then approximated to 2.

by calculating the difference between their most extreme positions on the Left-Right spectrum.[9]

Europeanisation

The impact of the EU on national policies is captured by the *Regulation* variable. Following Zahariadis (2010a), this is a count variable that measures the number of years since Council Regulation 659/1999/EC has been in force. This indicator measures an increase in Commission discretion owing to the Regulation, thus suggesting that the measure has long-term effects (the longer in force, the stronger the discretion, see Zahariadis, 2010a: 962).[10] This regulation was the first to codify the state aid procedures and, according to Micheau (2016: 28), it marked 'a turning point in the introduction of hard law in the state aid area.' Following the Regulation, average state aid levels in the EU noticeably fell and stabilised around 0.56% of the member states' GDP(see Figure 1.2.1).

Electoral institutions

I use a measure of average *District Magnitude* for the lowest tier, which is the district or constituency level. In line with theory, it should better capture the accountability link between incumbent(s) and voters. It ranges from 1 to 150, and it is therefore logged to minimise the impact of outliers. The *Personal Vote* index echoes that developed by Carey and Shugart (1995), made of three indicators, each taking the values of 0, 1 or 2: ballot (whether party leaders control ballots and ranks); pool (whether votes are pooled across the whole party); and vote (whether votes are cast for a single party). The personal vote index is an average score of these three indicators, following Edwards and Thames (2007). The higher the average score, the more candidate-centred the system. A drawback of this operationalisation is that it is impossible to distinguish the individual effect of ballot (which should have a reversing effect on district magnitude) from pool and vote (which should not). Nevertheless, as Franchino and Mainenti (2013: 509) note, the three have a tendency to go hand in hand, so what matters to the purposes of hypothesis-testing is not so much the value of each, but how much the system is party- or candidate-centred.[11]

[9] More specifically, in 2002, in Portugal, a semi-Presidential unicameral system, there was a coalition government. Thus, there are two relevant actors: the President and the coalition partner. However, since the absorption rule states that any veto player situated within the unanimity core of any set of veto players has no effect on policy stability (Tsebelis 2002), then the range must be calculated by measuring the most extreme positions of two of the three actors (the President and the two most extreme coalition partners) on the Left-Right spectrum. Here, the ideological position of one of the coalition partners (2.53) falls between the most extreme values given by the President (1.73) and the other extreme coalition partner (3.38). Hence, the ideological range is calculated by subtracting the position of the President from that of the more extreme coalition partners. For more information about this operationalisation, see Jahn (2011) and Jahn et al. (2017).

[10] Likewise, an increase of Commission discretion over time can also be interpreted as the result of the subsequent amendments and rules that further constrained the ability of the member states to engage in subsidy spending, such as the State Aid Action Plan (SAAP) of 2005, which introduced an economic approach to state aid control, and the already mentioned SAM (Micheau, 2016: 31).

[11] Franchino and Mainenti (2013) find evidence that when the three of them are low, governments have *fewer* incentives to engage in particularistic spending, but not the contrary.

Control variables

Since state aid has effects on competition and trade in the Single Market and uses public resources, and since subsidisation might be a by-product of the the outcomes of the external economy, I control for socio-economic factors: *Real economic growth*, *Debt/GDP*, *Unemployment,* and *Trade* and *Financial globalisation*.[12] I also control for the *Timing of Election*, following Franzese (2002),[13] since it might affect electoral incentives to disburse aid, as suggested by the Political Business Cycle (PBC) theory (Nordhaus, 1975). The literature, however, is sceptical about the validity of the PBC on distributive measures, and has found little evidence in its support (see Aydin, 2007; Franchino & Mainenti, 2013; Neven, 1994; Zahariadis, 1997). Finally, international agreements, in particular membership to *EMU* (Economic Monetary Union) may put further constraints on the ability of countries to engage in distributive measures due to the Maastricht criteria, meaning it might be an ideal indicator to capture a government's responsibility towards important international commitments. Table 3.2.1 shows the descriptive statistics for the variables. Because of the budgetary nature of state aid, political and socio-economic variables are lagged by one year.

Table 3.2.1: Descriptive statistics of the determinants of state aid allocations

	Mean	**St. Dev.**	**Min.**	**Max.**	**N**	**Source**	**Description**
State Aid	0.56	0.47	0.03	3.34	381	State aid Scoreboard	Aid to industry and services as %GDP (log-transformed)
Economic Policy	2.81	1.89	0	14.74	381	Volkens et al. (2017); own calculations	Government attitudes towards incentives (positive)
Coalition	2.26	1.24	0	7	381	Various EJPR Political Data Yearbooks; own calculations	Effective number of parties in a government
Veto Players	6.20	6.02	0	30.46	381	Jahn et al. (2017)	Number and ideological distance of veto players on the Left-Right spectrum
Regulation	5.19	4.29	0	12	381		Number of years after Council Regulation 659/1999 entered into force
District Magnitude	17.98	37.61	1	150	381	Golder (2018)	Average district magnitude at the lowest tier (log-transformed)
Personal Vote	0.78	0.42	0	1.67	381	Johnson and Wallack (2012)	Average score of ballot, pool and vote, following Carey and Shugart (1995)
Real economic growth	2.57	3.50	-14.81	11.89	381	World Bank (2018)	Annual percentage growth rate of GDP at market prices based on constant local currency
Trade globalisation	60.97	17.44	22.16	89.78	381	Gygli et al. (2018)	Sum of exports and imports of goods and services as a share of GDP and trade partner diversification in goods trade
Financial globalisation	78.95	14.45	33.38	99.99	381	Gygli et al. (2018)	Capital flows and stocks of foreign assets and liabilities
Debt/GDP	63.11	32.22	4.64	158.36	381	Armingeon et al. (2016)	Gross general government debt (financial liabilities) as a percentage of GDP
Timing of election	.39	.44	0	1	381	Franchino and Mainenti (2013, 2016)	Year is a pre-election year
EMU	.42	.49	0	1	381		Member State is part of Economic and Monetary Union
Unemployment	8.19	3.63	1.9	22	381	Armingeon et al. (2016)	Unemployment rate, percentage of civilian labour force

[12] I distinguish between trade and financial globalisation for the possibility of foreign direct or portfolio investment to affect aid disbursement (see Zahariadis, 2008, 2010b).

[13] Timing = $\frac{M+(D/30)}{12}$, where M=pre-election months and D=pre-election days.

The resulting statistical model is

$$\mathrm{Y}_{i,t} = \beta_0 + \beta_1 \textit{Economic Policy}_{i,t-1} + \beta_2 \textit{Coalition}_{i,t-1} + \beta_3 \textit{Veto Players}_{i,t-1} + \beta_4 \textit{(Economic Policy} \times \textit{Coalition)}_{i,t-1} + \beta_5 \textit{(Economic Policy} \times \textit{ Veto Players)}_{i,t-1} + \beta_6 \textit{Regulation}_{i,t-1} + \beta_7 \textit{(Regulation} \times \textit{Economic Policy)}_{i,t-1} + \beta_8 \textit{ District Magnitude}_{i,t} + \beta_9 \textit{Personal Vote}_{i,t} + \beta_{10} \textit{(District Magnitude} \times \textit{Personal Vote)}_{i,t} + \boldsymbol{\beta} \mathbf{X}_{i,t-1} + \varepsilon_{i,t}$$

where $\mathbf{X}_{i,t-1}$ is the control variables and $\varepsilon_{i,t}$ the error term. Following King and Roberts (2015), the dependent variable is log-transformed because of its high skewness.[14] While this transformation generates a normal distribution curve of the dependent variable, diagnostics of the OLS model still show presence of heteroscedasticity and autocorrelation. I employ a Prais-Winsten transformation to model autocorrelation and panel-corrected standard errors (PCSE), as per Beck and Katz (1995), which perform well when the number of years and panels are similar. Further diagnostics reveal that a country-fixed effect model may be preferred over a random effect model due to the potentially high heterogeneity between 27 different political systems, which also raises the bar for confirming the theory (Wilson & Butler, 2007: 106).

3.2.1 Empirical analysis

Table 3.2.2 presents the results of five regression models.[15] The first three only include the responsiveness side of the account. They ask whether allocations reflect voters' preferences (H1) and whether these are conditional upon domestic and international constraints (H2a, H2b and H3). The fourth model presents the accountability side by analysing how different electoral institutions can provide varying incentives for policy-makers to use subsidies in an electorally pragmatic way (H4). The last model joins both sides to provide a more complete account of state aid politics.[16] All models include a set of controls as discussed above. The first hypothesis, on the responsiveness of the government to voters' preferences (H1), is tested separately because it does not assume higher-order coefficients.[17] Likewise, H2a and H2b, on the effect of coalition partners and veto players respectively, are tested

[14] A generalised linear model with gamma distribution and the log link and a Poisson model, both with a non-transformed dependent variable and clustered standard errors, bear largely similar results (not reported here).

[15] The average Variation Inflation Factor (VIF) used to check multicollinearity is 8.67 across the five models. This is driven mostly by two elements: the contemporaneous presence of indices of trade and financial globalisation, which tend to go hand in hand; and interaction terms, particularly those concerning electoral institutions. Nevertheless, the inclusion of all these elements remains theoretically justified.

[16] Results hold in the full model if one control at a time is introduced, with few minor differences: H3's p $\approx$ 0.11, and *Timing of elections*, *Debt/GDP*, and *Unemployment* become significant.

[17] When both lower- and higher-order coefficients are included, the statistical interpretation of the lower-order one(s) becomes meaningless (Braumoeller, 2004).

individually to assess the validity of common-pool problems for collective action against veto player theory, whereas H4 is tested without including variables associated with responsiveness.

Table 3.2.2: OLS regression for state aid in the EU27 (1992-2011)

	(1) H1	(2) H2a	(3) H2b	(4) H4	(5) Full Model
Economic Policy	-0.027	0.053	0.031		0.099**
	(0.018)	(0.037)	(0.031)		(0.046)
Coalition	-0.040†	0.000			0.010
	(0.025)	(0.040)			(0.039)
Veto Players	-0.007		-0.004		-0.002
	(0.005)		(0.007)		(0.008)
Economic Policy x Coalition		-0.023			-0.026*
		(0.015)			(0.014)
Economic Policy x Veto Players			-0.002		-0.004
			(0.002)		(0.002)
Regulation	0.013	0.041**	0.038**		0.044**
	(0.011)	(0.017)	(0.016)		(0.019)
Economic Policy x Regulation		-0.007*	-0.007*		-0.008*
		(0.004)	(0.004)		(0.004)
log(District Magnitude)				-0.413***	-0.429***
				(0.143)	(0.150)
Personal Vote				-0.686**	-0.738**
				(0.297)	(0.303)
log(District Magnitude) x Personal Vote				0.588***	0.507***
				(0.169)	(0.180)
Real Economic Growth	-0.007	-0.009†	-0.008	-0.011*	-0.008
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Trade Globalisation	0.003	0.002	0.001	0.007	0.003
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Financial Globalisation	-0.005	-0.006	-0.007	-0.001	-0.005
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Timing of Election	0.002	-0.000	-0.002	-0.002	-0.005
	(0.036)	(0.036)	(0.037)	(0.037)	(0.036)
EMU	-0.285***	-0.277***	-0.287***	-0.295***	-0.345***
	(0.078)	(0.076)	(0.077)	(0.080)	(0.081)
Debt/GDP	-0.001	-0.002	-0.002	-0.001	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Unemployment	-0.004	-0.007	-0.006	-0.008	-0.008
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Constant	-0.317	-0.342	-0.227	-0.521	0.100
	(0.435)	(0.448)	(0.443)	(0.415)	(0.536)
Observations	380	380	381	381	380
R-squared	0.599	0.603	0.607	0.609	0.635
Country-fixed effects	✓	✓	✓	✓	✓
Wald χ^2	43202***	14122***	39710***	43118***	6584***
ρ	0.439	0.443	0.430	0.424	0.412

Note: Prais-Winsten regressions with PCSE and pairwise selection; PCSE in parentheses;
*** $p<0.01$, ** $p<0.05$, * $p<0.1$, † $p\approx0.11$.

The table shows that the full model provides the most promising results, suggesting that an account of state aid politics should indeed look at both sides of the coin: responsiveness and accountability. The first model finds no evidence for the responsiveness hypothesis, though the presence of a higher number of effective parties in a coalition government seems to point to the existence of common resource pool problems by negatively affecting aid allocations. While Grossman and Helpman (1996) might suggest that the lack of responsiveness may be due to capture by special interest groups, no such claim can be inferred from this analysis. Another possibility is that polarisation leads to a government composition that does not reflect the median voter (see Powell, 2009), which also highlights the limitation of the median voter theorem.[18]

Further, while H2a, on the conditional effect of coalition partners on policy preferences, gives weight to the common-pool problem coalitions face (at least in the full model),[19] which impinge not only on the partisan strength of the content of the policies as Hartmann (2014) suggests, but also on their output, less support is found for H2b, veto player theory ($p \approx 0.13$). In other words, the element that matters most is not so much the possibility of deadlock, but the necessity to compromise given limited resources. A higher number of effective coalition partners leads to a decline in the marginal effect of the preferred economic policy on subsidisation by approximately 2.6% for each additional coalition partner. The interactive effect can also be understood as a reduction by 2.6% of the marginal effect of the effective number of parties for each one-unit switch towards more positive attitudes for incentives. As the government becomes more in favour of economic incentives such as subsidies, the impact of a higher number of effective coalition partners decreases, suggesting that common pool problems are more severe when parties are unwilling to engage in distributive measures. This may happen, for instance, in times of fiscal retrenchment, where common pool problems may become more severe, as it is unlikely that the government will want to be profligate when there are scarce resources available.

In terms of international constraints, H3 tests the conditional effect of the impact of Europeanisation on a government's willingness to engage in distributive measures. For each year since the Council Regulation 659/1999 came into force, the marginal effect of the government's policy goal in tackling market failures decreases by approximately 0.8%. The effect is rather small and the hypothesis has little generalisability beyond the EU setting, but its general premise, that international commitments can change the behaviour of responsive governments, holds. This can also be seen in the strong impact

[18] Appendix A to Chapter 3 at the end of the thesis discusses issues of congruence between Manifesto data and public opinion, using the ISSP surveys on the role of government.

[19] In the second model, $p \approx 0.12$.

of the control variable EMU: having to comply with the Maastricht criteria on debt and deficit control reduces state aid allocation by almost 35% in the full model. Governments may be far less willing (or capable) to disburse aid knowing that they face strict limits on their deficit spending and on how much debt they may accumulate. The other side of the hypothesis would be that the marginal effect of state aid control on subsidy spending is lower as the government is more determined to engage in distributive measures. This seems to reflect Zahariadis's (2013: 148) power politics argument that 'aid allocations depend on a government's desire to give aid and its ability to get it past the Commission.'

Strong substantive correlation in H4, on the effect of electoral institutions, gives much weight to the accountability side of the coin. When district magnitude increases, the marginal effect of casting personal votes on aid allocation becomes positive, as there are more *incentives* for the incumbent to distinguish herself from competitors and therefore engage in particularistic spending. Likewise, politicians in bigger district will disburse more aid as the system shifts from party- to candidate-centred, as there is a *need* for the incumbent to distinguish herself from competitors. This effect also seems to be strong: in the full model, the presence of incentives to cultivate a personal vote (higher district magnitude) leads to an increase in the marginal effect of district magnitude (personal reputation) on aid allocation by 51%. The finding is in line with the literature (Edwards & Thames, 2007; Franchino & Mainenti, 2013) and provides strong evidence that aid allocation may be driven by electoral pragmatism.

However, no evidence is found regarding the existence of a PBC: politicians do not necessarily engage in subsidy spending to show commitment to their constituency in order to obtain pre-electoral surges.[20] Finally, socio-economic factors do not seem to be particularly relevant, with the partial exception of economic growth in models 2 and 4, which suggests that subsidies may be warranted in the presence of economic shocks, which is in line with the compensation hypothesis of the globalisation literature.

In sum, the findings show that, in a highly interdependent economic environment, institutions matter, as they 'refract the effects of world markets and may insulate governments from constituent demands for more public aid' (Zahariadis, 2013: 149). At the same time, governments seem to value electoral pragmatism and EU rules more than the attainment of policy goals when choosing how to allocate aid. State aid may indeed be a story of pork-barrel politics rather than welfare maximisation. Like many other distributive policies, resources are allocated to specific, specialised and concentrated interests tied to a constituency, though questions remain to what degree politicians are responsive to special interests more than the median voter specifically. Further, there is no way of knowing from Table 3.2.2

[20] On the one hand, this could be a limitation of the data, which only includes aid allowed by the Commission. On the other hand, Table 3.B5, which uses OECD subisidies as the response variable, confirms this non-finding.

how the multiplicative terms interact. For this reason, following Brambor et al. (2006) and Berry et al. (2012), I also provide interaction plots that show how the marginal effects change, presented in Figures 3.2.1, 3.2.2 and 3.2.3. The thin solid horizontal thin line represents the zero-line; the bold solid line is the marginal effect of the variable on the Y-axis on aid allocations; the dashed lines are the confidence intervals; and the grey histogram in the background is the distribution of the variables represented on the X-axis.

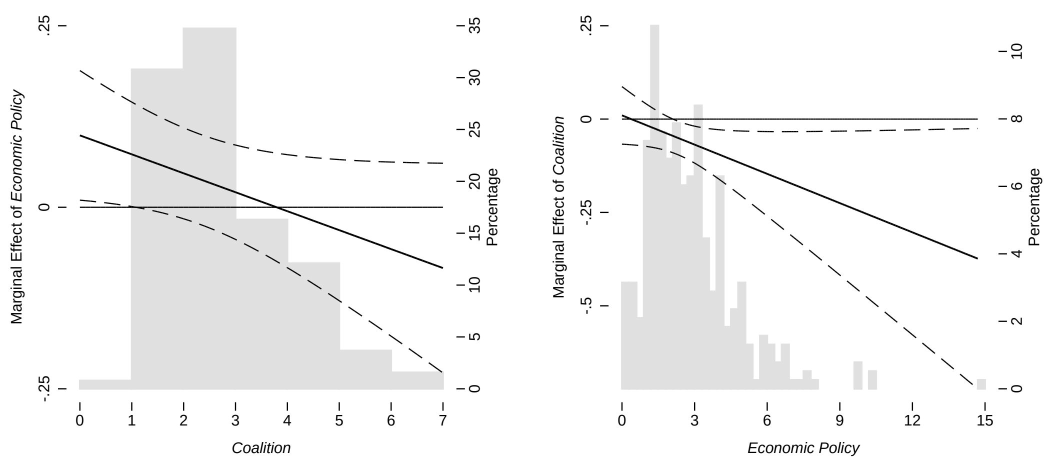

Figure 3.2.1: Marginal effect plots for H2a variables on state aid allocation

Figure 3.2.1 shows that the marginal effect of *Economic Policy* and *Coalition* on aid allocation. The leftmost plot shows a positive marginal effect of *Economic Policy* for all values of *Coalition* until 3.8 (roughly four effective coalition partners), after which the effect becomes negative. However, the effect is significantly different from zero only for values of *Coalition* up to 1, which represent technical and single-party governments.[21] This suggests, in line with theory, that single-party governments can better reflect the median voter preferences as there is no need for compromise with coalition partners.

[21] The lower confidence interval crosses the zero line exactly for values of *Coalition* equalling 1. Even excluding technical governments in the regression analysis, the situation does not change.

A different situation arises in the rightmost plot. Here, for the minimum value of *Economic Policy*, *Coalition* is positive but not significantly different from zero. As the government becomes more willing to engage in distributive measures, the effect of *Coalition* decreases and becomes significant for values of *Economic Policy* bigger than 2.2, which makes up roughly 56% of the observations. Hence, common resource pool problems seem to be less serious when there is more willingness on the part of the government as a whole to enact distributive policies.[22]

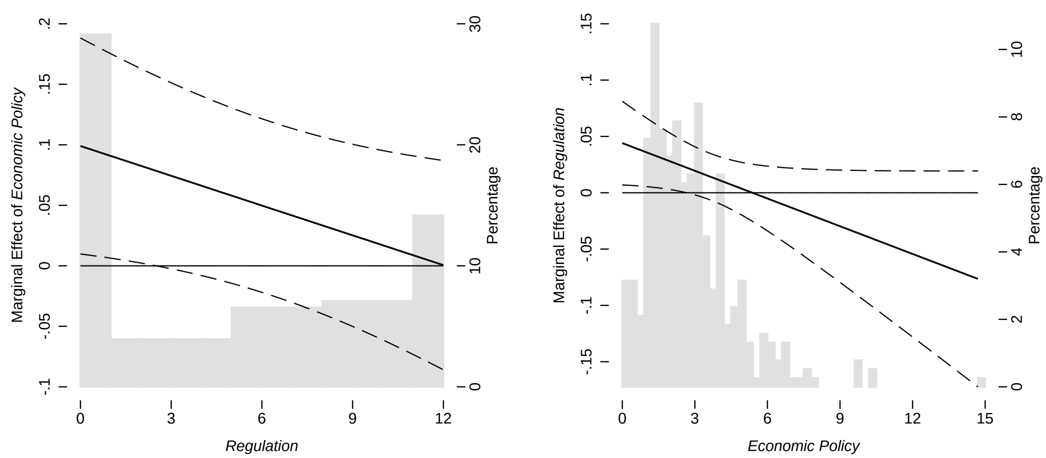

Figure 3.2.2: Marginal effect plots for H3 variables on state aid allocation

Figure 3.2.2 shows the interactions between *Economic Policy* and *Regulation*. In the leftmost plot, the marginal effect of *Economic Policy* is always positive, though significantly different from zero only for the years where the Regulation is either absent (the 1990s) or still fairly new, for a total of 37% of the observations. The downward slope suggests that the marginal effect of *Economic Policy* is strongest when there is a low level of regulation, suggesting that state aid control does have a negative

[22]This could also be an effect of the distribution of the variable within the sample, which explains the large confidence intervals.

effect on the policy goals of governments.[23] The majority of the observations, however, fall within a non-significant confidence interval, which impinges on the strength of the results as presented in the regression table.

A similar situation obtains in the rightmost plot. The marginal effect of the Regulation on aid allocation is positive and statistically significant for values of *Economic Policy* lower than 3 (roughly 60% of the observations). As these values increase, the Regulation will negatively impact aid disbursement. The marginal effect of *Regulation*, then, is strongest for lower values of *Economic Policy.* The figure provides a more ambiguous picture than is suggested by the regression table. While a government's responsiveness seems to be stronger in the absence of such international constraints, the marginal effect of the Regulation on aid allocation as a government's willingness to engage in distributive measures increases is not completely in line with a power politics argument as suggested above (Zahariadis, 2013). Thus, the conditional effect of international commitments remains ambiguous, and inferences based on this interaction term should be made cautiously.

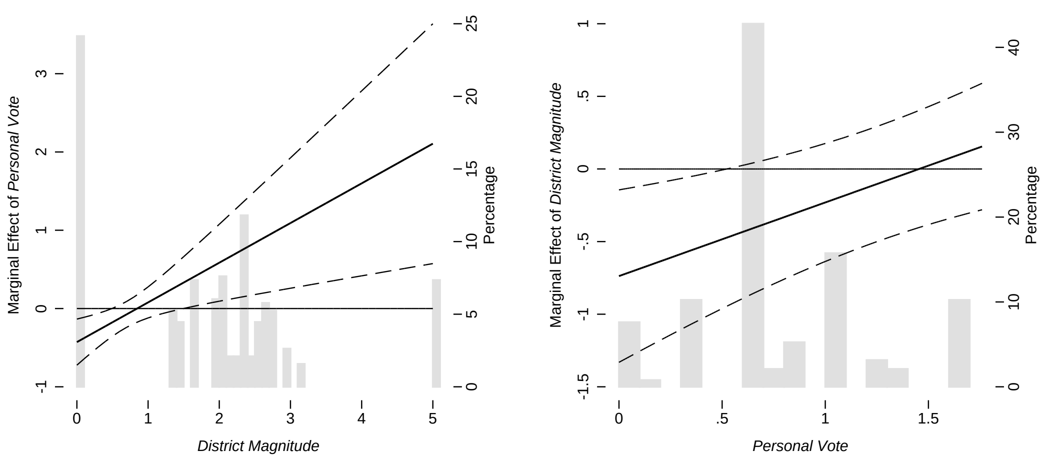

Figure 3.2.3: Marginal effect plots for H4 variables on state aid allocation

[23]The zero-line is reached for values of *Regulation* = 12.38, which is just outside the maximum value the variable can assume.

Finally, Figure 3.2.3 shows the marginal effects of *Personal vote* when *District Magnitude* changes and vice-versa. In particular, the leftmost plot shows that, as districts become bigger, if there are incentives to cultivate a personal reputation, this effect leads to more spending in state aid. The effect becomes positive only for multi-member districts, as single-member districts, stacked on the value of 0, are by definition candidate-centred, and the effect is therefore negative. The marginal effect is also significantly different from zero for all values that *District Magnitude* can assume, providing strong support to the second half of H4.

Likewise, the rightmost plot shows that when systems shift from party- to candidate-centred, for higher levels of district magnitude, state aid is likely to be higher as politicians will have to distinguish themselves from other candidates and have more incentives to lobby the central government for particularistic transfers. The effect, however, is only statistically significant for low values of *Personal Vote*, roughly 23% of the observations. For high values of *Personal Vote*, the marginal effect of *District Magnitude* cannot likely be differentiated from zero. Hence, we can have higher confidence that in party-centred system the marginal effect of *District Magnitude* will be negative (as incumbents will curry favour to the party leadership rather than the constituents) than we could in the positive marginal effect of *District Magnitude* for candidate-centred systems. In sum, although the regression table shows significant effects in the interaction terms, the plots reveal a more ambiguous account than theory suggests.

3.3 Robustness checks

To make sure that the results are not driven by model specification, I run a series of robustness checks. The dynamics of TSCS models depend on the assumptions made about the speed of adjustment, i.e. the effects of the independent variables in the long term. If they are theoretically relevant, the inclusion of a lagged dependent variable (LDV) could prove useful (Beck & Katz, 2011).[24] Further, if we assume that the errors follow a first-order autoregressive (AR1) process which strongly varies by group, a panel-specific modelling may be more appropriate.

Tables 3.B1 to 3.B4 in Appendix B to this chapter (see end of thesis) show four alternative dynamic specifications to the model in Table 3.2.2. Table 3.B1 includes a panel-specific first-order autoregressive

[24]There is a long-standing debate on the inclusion of a LDV in the regression analysis, particularly in political economy. It is beyond the scope of this paper to discuss the ins and outs of LDVs, but see for instance: Achen (2000); Beck and Katz (2011); Keele and Kelly (2006); Plümper, Troeger and Manow (2005); Wilkins (2018).

process. Table 3.B2 includes a LDV. Table 3.B3 adds year-fixed effects to the main specification, which allow for identification of variation across countries while holding time-variant effects constant, and thus capturing differences in national and international conditions during the sample period (Rickard, 2012b: 781), whereas Table 3.B4 further adds a LDV to the models in Table 3.B3.[25] The results for the accountability hypothesis are robust to all specifications, whereas less consistency is found for the responsiveness hypotheses. H2a remains robust only if a LDV is included. Interestingly, H2b becomes significant in almost all models (either full or H2b-specific) though the effect is always rather small, whereas H3 is rather robust throughout.

As expected, the inclusion of a LDV in tables 3.B2 and 3.B4 provides important explanatory power, but contrary to Achen (2000), it does not suppress that of the independent variables. Rather, as Wilkins (2018) argues, the inclusion of the LDV offers an important addition to the data-generating process and increases the confidence in the findings. In most cases, the effect of socio-economic factors fail to reach the standard level of significance and the direction of the effect remains ambiguous.

Finally, Table 3.B5 provides an alternative specification for the dependent variable, using OECD data applied to fourteen countries.[26] Only H4 is found to be robust, whereas H2b, while significant, displays the opposite sign as predicted. Despite these puzzling results, three things should be noted.

First, the two dependent variables measure different things (aid to industry and service for the Scoreboard measure, and subsidies to manufacturing only for the OECD variable), which suggests that different sectors of the economy may go through different channels of government support. This might explain why veto players may play a bigger role for one type of subsidy compared to the other, and why EU-related commitments such as EMU seem to differently affect subsidy spending.

Secondly, the OECD measurement only allows for analysis of Western European countries, which have a rather different industrial and economic legacy compared to the newer member states (Blauberger, 2009a; Hölscher et al., 2017). This seems to point that the results may be partially sample-driven, but a quick analysis using data from the Scoreboard shows that the determinants of aid allocation are largely the same and equally robust for Western and Eastern Member States.[27] Indeed, as Hölscher et al. (2017) show, the main difference between state aid spending in Western and Eastern Europe is not so much about the total level of allocations, but rather lays in the *composition* of the aid, with

[25] Two more robustness checks, not shown here, used the PS(AR1) process as in Table 3.B1, and added LDV, and LDV together with year-fixed effects, respectively. Results hold for all hypotheses except for H1 and H2a. This suggests that there is likely not much difference between the common and panel-specific autocorrelation specifications. See Online Appendix A in Schito (2020a).

[26] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Portugal, Spain, Sweden and the United Kingdom.

[27] The only difference is the significance for H2a (in Eastern countries) and H2b (in Western countries).

Eastern states lagging behind in the use of horizontal aid (applicable to all undertakings) compared to the more targeted sectoral (to specific firms or sectors) and regional aid (to depressed areas of the country).

Finally the understanding of what constitutes an incentive or subsidy as per the CMP is more in line with what the Commission sees as state aid, since it also includes tax breaks and deferrals, which are not part of the OECD definition. Hence, it is important to recognise the limitations of the analysis by being clear about its contextual nature, and about what the dependent variable is actually measuring. As Golden and Min (2013: 77) remind us, what qualifies as pork in one setting may not in another. The same reasoning applies to our understanding of state aid.

3.4 Conclusions

The goal of this chapter was to provide an empirical analysis for a more comprehensive account of state aid politics in the EU, by looking in particular at the political-institutional context of the member states. It offered a first answer to the question, why do some member states give more aid than others? The starting point was twofold. First, Hofmann's (2016) claim that aid disbursement depends on the government's ability to achieve policy objectives, on politicians' electoral pragmatism, and how the EU constrains profligacy in public spending. The second starting point was Golden and Min's (2013) assertion that a better understanding of allocations requires attention to both the accountability and responsiveness aspects. This allowed for the development of a more complete account of distributive politics for state aid in the EU, through which I could put to test Hofmann's claims to explain this variation.

Overall, the findings in Chapter 3 support Golden and Min's claim that it is important to look at both the accountability and responsiveness aspects when studying allocations. The responsiveness framework suggests that subsidies are not particularly welfare-maximising, despite the efforts by the Commission to rationalise aid allocations. Governments are not responsive to the median voter with regard to correction of market failures, though the presence of domestic institutional constraints is often found to have a significant marginal effects on a government's political preferences. However, nothing can be inferred, from this analysis alone, about the relationship between the state and special interests as suggested by Grossman and Helpman (1996). The accountability framework, instead, suggests that a country's electoral rules are key determinants in state aid politics, and may be part of the reason why allocations are not welfare-maximising.

Questions of accountability can only arise when policy is not responsive to voters. Politicians' distributional strategies focus on narrow geographical recipients because this would seem to be the winning strategies for allocations. The relative robustness of the findings (in Tables 3.B1 through 3.B5) in this highly institutionalised environment of subsidy control may translate well to other jurisdictions, which is something future research should attempt to investigate. In so doing, however, scholars should be wary of issues of international comparison of subsidies, and contextualise the findings within the appropriate literature. Further, the marginal effects plots (Figures 3.2.1, 3.2.2 and 3.2.3) lead to the interpretation that the findings may be more ambiguous than the analysis suggests. Hence, it would be good practice to complement these findings with comparative case studies (see Zohlnhöfer et al., 2018) to better understand the politics of public spending. Finally, the hypotheses could be tested for different sectors of the economy to see whether there exists a particular state-business relation in subsidisation politics that is worth exploring. This thesis attempts to do exactly this, but before engaging in comparative case studies, it provides an overview and analysis of a key sector of the economy, the automotive industry. The next chapter is devoted to understanding whether some member states are more likely to give aid to car manufacturers than others, and if so, why.

Chapter 4

Testing state aid politics: a sectoral analysis of the automotive industry

4.1 Introduction

The analysis so far has mirrored the literature in using aggregated data for subsidy spending.[1] Nevertheless, such an analysis is not able to differentiate between the different sectors of the economy. We cannot know whether particular sectors are more likely to receive aid, or whether the state-business dynamics are constant in each sector. Nor can one make claims about the ability of particular sectors to capture politicians and regulators. Hence, this chapter operates a first shift in analysis, from macro-comparative, where each observation is a country-year combination, to meso-comparative, where the units of analysis becomes the sector in each country. A disaggregated view of the state and the economy that looks at its individual sectors may be necessary to better understand state-society relations (see Atkinson & Coleman, 1989) and to contribute to the improvement of state aid rules.

Scholars that attempt sectoral analyses often look at specific aid measures that may not necessarily be representative neither of the industry as a whole, nor of the trend over time. For instance, in the airline industry, Chari (2004) focuses on aid to Irish and Spanish airlines Aer Lingus and Iberia, whereas Featherstone and Papadimitriou (2007) follow the restructuring of Greek flagship Olympian Airways. In the automotive industry, Germano (2009) retraces the relationship between the car maker Fiat and the Italian government, which enjoyed a privileged relationship, while Dunnett (1980) and

[1] A reduced version of this chapter (testing only H2a, H2b and H4) was published as Schito (2020b).

Wilks (1988) explore the effect of government policy on the British automotive industry. A large-N analysis, instead, offers the ability to better generalise the findings and therefore improve the external validity of the analysis.

Other quantitative studies distinguish between the ‘factor content’ of a subsidy, depending on whether it favours labour or capital (Verdier, 1995). For instance general investment, research & development (R&D) spending and aid to small and medium enterprises favour capital, since it is innovative and supporting of entrepreneurship; aid to traditional sectors, aid to employment or crisis aid, instead, favours labour, the logic being that this kind of aid is often to the advantage of the working class. Studies using data from the EU distinguish between sectoral, horizontal, and regional aid (Aydin, 2006; Zahariadis, 2005, 2008, 2010b, 2013). However, the same sector of the economy can benefit from different types of aid. Likewise, a typically capital-intensive sector can often benefit from ‘labour’ aid: for instance, the Commission clearly states in one of its briefs on competition policy that the automotive industry, between 2007 and 2014, received both regional and R&D aid (European Commission, 2014b).

Thus, the main goal of this chapter is to provide a quantitative analysis of the political determinants of state aid at the sectoral level. In particular, the chapter analyses subsidies to the automotive industry (or MVI, motor vehicle industry). This sector is one of the biggest and most important industries in Europe. According to the European Automobile Manufacturers Association (ACEA), in 2016 two and a half million people were employed in the manufacturing of motor vehicles in the EU-28, accounting for 8.3% of EU employment in the manufacturing sector; exports accounted for almost €140bn; €54bn were invested in innovation; and fiscal income from motor vehicles in Western European countries was over €400bn (ACEA, 2019a). Hence, for governments in several EU member states, the MVI constitutes a sector in which they may have important political and economic stakes. The argument presented in the previous chapters is here tested again on an original dataset of over 120 aid measures to the MVI in 16 EU member states between 1992 and 2011.[2]

The MVI was chosen because of particular characteristics that made it appealing for analysis. While not being necessarily representative of all economic sectors where aid could be allocated, the MVI represents a crucial test case for the relationship between the state and that part of business where big firms dominate and whose performance more than any other sector governments cannot ignore. This is valid more so for the MVI than other highly concentrated industries such as the banking sector or the the airline industry, where external circumstances (the 2008 financial crisis and 9/11,

[2] Again, crisis aid is not included so as not to skew the results, given the high levels of sums provided under the Temporary Framework. This is explored more in detail in Section 2.

respectively) greatly shaped the development of the sector.[3] In this sense, the idea of 'crucial' case study reflects the methodology literature whereby such a case would be 'most likely to fulfil a theoretical prediction' (see Eckstein, 1975; Gerring, 2007: 232). Still, one could expect the results of this chapter to potentially translate to similar sectors where the business corporation holds much political clout over the government of the day (see for instance Wilks, 2013; Woll, 2014).

The findings show three things in particular. First, that policy preferences, as expressed in the electoral manifestos do not seem to be positively associated with aid allocations to the automotive industry. On the contrary, there exists a negative relation between the two, suggesting that aid allocations to this heavily concentrated, politically sensitive industry go against the benefit of the median voter. Secondly, power-sharing arrangements and international commitments such as state aid control no longer condition a government's attainment of policy goals. This is likely a consequence of the first point, since the sector does not seem to be at the centre of parties' electoral promises. Finally, the chapter shows that there is instead continuity in the mechanism of electoral competition, given the geographically concentrated nature of the industry. Electoral rules such as the cultivation of a personal reputation by distribution of targeted benefits to a constituency may help legislators in their chances of being re-elected.

The contribution of this chapter, then, is two-fold. Firstly, the chapter provides an account of state aid politics applied at the sectoral level. Secondly, the chapter goes beyond the qualitative literature on sectoral studies by offering a quantitative assessment of the politics of state aid to the MVI. This chapter is organised as follows. Section 2 describes the automotive industry and its characteristics. Section 3 advances the hypotheses of state aid politics as developed in Chapter 2 and applies them to the MVI. Section 4 provides the data and operationalisation of the variables, while Section 5 presents the statistical model and the empirical results. Section 6 concludes with some important takeaways of the chapter, as well as its limitations.

4.2 Case selection: the automotive industry in Europe

One of the reasons why doing a sectoral analysis on state aid is difficult is poor data transparency. In some cases aid is earmarked for a plurality of sectors, and the quantity allotted to each (or even to the firms within each sector) cannot be properly discerned (see Nicolini et al., 2017: 406). As an example,

[3] It could be argued that the oil crises of the 1970s had a strong impact on the MVI as well. However, as the case studies in Chapters 6, 7 and 8 will show, this effect is possibly overstated. Further, it did not push for alternative sources of energy for vehicles: electric vehicles would not be a concrete reality for another 30-35 years, and even today the majority of cars are oil-powered. See ACEA (2020) for a European perspective.

one of the main subsidising tools in 1980s Italy was Law 675/1977,[4] which included industrial policy elements for the 'restructuring, conversion and development' of the industry, including sectors such as petrochemical, automotive, agriculture and textile, among others. The XIII and XIV Annual Reports on Competition Policy found no fewer than fifteen instances that involved the Italian MVI alone whereby aid was granted through this legal basis, though the reports do not specify the beneficiaries, nor the amount of the aid that was approved (European Commission, 1983, 1984).

Poor data transparency persisted even with the introduction of the state aid register in 2000, which records all aid requests made by the member states.[5] In the register, aid to the automotive industry falls within the NACE (European Classification of Economic Activities) Rev. 2 code C.29, 'Manufacture of Motor Vehicles, Trailers and Semitrailers,' including bodies, accessories, electrical and electronic equipment and other parts.[6] However, not all measures are classified under this NACE code. Many, indeed, are not classified at all. Thus, analysing a sector that includes several hundreds, if not thousands, of firms becomes extremely difficult, whereas this endeavour is easier for a more concentrated industry. The MVI is one such sector, as the characteristics described in this section show.

4.2.1 Industry concentration

The automotive sector in Europe is, by all accounts, an oligopoly which enjoys extremely high levels of protection, both internal (by the member states) and external (against non-EU competitors). Historically, just six manufacturers (Fiat, Ford, General Motors [GM], Citroën-Peugeot [PSA], Renault and Volkswagen) have captured the majority of the Western European market share, as shown in Figure 4.2.1. Although their piece of the pie has slightly declined from over 75% of the market in 1990 to 66% in 2015 for the EU-15/EFTA, this decline is not fast and strong enough to break up the oligopoly. Further, despite a decreasing overall trend in market share, this is not true for all manufacturers. Volkswagen increased its share from 15.7% in 1990 to a maximum of almost 25% in 2014, suggesting that some firms are better able to fend off external competition.

To retain the concentration of the industry, these manufacturers have also engaged in extensive and reciprocal M&A (mergers and acquisitions) operations, summarised in Table 4.2.1. Fiat fully acquired Chrysler in 2014 for €1.3bn, increasing its share from 58.5% to 100%, thus becoming Fiat Chrysler

[4] See `https://www.gazzettaufficiale.it/eli/id/1977/09/07/077U0675/sg`.
[5] `http://ec.europa.eu/competition/state_aid/register/`.
[6] See `http://ec.europa.eu/competition/mergers/cases/index/nace_all.html` for a full list.

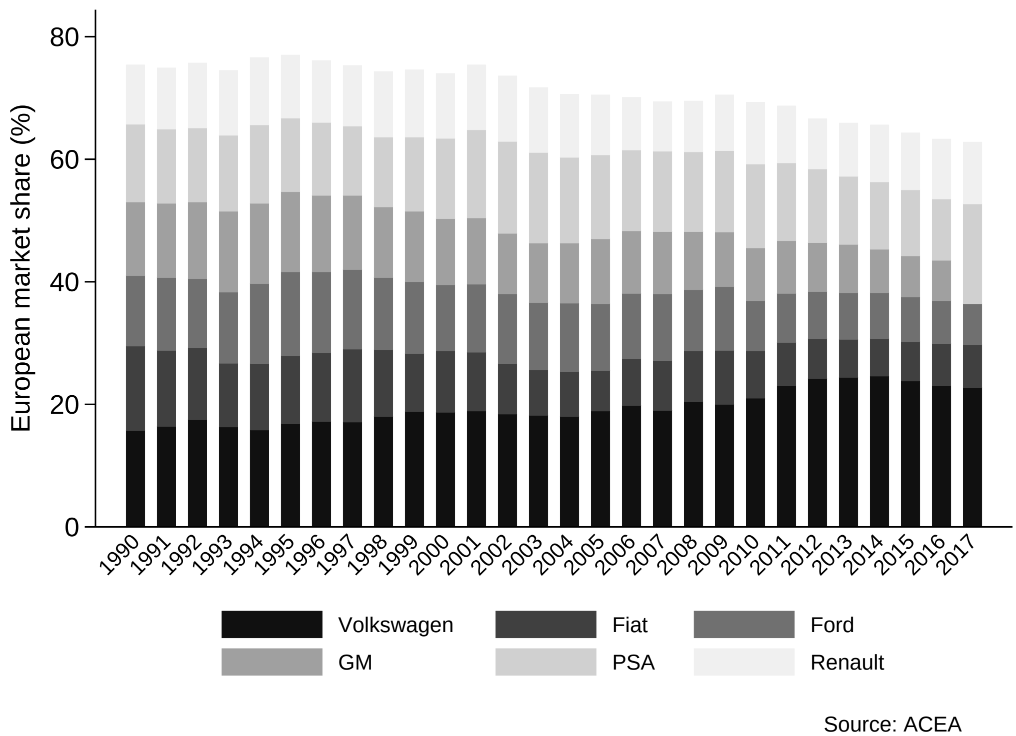

Figure 4.2.1: Western European market share for six car manufacturers (EU-15 + EFTA, 1990-2017)

Automobiles (FCA).[7] PSA purchased Opel and Vauxhall from Michigan-based GM in 2017 for €1.3bn.[8] The other French manufacturer, Renault, opted for a more Eastern-oriented vision, acquiring 51% of Dacia in 1999 after the Romanian government decided to privatise it;[9] and in 2008 the Russian brand Lada with a 25% minority stake in its parent company, AvtoVAZ, for €659mn.[10] Renault also engaged in joint ventures with the far East, the most important of which were with the Japanese Nissan, whereby the French carmaker acquired 44% of Nissan, while the Japanese gained a 15% stake in Renault, and with the Korean Samsung Motors (Chari, 2015: 123). Finally, Volkswagen, which already owned brands such as SEAT, Audi and Škoda, increased its stakes in a variety of passengers and heavy truck manufacturers, such as Bentley, Lamborghini, Bugatti and Porsche for their luxury cars, and MAN, Scania and Traton for trucks.

[7] Deal No 1601416344 in the Zephyr database, see `https://zephyr.bvdinfo.com`. Daimler divested its Chrysler assets in 2007 for €6.74bn via an institutional buyout, see Deal No 517310.

[8] Deal No 1909542683 in the Zephyr database.

[9] Deal No 69497 in the Zephyr database. Renault increased its ownership of Dacia to 93% in 2001 and attained full ownership by 2004 (see Chari, 2015: 118).

[10] Deal No 446877 in the Zephyr database. As of December 2018, Renault has a 100% stake in AvtoVAZ, see Deal No 1941197083.

Table 4.2.1: Brand ownership of motor vehicle manufacturers: 1990 and 2017

Group	**1990**	**2017**
Fiat/FCA	Alfa Romeo; Fiat; Iveco; Lancia	Abarth; Alfa Romeo; Chrysler; Dodge; Fiat; Jeep; Lancia; Maserati; RAM
Ford	Ford; Ford USA; Jaguar/Daimler	Ford
GM	GM USA; Opel/Vauxhall; Saab	Chevrolet
Groupe PSA	Citroën; Peugeot; Talbot	Citroën; DS; Opel/Vauxhall; Peugeot
Groupe Renault	Renault	Dacia; Lada; Renault; 44% Nissan
Volkswagen	Audi; SEAT; Škoda; Volkswagen	Audi; Bentley; MAN; Porsche; SEAT; Scania; Škoda; Bugatti; Lamborghini; Traton; Volkswagen

As the table shows, whereas the two American manufacturers lost a good part of their foothold in Europe (with Jaguar [now Jaguar Land Rover, JLR] being sold to Tata, and Opel/Vauxhall to PSA), their European counterparts expanded. Moreover, the evolution of M&A suggests that relationships between car manufacturers are structured in a way so as to increase their economies of scale while retaining the high-concentration, oligopolistic nature of the industry. This makes of the industry a highly organised one that can more easily mobilise to lobby governments and build privileged relationships, thus extracting more concessions from the state, compared to more diffused industries (see Olson, 1965).

4.2.2 Political sensitivity

The reason why car producers have been able to successfully engage in so many M&A comes down to the political sensitivity of the sector as well. Political sensitivity means that national governments are aware of the importance of the MVI to their economies, and have advanced no more than timid attempts towards economic openness in the industry. Often, governments have been more than willing to engage in subsidisation in order to prop up the domestic producers and build 'national champions' that could compete in Europe and, eventually, globally (Wu, 2018). While there is no one single definition of national champion, Hayward (1995: 9-10) suggests that it is useful first of all to make a distinction between those countries 'whose major firms are linked closely with foreign capital and those which are not.' Thus, for instance, Fiat, PSA, Renault and Volkswagen have been historically linked with domestic, rather than foreign capital, whereas Ford UK was an example of foreign investment in

Europe. To show how widespread support for national champions was, even in the absence of economic duress, Table 4.2.2 reports state aid figures to European manufacturers between 1977 and 1987 (data from European Commission, 1990a: 57).

Table 4.2.2: State aid to European car manufacturers, 1977-1987

Manufacturer	**Total net profits (million ECUs)**	**Total State aid (million ECUs)**
Alfa Romeo	-2305.2	3487.2
BMW	1133	703
DAF	65.2	302.8
Daimler Benz	5235.2	2021.5
Fiat	4985.6	3212
Ford Europe	5262	654.8
GM Europe	-366.9	1102.5
Jaguar	432	30.8
MAN	269.9	160.5
Porsche	229.6	92.5
PSA	996.4	1138
Renault	-4057.8	4494.4
Rover	-4383.4	2950.7
Saab Scania	969.3	1512.3
SEAT	-1704.8	3774.2
Volkswagen	1539.7	1563.4
Volvo Group	1807.9	2033.4
Volvo Car BV	1.1	429.8
	10109.1	29663.8

Source: European Commission (1990a)

Of 18 manufacturers, only five registered net losses, and in four of these five cases the amount of state aid received exceeded that of the net profit.[11] As a result, while net profits amounted to over ECU 10bn, state aid was almost triple that – ECU 29.7bn. The six main manufacturers tallied an impressive ECU 12.2bn, to which one could add the ECU 3.49bn of state aid to Alfa Romeo, as the Italian government hoped it could become another national champion, alongside Fiat. It is also interesting that Ford and GM, which were multinationals with no possibility of becoming national champions, registered the least amount of aid, which shows that in these cases political sensitivty was a minor issue, but that the state still recognised the importance of the industry and of those specific firms to the national economy.

A national champion, then, is a public or private industrial actor which is *systematically* and *willingly*

[11] Only Rover did not receive amounts larger than its losses, possibly because of both the 'hands-off' approach of the British government, and because of its imminent privatisation, with the company being sold off to British Aerospace in 1988, which would have to recapitalise part of it.

supported by the state either through protectionist policies, M&A, or by drawing from the public purse. In exchange for state support, national champions serve public goals such as providing employment opportunities in the less developed areas of a country (e.g. Nicolini et al., 2013: 78). Hence, if the M&A strategy that car companies undertook was aimed at maintaining the oligopolistic market structure, their being national champions raised issues of political sensitivity and active government intervention aimed at ensuring that this market structure would be perpetuated.

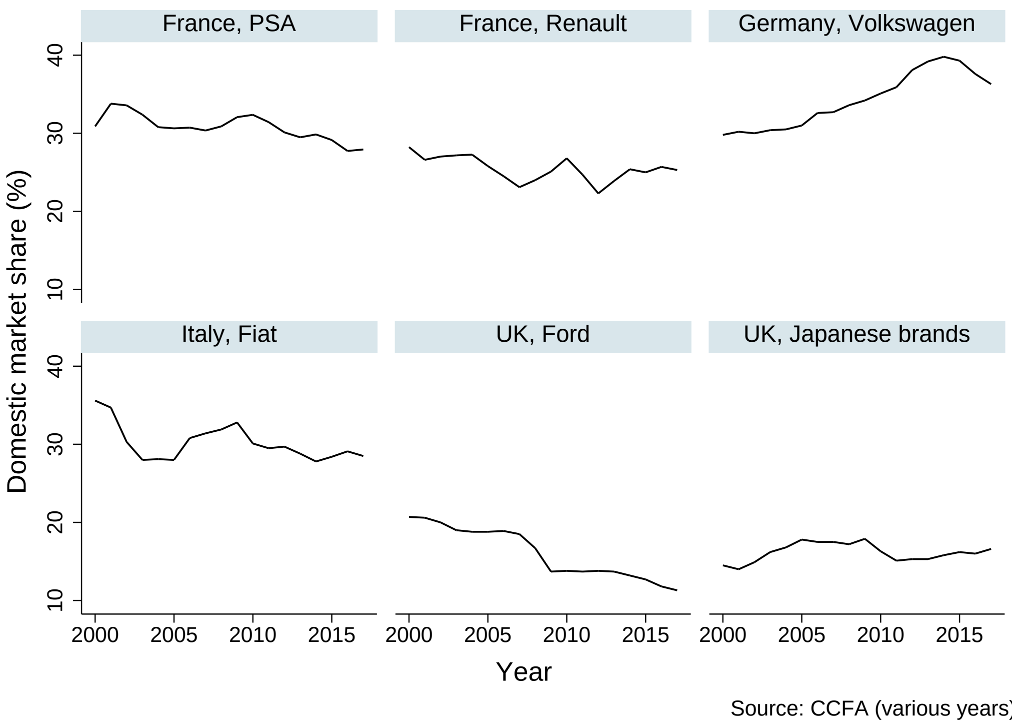

Figure 4.2.2: Domestic share in four member states by manufacturer (1999-2016)

This can be seen in Figure 4.2.2, which presents the *domestic* market share of the main manufacturers in four member states. While Fiat, PSA/Renault and Volkswagen all have enjoyed a privileged relationship with the Italian, French and German governments respectively, the situation has been different in the United Kingdom. Ford, despite setting up shop in Britain over a century ago, has never cultivated the kind of privileged relationship the other manufacturers have in the other countries. British politicians have historically had a 'hands-off' approach to the industry, and even when they heavily intervened in the 1970s, they did not want to appear biased towards domestic producers (Wilks, 1988). Further, Britain was among the first to welcome foreign investment – first the

Americans, with Ford, GM and Chrysler, and then the Japanese under Margaret Thatcher. While the market share of Japanese manufacturers in the UK is almost 16% today, it remains lower in France (9.9%), Italy (10.1%) and Germany (9.3%), all of which have had national champions to nurture (see CCFA, 2017). Hence, the main difference between Britain and the other member states is that there was less interest on the government's part to shield domestic producers from competition by creating a privileged relationships with manufacturers in the industry (Pardi, 2017: 83). As a result, whereas Fiat, PSA, Renault and Volkswagen enjoy around or more than a fourth of the domestic market share, Ford hovers around half that amount, having to face increasingly strong competition and no explicit backing from the British state.

The political sensitivity of the industry also implies that most governments may want to actively support the existence of privileged relationships between the manufacturers and the state apparatus. Governments may seek to retain control, either directly or indirectly of the companies. Privatisation, when applicable, has been carried out when the situation was no longer politically or economically sustainable. As an example, Volkswagen was founded in 1937 under the Nazi regime. After going through a short stint of British trusteeship after the Second World War, the *Bundestag* decided to put the company on the market in April 1961, both as the result of a broader privatisation programme, and due to impellent cash needs to cover the deficit the government was running (Chari, 2015: 110-1). Until then, Volkswagen had been fully administered by the *Land* of Lower Saxony on behalf of and under the supervision of the federal government, but even to this day, the *Land* continues to hold 20.53% of the company, raised from 20.36% in 2008.[12]

Another case of *direct* control is that of Renault, as shall be seen more in detail in Chapter 8. The company was nationalised after the Second World War, and first floated on the market in 1994, following an earlier attempt at a merger with the Swedish Volvo a year earlier (Chari, 2015: 117). To this day, the French government retains 21.93% of the shares in Renault through its public agency, the *Agence des participations de l'Ètat.*[13]

A final example of privatisation that ended up with *indirect* control was the acquisition by Fiat of the then state-owned enterprise Alfa Romeo in 1987, which was part of the IRI (*Istituto per la Ricostruzione Industriale*), the main Italian state holding company. One of the chief reasons for privatising the Lombardian manufacturer was its grave economic situation. By the mid-1980s, the company had around LIT 1.6tn in debts, against a turnover of just LIT 2.2tn (Germano, 2009: 174; see also Bianchi, 1988 for a case study). Between 1977 and 1987, Alfa Romeo did not record one single year of net profit,

[12]Deal No 635248 in the Zephyr database.
[13]BvD ID number: FR441639465.

with losses spiking by 1984 and reaching ECU 661.3mn in 1986 (European Commission, 1990a: 56). A first offer came from Ford, but like in the case of the Renault/Volvo merger, national interests seemed to have prevailed, and eventually Alfa Romeo was sold to Fiat, despite the lower offer it tabled. The direct relationship that the Italian state apparatus had with Alfa Romeo was thus translated indirectly to Fiat, by means of a privileged relationship between the two, as Chapter 6 will show.

Thus, not only is there plenty of evidence that shows the strategic importance of a sector such as automotive, but also the way the way in which different governments have acted to maintain the privileged relationship with car manufacturers seems to be very telling of the development of state-business relations in a politically sensitive industry.

4.2.3 Regulatory framework developments

The strategic importance of the motor vehicle industry has long been recognised by the Commission, due to its contributions to employment, trade and technological advance. The subsidy race of the 1970s and 1980s, which led to almost ECU 30bn being given to carmakers between 1977 and 1987 (European Commission, 1990a), was possible also because oversight by the Commission was lax and there was no regulatory framework to target aid to the automotive sector. This, according to the Commission, led to a number of distortions of competition, and as a result, a first Community framework for state aid to the motor vehicle industry was adopted in December 1989, entering into force the following month.[14] The framework required *ex ante* notification and put more controls on regional and restructuring aid. It was later revised in 1997 for three years (1998-2001),[15] and subsequently extended until 31 December 2002.[16]

Starting from 2002, the rules in the car sector were included into the Multisectoral framework on regional aid for large investment projects (Grigolon et al., 2016),[17] and later replaced by the Guidelines on national regional aid.[18] This meant that standard regional aid ceilings applied to aid for the car sector, and that large companies were subject to thorough scrutiny, lowering the notified volume of aid in this period to €1.3bn, for investment totalling almost €8bn (European Commission, 2014b). Increasing institutionalisation of state aid rules, therefore, did not spare the automotive industry – on the contrary, it made it one of the regulated sectors within the Single Market. The effects were almost instantaneous, with aid declining to ECU 5.4bn between 1989 and 1996 (European Commission,

[14] OJ C 123 of 18 May 1989.
[15] OJ C 279 of 15 September 1997.
[16] OJ C 368 of 22 December 2001.
[17] OJ C 70 of 19 March 2002.
[18] OJ C 54 of 4 March 2006 and OJ C 209 of 23 July 2013.

1997), and continuing the trend in the following years. Only during the economic crisis of 2009 did the Commission relax the rules on state aid, recognising the importance of the MVI to the European economy.[19] Hence, finding evidence of the importance of domestic political factors to state aid allocations in a sector with high regulatory standards raises the bar for hypothesis confirmation, suggesting that findings may more easily translate to less regulated industries and jurisdictions.

4.2.4 Justifying case selection: the MVI as a crucial case study

In sum, the justification for the choice of sector to analyse can be found in the concentration of the industry, its political sensitivity, and its regulatory evolution. Industry concentration makes it easier for car manufacturers to organise and mobilise, which in turn allows producers in the industry to create and maintain an oligopolistic market structure and demand protection. These demands have been catered to by national governments because of the political sensitivity of the industry. Many governments have aimed to make national champions of their main manufacturing brands that could easily compete on international stages. In order to do so, several M&A have been carried out to increase the firms' economies of scale, and governments have engaged in active subsidisation to keep the companies afloat, even when no economic rationale was required. Nevertheless, the increasingly restrictive regulatory framework for the automotive industry seems to have pushed manufacturers to rely less on government intervention.

By all accounts, then, the motor vehicle industry represents a crucial case study (Stephen, 2000) that should conform to the theoretical expectations (Gerring, 2007) and which contributes to many literatures, on state-business relations and the role of national champions and 'big firms'; on state aid politics; and on multilevel governance and regulation. Findings for this sector could potentially translate to similar sectors such as airlines, banking or communications. These are all characterised by the presence of strong firms that are candidates for becoming 'European champions', who can go out and win on global markets (Thatcher, 2014: 445). However, the analysis might say less about other sectors where small-medium enterprises are dominant or about less politically charged industries. Thus, though lacking in generalisability across the several sectors of the economy, this chapter still provides a quantitative assessment of the linkage between the state and big business (Germano, 2009; Hart, 2004). This is particularly important because corporations today have consolidated their market shares as well as their position *vis-à-vis* the state (Woll, 2019; Wu, 2018). There are also valid analytical reasons to study the automotive sector: as Stephen (2000: 20) notes, here the interaction of interests and

[19] OJ C 83 of 7 April 2009.

institutions is easier to capture as the 'constellation of political forces at work is relatively clear.' The remainder of the chapter is devoted to understanding why some governments of EU member states give more aid than other to their automotive industries.

4.3 The political determinants of state aid to the automotive industry

Although this chapter tests the same hypotheses as in the previous chapter (presented again below), it would be good to have a point of reference from which to start a sectoral analysis. First, subsidies may be used to achieve policy goals, thus making them a function of policy-makers' objectives. In one of the few quantitative sectoral analyses on state aid – also focusing on the MVI – Nicolini et al. (2017: 403) hypothesise that, to the extent that state aid benefits capital owners rather than workers, one might expect subsidies to be higher under right-wing governments. This argument was also suggested by Zahariadis (2010b), but the literature shows that partisan theory is of dubious help if one seeks to understand whether governments actively pursue subsidising strategies. Things in the MVI are not different. In Britain, Labour and Conservative governments alike used the public trough to support the MVI either in defence of the British interest or as investment incentives, for instance with the goal of advancing regional policy (Wren, 1996b). Likewise, both centre-right and centre-left governments in Italy used public funds to build or modernise assembly plants in the Southern regions of the country in order to promote economic development (Germano, 2009).

Here, I instead highlight the existence of voter-party linkages in policy-making that looks at whether the policy outcomes of the government are determined by their commitment to their platform. Politicians are mainly concerned with retaining power, and formulate policy in order to win elections rather than win elections in order to formulate policy (Downs, 1957). In the case of the MVI, the political sensitivity of the sector makes it a salient issue that parties may want to capitalise on come election year. For instance, both Labour (in 2001) and Conservatives (in 1992) suggested incentives to the motor industry to promote fuel-efficient vehicles. Similar patterns can be found for other high-density, politically salient industries such as coal, railways, airlines and telecommunications.

The connotation that the willingness to engage in distributive measures assumes for the MVI can be understood as follows. Parties will include in their manifestos references to sectors that they believe as having employees representative of the median voter (e.g. blue collar jobs, as evidenced by the previous example for British parties). Welfare maximisation works then by proxy, since the measure would hardly be seen as catering a country-wide goal. Nevertheless, parties are still signalling their intention to reach out to the median voter *in that particular sector* in order to win elections.

H1: State aid to the MVI is higher when the political preferences of a domestic government signal its willingness to undertake distributive measures.

As in the analysis in the previous chapter, policy-makers' objectives, are filtered by the institutional architecture of the political system: coalition partners and veto players. In the presence of coalition governments, the partners 'must be able to overcome the inherent tension between their *collective* interest in mutual accommodation and their *individual* incentives to pursue their particular policy objectives' (Martin & Vanberg, 2011: 4, emphasis in original). Parties in a coalition government can be held separately accountable, which creates a 'common pool resource' problem in budgeting whereby each party pushes for spending on priorities that its constituents favour (Martin & Vanberg, 2013: 953).

Veto players, instead, represent actors whose assent is necessary for the policy to pass (Tsebelis, 2002). The presence of veto players means the government enjoys less wiggle room to implement the desired policies due to the need to compromise with other actors when attempting to implement the preferred policies (Hartmann, 2014: 78). Theory suggests that, in the presence of many veto players, governments adjust less swiftly to economic shocks (Franzese, 2002: 268), which might indirectly affect the level of allocations that a government is able to carry out due to the reduced policy-making manoeuvrability. The veto player function is calculated looking at the number of veto players, their maximum ideological distance, and the coherence of individual veto players (Jahn, 2011; Tsebelis, 2002). A high number of ideologically distant veto players may prove detrimental to the success of a policy. The second hypothesis on institutional constraints therefore is:

H2a: The political preferences of a domestic government on distributive measures are less impactful the greater the number of effective partners in government. This leads to lower state aid to the MVI.

H2b: The political preferences of a domestic government on distributive measures are less impactful the more numerous and ideologically distant partisan and institutional veto players are. This leads to lower state aid to the MVI.

Finally, as was shown in the previous section, developments on the regulatory framework of state aid to the MVI have strongly constrained the ability of governments to engage in races to the bottom in subsidisation in this sector of the economy. This field, in other words, has become strongly 'Europeanised' and subsidy races have become a practical impossibility. Promises of subsidies to the car sector, such as those made by the Labour and Conservative governments, can only be realised if the Commission approves of this. For instance, the latest Conservative manifesto, in 2019, explicitly states the backing of the Party to the Welsh automotive industry.[20] This may be feasible because Wales is a regional development area, whose growth is in line with the Commission agenda. On the contrary, Brussels may be less keen on allowing the British government to support already-advanced areas with an automotive industry, such as London. It follows that the third hypothesis is:

H3: The political preferences of a domestic government on distributive measures are less impactful the more the policy area is Europeanised. This leads to lower state aid to the MVI.

Secondly, a growing portion of the literature provides evidence of how electoral rules also matter in the allocation of public funds even at the sectoral level (Park & Jensen, 2007; Rickard, 2018). In their study on the MVI, Nicolini et al. (2017) distinguish between a PR and a plurality system for the effects of electoral institutions on allocations, following established literature (Persson & Tabellini, 2000, 2003). Nevertheless, this is a rather rough distinction: not only does it not allow to properly categorise mixed systems, but within PR there are significant differences in how electoral rules change a politician's incentives. The closed-PR system of Spain may be different than the open-list PR one of Poland (Franchino & Mainenti, 2013).

As will be recalled, the explanation advanced here is based on two elements. One is the closeness of the politician to her constituency – the district magnitude – which highlights the level of accountability of the incumbent to her constituents, in her bid for re-election (Lancaster, 1986). The lower the district magnitude, the closer the incumbent-constituency linkage, and the easier is for the incumbent to get the credit for measures taken in the constituency. The other element is whether the system generates incentives for the candidate to cultivate a personal reputation, and therefore whether the system is candidate- or party-centred. If the system is candidate-centred, incumbents pander to their own constituents. If the system is party-centred, instead, incumbents curry favours with party leadership in order to obtain a higher place on the party's list (Rickard, 2018: 124). However, the effect of personal reputation on public spending is conditional on the system's district magnitude and vice-versa (Edwards & Thames, 2007; Franchino & Mainenti, 2013). Hence, one should look not at the individual elements, but at the way they interact to generate such incentives.

In those countries where the electoral system pushes candidates to cultivate a person vote, the government, whose survival depends on the support of legislators whose incentives may not be aligned with the collective vote of the governing party, may want to enact those policies that maximise their

[20] See `https://www.conservatives.com/our-plan`.

party's chances to remain in government (Franchino & Mainenti, 2016; Rickard, 2018). Given the characteristics of the MVI as a a high-density, geographically concentrated (e.g. the Midlands in Britain) and politically sensitive industry, this should provide MPs with strong leverage when providing constituency service. A final hypothesis is therefore:

H4a: State aid to the MVI is positively related to increases in district magnitude when the electoral system is candidate-centred, but negatively when the electoral system is party-centred.

H4b: State aid to the MVI is positively related to incentives to cultivate personal votes as district magnitude increases, but negatively when district magnitude decreases.

The next two sections lay down the data and statistical models, and present the findings of the regression analyses.

4.4 Data and operationalisation

Many of the variables used in this chapter have been described in the previous analysis and will mostly not be repeated. In particular, the independent variables (excluding controls) are the same. However, two key differences are worth noting.

First, the dependent variable is the sum of aid given to the MVI for each country-year observation in the 16 EU member states with an active automotive industry between 1992 (or date of accession) and 2011, tallying to over 120 instances of aid. Data since 2000 are collected from the state aid register, which records all aid decisions. Before this year, data are available from the Annual Reports on Competition Policy.[21] Examples of aid include measures addressed to the main manufacturers or brands and subsidiaries of these manufacturers, so long as they are involved in the automotive industry. For instance, aid given to Renault, one of the major manufacturers is included, as is aid given to SEAT, a Volkswagen brand;[22] however, aid to Magneti Marelli, which is a Fiat subsidiary, but which is not classified under the NACE Rev. 2 C.29 code, is not accounted for. Excluded are also multi-sectoral aid schemes that may be beneficial to the automotive sector, but where the amount destined to this industry cannot be quantified. As an example, in 2000 the Commission authorised €240mn of R&D aid from the Spanish government for improving the technology of vehicle equipment and components, yet this measure benefited not only firms, but also research centres and university departments.[23]

[21] `http://ec.europa.eu/competition/publications/annual_report/`. Crisis aid, such as that given under the Temporary Framework, is excluded from the analysis.

[22] In the latter case, the Commission registers Volkswagen as the beneficiary.

[23] `https://ec.europa.eu/commission/presscorner/detail/en/IP_00_161`.

The second key difference lies in the use of control variables. I use two sets of controls in the analysis. The first set concerns country-specific variables, which were also present in the analysis in the previous chapter. I will shortly repeat them here. Firstly, I control for *Debt/GDP*, since governments facing higher debt/GDP ratios may be less willing to be profligate. A second control which absolves a similar function is membership to *EMU*, which puts further constraints on profligacy, as the previous chapter showed. I also control for the *Timing of Election*, since the political business cycle theory may be more relevant for politically sensitive industries such as the automotive sector. Finally, I control for *Trade* and *Financial Globalisation*, used as measures for trade and financial openness of a country, which may alter a government's economic strategies. Subsidies, like tariffs, have historically been employed to counter the effects of globalisation, which creates economic winners and losers. Unlike the previous analysis, however, I do not control for unemployment rates, economic crisis and real economic growth, which are better captured by the second set of controls.

This second set includes industry-specific variables. A higher *Value Added* of the sector to the national economy suggests that domestic producers enjoy a high level of power over policy-makers because of their ability to deliver votes (Grossman & Helpman, 1994; Zahariadis, 2008).[24] A positive trend in the *Matriculation of new cars* suggests a healthy sector that does not need government assistance. It can also be understood as an indicator that reflects the presence of a systemic crisis. As an example, the before-crisis average for increases in matriculations was 1.37%, whereas during the crisis years (2009-2011) it plummeted to -4.31%. Finally, aid to *National Champions* in a given country at a given time is likely to be higher since close state-business relations might be conducive to more willingness from the government to support national industry.[25] Further, since these are likely candidates to compete globally, they may necessitate more assistance. Because of the budgetary nature of state aid, political and socio-economic variables are lagged by one year. Table 4.4.1 provides descriptive statistics for the variables. The next section provides a multivariate analysis of the political determinants of aid to the MVI.

[24] EUKLEMS, which provides data for this variable, only records data from 1995 for many member states. This is due to the different classification codes that national account statistics used before then, creating a methodological break. However, EUKLEMS also provides back-cast estimates of ISIC Rev. 4 industries, based on growth rates of ISIC Rev. 3 industries, which allow for a 1:1 comparability with NACE Rev. 2. I would like to thank Monika Schwarzhappel for raising this issue.

[25] I follow Nicolini et al. (2017) in their definition of a national champion as a historical brand (e.g. also Opel in Germany). Additional analyses only including Volksvagen, PSA/Renault and Fiat as national champions do not change the results.

Table 4.4.1: Descriptive statistics of the determinants of state aid to the MVI

Variable	Mean	Std.Dev.	Min	Max	Obs	Source	Description
Aid to the MVI	33.64	210.73	0	3172	239	State aid register; Annual Reports on Competition Policy	Aid to the MVI in country i at time t
Political Preferences	2.73	1.56	0	9.64	239	Volkens et al. (2017)	Government attitudes towards incentives (positive)
Coalition	2.31	1.31	0	7	239	Various EJPR Political Data Yearbooks; own calculations	Effective number of parties in a government
Veto Players	6.11	5.29	0	23.07	239	Jahn et al. (2017)	Number and ideological distance of veto players on the Left-Right spectrum
District Magnitude	23.28	46.55	1	150	239	Golder (2018)	Average district magnitude at the lowest tier (logged)
Personal Vote	0.76	0.49	0	1.67	239	Franchino and Mainenti (2013); Johnson and Wallack (2012)	Average score of ballot, pool and vote, following Carey and Shugart (1995)
Regulation	4.90	4.29	0	12	239		Number of years after Council Regulation 659/1999 entered into force
EMU	0.44	0.50	0	1	239		Dummy variable for whether a member state is part of Economic and Monetary Union
Debt/GDP	70.62	28.98	12.3	158.36	239	Armingeon et al. (2016)	Gross general government debt (financial liabilities) as a percentage of GDP
Trade Globalisation	56.51	17.05	22.16	87.73	239	Gygli et al. (2018)	Sum of exports and imports of goods and services as a share of GDP and trade partner diversification in goods trade
Financial Globalisation	77.63	13.32	43.07	98.25	239	Gygli et al. (2018)	Capital flows and stocks of foreign assets and liabilities
Timing of elections	0.40	0.44	0	1	239	Franchino and Mainenti (2013, 2016)	Year is a pre-election year
Matriculation of new cars	0.21	12.28	-60.73	38.78	233	ACEA (2019b)	Difference in % between number of cars matriculated at times *t-1* and *t-2*
Value Added	1.51	0.80	0	3.79	239	EU KLEMS (2019)	Value added of the MVI to the economy in %GDP
National Champion	0.14	0.35	0	1	239	State aid register; Annual Reports on Competition Policy	Aid to national champion is given in country i at time t

4.5 Multivariate analysis

4.5.1 The statistical model

The dependent variable is the sum of aid given to the automotive industry in a country i at a time t, which is not a common occurrence. The data are therefore left-skewed and not optimally modelled with a normal distribution (Perumean-Chaney et al. 2013). The classic strategies of either ignoring zero-value events or using a log-transformed dependent variable (adding 1 to the zero-value events to allow transformation) generate selection bias and fail to properly address the excess zeroes. Thus, the typical econometric tests based on Ordinary Least Square (OLS) do not hold since the distribution is highly non-normal and violates the OLS assumptions of homoscedasticity, normality and linearity (Gourieroux et al., 1984). Non-linear models based on count data are preferred as they perform better in presence of excessive zeroes and overdispersion (Yang et al., 2017). In this case, the choice of model usually falls on the Poisson distribution. However, Poisson models assume equidispersion (i.e. conditional mean is equal to the variance), which in many cases is not realistic. An alternative to the Poisson estimator is the Negative Binomial (NB) distribution, which employs an additional parameter α to account for overdispersion (see Perumean-Chaney et al., 2013).

Overdispersion may also be due to factors other than heterogeneity, which cannot be accounted for by the random parameter in the NB models. One such factor is excess zeroes, which can result from several different mechanisms, such as the absence of the event of interest, but also an impossibility to attain the event of interest at all (Hilbe, 2014: 196). The former would be called a random (or uncertain) zero because it can assume other values under different circumstances, while the latter is a structural zero, and cannot be otherwise. Besides accounting for overdispersion of the data, therefore, it is important to understand the sources of this overdispersion. If excess zeroes are inherent to the data generating process, that is, if there are far more zeros than expected by the distributional assumptions of the Poisson and NB models, then a zero-inflated model may be a more sensible choice (Hardin & Hilbe, 2018).

This model is composed of two parts, binary and count. The binary portion (typically a logit or probit) estimates zero counts, whereas the count portion estimates the generation process for the full range of counts (Hilbe, 2011, 2014). Thus, in a zero-inflated model there are two different processes through which data can lead to an observation of zero. In one, the observations do not participate in the count process and the response could not be anything different from zero. In the present case, a healthy automotive sector would not require any government assistance and no aid requests are advanced. Here, the only possible outcome is zero. In another process, the government tries to get the aid past the Commission but fails, and for that year the aid might be denied and amount to zero. The amount of aid effectively granted is then estimated by calculating the effects of the covariates conditional on the likelihood that a given observation was generated from the count-stage data generation process (Perumean-Chaney et al., 2013).

There are two main zero-inflated models, based on the Poisson and NB distributions respectively, the zero-inflated Poisson (ZIP) and the zero-inflated negative binomial (ZINB). Likelihood ratio tests point to the ZINB as being a better fit than the ZIP, due to the presence of overdispersion. Thus, I run the analysis using a ZINB estimator to deal with overdispersion (Perumean-Chaney et al., 2013). The probability mass function (pmf) of the ZINB model can be written as:

$$Pr(Y_i = y_i) = \begin{cases} \pi + (1-\pi)f\,(0) & y = 0 \\ (1-\pi)f\,(y_i) & y > 0 \end{cases}$$

Where $0 \leq \pi \leq 1$ is the rate of the zero inflation and $f\,(\cdot)$ is the pmf of the parent count model, in this case a NB, such that $Y \sim NB\,(\mu, \theta)$, where $\mu \geq 0$ is the mean and $\theta > 0$ is the dispersion parameter.[26] It follows that the estimation equation for the count portion becomes:

$$\begin{aligned} Aid_{i,t} = {} & \beta_0 + \beta_1 Policy\ Preferences_{i,t-1} + \beta_2 Coalition_{i,t-1} + \beta_3 Veto\ Players_{i,t-1} + \\ & + \beta_4 Regulation_{i,t-1} + \beta_5 (Policy\ Preferences \times Coalition)_{i,t-1} + \\ & + \beta_6 (Policy\ Preferences \times Veto\ Players)_{i,t-1} + \\ & + \beta_7 (Policy\ Preferences \times Regulation)_{i,t-1} + \\ & + \beta_8 District\ Magnitude_{i,t} + \beta_9 Personal\ Vote_{i,} + \\ & + \beta_{10} (District\ Magnitude \times Personal\ Vote)_{i,t} + \boldsymbol{\beta}_k \mathbf{X}_{i,t-1} + \gamma_{i,t} + \varepsilon_{i,t} \end{aligned}$$

where $\boldsymbol{\beta}_k \mathbf{X}$ is a matrix of different control variables (country-, or industry-related), $\gamma_{i,t}$ is a set of country dummy variables, and $\varepsilon_{i,t}$ is the error term. Country dummy variables are employed because in count models observations are supposed to be independent. However, this is hardly the case in panel data. Thus, by adding country-fixed effects in the count portion of the ZINB model, I can control for underlying heterogeneity.[27] I also employ robust standard errors to reflect the fact that the data are not independent (Hilbe, 2014: 101, 133).

[26] For a more comprehensive understanding of the ZINB estimation, see Garay et al. (2011). See also Hilbe (2011, 2014) and Hardin and Hilbe (2018).

[27] Country dummy variables cannot be included in both parts of the equation, since this will prevent model convergence.

4.5.2 Discussion

Tables 4.5.1 and 4.5.2 show the results for the ZINB estimator.[28] Four models are included: baseline, with country-level controls, with industry-level controls, and the full model. Out of 239 observations, 159 (66%) are zero-observations, though we cannot tell which are structural and which are random zeroes. Due to missing data, the models including industry-level controls only tally up to 233 observations. It should also be remembered that zero-inflated models are employed to fit count data, yet the dependent variable is continuous in nature. Further, these types of tests do not effectively establish causality. Hence, little in terms of the magnitude of the effects could be inferred from reading the coefficients, and the results should be mainly interpreted as a test of the plausibility of the hypotheses rather than true causal effects.

Table 4.5.1 shows the results for the first hypothesis. Since this is the only one that does not require higher-order coefficients, it is tested separately. The coefficient is consistently significant across all specifications, but bears the opposite sign as hypothesised.[29] A potential interpretation of such a result could be that party manifestos do not provide parties running for office with the necessary incentives to appeal to the median voter by proxy in very narrow sectors of the economy, as it may not be seen as a winning strategy. The significant negative coefficients could also potentially suggest a a degree of responsiveness to special interests – employers, rather than employees – in such a sensitive sector, though little can be inferred in this regard from this analysis alone.

The table also shows that two other variables are robust to different specifications: *Financial Globalisation*, which presents a negative sign, and *National Champion*, whose sign is instead positive. Both are consistent with this alternative interpretation in that the automotive industry is one where domestic producers, particularly national champions, are strongly protected and the government may be unwilling to make them lose their standing by introducing foreign competitors in the local market. As we will see in Chapter 8, this is the type of industrial strategy that France has adopted for the car sector for much of the past century: both Renault and PSA were heavily protected by the state and foreign producers were mistrusted across all levels of government.

[28] Average VIF across the models in Table 4.5.1 is 4.06, while it is 8.96 for models in Table 4.5.2, due to the presence of interaction terms.

[29] Results hold when the specifications also control for *Coalition* and *Veto Players* (not shown here).

Table 4.5.1: Zero-inflated Negative Binomial regression (H1 only) for state aid to the European automotive sector (1992-2011)

	Baseline	**Country variables**	**Industry Variables**	**Full model**
Policy Preferences	-0.287***	-0.195***	-0.286***	-0.179***
	(0.103)	(0.072)	(0.107)	(0.069)
Trade Globalisation		-0.006		-0.022
		(0.053)		(0.049)
Financial Globalisation		-0.074**		-0.082**
		(0.034)		(0.034)
Debt/GDP		0.001		0.010
		(0.016)		(0.014)
Timing of elections		0.235		0.366
		(0.285)		(0.298)
EMU		0.801		1.033*
		(0.632)		(0.584)
Matriculation of new cars			0.001	-0.020
			(0.019)	(0.015)
Value added (%GDP)			0.454	-0.214
			(0.587)	(0.481)
National Champion			0.898**	1.694*
			(0.447)	(0.976)
Constant	3.482***	8.891***	3.050***	9.895***
	(0.412)	(1.709)	(0.678)	(1.846)
Observations	239	239	233	233
Country-fixed effects	✓	✓	✓	✓
Log pseudo-likelihood	-540.621	-525.87	-533.801	-519.312
α	1.21	0.837	1.173	0.814
Wald's χ^2	2386.11***	1381.95***	1799.59***	1124.88***

Note: robust standard errors in parentheses. Inflation part of the equation not included. *** $p<0.01$; ** $p<0.05$; * $p<0.1$.

Table 4.5.2 shows the regression results for the other hypotheses. Neither H2 (H2a + H2b) nor H3 on institutional constraints and international commitments is confirmed. H2 is never significant across all specifications and presents the opposite sign as hypothesised. H3 is instead negative as expected, but is also never significant. This result may be a consequence of what the previous analysis showed. Since government parties do not seem to be responsive to the interest of the median voter in the automotive industry by means of party manifestos, there could be a different mechanism at play that is not properly captured by the theory. This will be better explored in the second part of the thesis, when sectoral state-business relations are analysed. Still, one should be cautious in interpreting these findings since they could also be due to the rather small effect of the three interaction terms (H2a, H2b and H3), all of which hover around the zero line.

Table 4.5.2: Zero-inflated Negative Binomial regression for state aid to the European automotive sector (1992-2011)

	Baseline	**Country variables**	**Industry Variables**	**Full model**
Policy Preferences	-0.218	-0.199	-0.262	-0.235
	(0.222)	(0.219)	(0.217)	(0.210)
Coalition	0.207	0.206	0.156	0.131
	(0.284)	(0.263)	(0.270)	(0.250)
Veto Players	-0.082	-0.097	-0.069	-0.080
	(0.057)	(0.060)	(0.064)	(0.060)
Regulation	-0.124**	-0.065	-0.119*	-0.082
	(0.063)	(0.077)	(0.069)	(0.079)
Policy Preferences x Coalition (H2a)	0.025	0.019	0.052	0.037
	(0.072)	(0.074)	(0.076)	(0.071)
Policy Preferences x Veto Players (H2b)	0.009	0.010	0.010	0.010
	(0.012)	(0.012)	(0.013)	(0.012)
Policy Preferences x Regulation (H3)	-0.003	-0.010	-0.003	-0.009
	(0.017)	(0.016)	(0.017)	(0.016)
District Magnitude	1.025***	1.256***	1.075***	1.306***
	(0.278)	(0.280)	(0.274)	(0.253)
Personal Vote	1.065	1.654*	1.085	1.825**
	(0.965)	(0.942)	(0.997)	(0.919)
District Magnitude x Personal Vote (H4)	0.584**	0.673**	0.640**	0.669***
	(0.273)	(0.262)	(0.254)	(0.223)
Trade Globalisation		-0.005		-0.010
		(0.038)		(0.042)
Financial Globalisation		-0.024		-0.029
		(0.026)		(0.027)
Debt/GDP		0.031***		0.036***
		(0.009)		(0.009)
Timing of elections		0.123		0.211
		(0.279)		(0.294)
EMU		0.225		0.459
		(0.473)		(0.492)
Matriculation of new cars			-0.007	-0.014
			(0.011)	(0.009)
Value added (%GDP)			0.356	-0.042
			(0.384)	(0.404)
National Champion			2.026	2.208
			(1.320)	(1.642)
Constant	0.784	-0.222	0.214	-0.063
	(1.322)	(2.513)	(1.383)	(2.306)
Observations	239	239	233	233
Country-fixed effects	✓	✓	✓	✓
Log pseudo-likelihood	-511.342	-504.634	-504.402	-498.02
α	0.61	0.535	0.612	0.533
Wald's χ^2	3341.51***	1814.44***	1805.54***	1801.72***

Note: robust standard errors in parentheses. Inflation part of the equation not included. *** p<0.01; ** p<0.05; * p<0.1.

For its part, H4 on the interactive effect of electoral rules is found to have a robust positive correlation with state aid, as hypothesised. All four models show the correct sign. Much like aggregated aid allocations, subsidies to the automotive industry are higher when they are geographically targeted and there are incentives for governments to allocate particularistic policies to those constituencies that maximise their party's electoral fortunes (Rickard, 2018). The findings suggest that for bigger districts, governments will disburse more aid as the system shifts from party- to candidate-centred, as there is a *need* for the incumbent to distinguish herself from competitors (H4a). Likewise, as district magnitude increases, the marginal effect of casting personal votes on aid allocation becomes positive, as there are more *incentives* for the incumbent to distinguish herself from competitors and engage in particularistic spending (H4b).

This finding is not necessarily in contradiction with Nicolini et al.'s (2017) interpretation of PR systems being more generous to the automotive industry. Rather, it represents a more sophisticated understanding of how electoral institutions interact to affect aid allocations. However, no evidence in support of the PBC is found. Hence, while electoral politics seem to be important, governments do not necessarily provide subsidies just before an election. This may be due to the way data are recorded by the Commission, which may create small inconsistencies between the approval of the measure and the effective disbursement.

As in the analysis in the previous chapter, from reading the table alone, there is no way of knowing under which conditions the interaction of *District Magnitude* and *Personal Vote* is significant. Therefore, I follow again Berry et al. (2012) and Brambor et al. (2006) to plot the marginal effect of *District Magnitude* and *Personal Vote* on aid to the MVI.

Figure 4.5.1 reflects the two parts of H4 to show the interaction plots of the marginal effect of both *District Magnitude* and *Personal Vote*, using the baseline model. The plots are able to tell us for which values of the interacted terms the marginal effect is significant. The thin solid horizontal line represents the zero-line; the bold solid line is the estimate of the marginal effects; the dashed lines are the confidence intervals at the 95% level; and the grey bars in the background show the distribution of the variable on the X-axis.

Although little can be said in terms of the magnitude of the effects due to the nature of the response variable, we can still identify certain trends. For low values of *District Magnitude* (i.e. for single-member constituencies), the effect of *Personal Vote* is minimal, since the system is already assumed to be candidate-centred. As district magnitude increases, and intra-party competition becomes relevant, the effect becomes stronger, since incumbents have an incentive to distinguish themselves from other candidates. Securing subsidies for their district helps them develop a personal vote (Rickard, 2018). However, as the system shifts from party- to candidate-centred, while the marginal effect of *District*

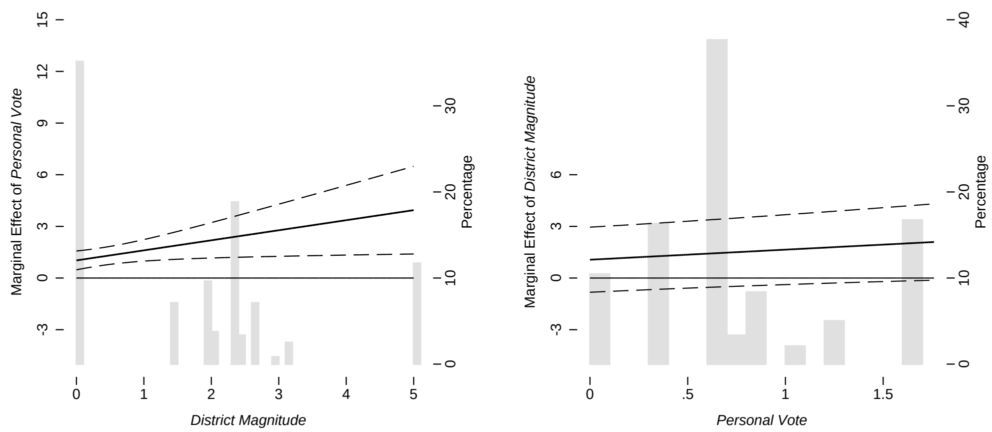

Figure 4.5.1: Marginal effect for *District Magnitude* and *Personal Vote* in the baseline model

Magnitude assumes a positive slope as hypothesised, the values are never significantly different from zero.

The graphs therefore show that the marginal effect of cultivating a personal reputation to maximise one's chances of re-election is more important as the average district magnitude increases than the marginal effect of the district magnitude as the system becomes more candidate-centred. Thus, in the event of an electoral reform, allocation of subsidies to one's constituency may be more of a winning strategy if the new electoral system increases the average district magnitude – and therefore intra-party competition – than if, for a given level of district magnitude, the new system simply emphasises the cultivation of a personal vote more.

Finally, no control variable aside from *Debt/GDP* is found to have a significant effect on aid allocations to the MVI. The sign is however not in the expected direction. This may suggest that, even despite debt concerns, governments continue to succour domestic producers to protect the national economy. This is also shown by the positive (albeit insignificant) values of *National Champion* and the negative value for *Matricutlation of new cars.* The presence of national champions pushes government to support domestic producers more than in countries where national champions are not present; the health of the sector, as measured by the difference in matriculation of new cars compared to previous years, is instead negatively correlated with the need to support the industry. Likewise, more overall protectionist countries, as measured by the index of *Trade* and *Financial Globalisation*, seem to be more keen on supporting domestic producers. Still, in light of the non-significance of their coefficients, little can be inferred from the results involving the control variables.

4.5.3 Robustness checks

I employ a series of robustness checks, shown in Tables 4.A1 through 4.A3 in Appendix A to Chapter 4 (see end of thesis). First, I re-run the analysis in Table 4.5.2 adding year-fixed effects. Time trends can be useful to capture common shocks across countries, which may differently affect the member states, thus making their response in terms of subsidies also different. The results are in line with the previous analysis. H1 always bears a negative sign and is significant in two out of four cases. H2a and H3 area instead never significant.

H2b, on the contrary, becomes significant in three out of four specifications, although it has a different sign than expected. An alternative explanation offered by the literature could be that a different mechanism is at play whereby power-sharing arrangements actually enhance the marginal effect of a government's preferences on subsidy allocations by dispersing power and creating more access points to lobby politicians (Ehrlich, 2007; Zahariadis, 2008). These can be different coalition partners who respond to different constituencies (Bawn & Rosenbluth, 2006) or legislators sitting in different chambers for bicameral systems (Zahariadis, 2008), who represent different constituents compared to their colleagues in the lower chamber. This, in turn, provides more incentives to legislators to enact their policies as there are more different constituents to satisfy. Finally, H4 confirms the results of the previous table. It is consistently robust and significant at the 1% level. Of the control variables, only *Matricutlation of new cars* is consistently robust, suggesting once again that the health of the sector matters.

Nevertheless, there are three reasons to be wary of these results. First, although adding year-fixed effect constitutes a higher threshold to the robustness of the results, time trends may be already captured by other variables, particularly *Regulation.* Secondly, for what concerns H2b, the alternative explanation suggested here is essentially ideology-free (i.e. does not involve a conditional effect on government preferences), thus making its interpretation ambiguous, and its effect also seems to be rather small, nearing the zero. Further, the results for this hypothesis become significant only when time trends are included, meaning that this could be an irk of the specification, making this finding not particularly reliable. Thirdly, the missing Wald's χ^2 coefficient from some of the models, which is due to the high number of variables in the specification compared to the number of clusters, suggests that too much is asked of the data. While on a computational level this does not constitute an issue, the missing coefficient remains a warning as to the interpretability of the results. Hence, one would do well to see this first robustness check as one that merely increases the plausibility of the main regression analysis.

This kind of pattern is repeated in Tables 4.A2 and 4.A3, which show estimates for two subsamples . In Table 4.A2, I only include member states from the EU-15, where most instances of aid take place and where the national champions of the MVI are situated. The results for H1 mirror those of the two previous analysis: always significant, but in the opposite direction as expected. Once again, only H4 is found to be robust. More interestingly, the controls shed light on why focusing on the EU-15 may be important.

Financial Globalisation is always negative and significant in three out of four specifications, mirroring the results for *National Champion*, which are instead always positive. This shows the protectionist legacy of countries like France and Italy, as opposed to more FDI-oriented member states like Britain, Belgium or The Netherlands. Finally, *EMU* is found to be significant in three out of four models, although with a positive sign, thus suggesting that eurozone countries do not necessarily abide by more stringent rules exactly because of the presence of national champions.

Table 4.A3 instead excludes one influential observation from the dataset: Italy in 1992. During this year, over €3bn have been disbursed to build a technologically advanced Fiat plant in Melfi, in Southern Italy. In no other country-year observation does aid ever reach €500mn. Here, the results become slightly less robust. H1 confirms the significant, but negative trend, whereas H2a, H2b and H3 are never significant. For its part, H4 loses significance in two of the four specifications (baseline and with industry-level variables), suggesting that some of the results in the previous tables may be driven by one single influential observation. Of the controls, only *Debt/GDP* is somewhat consistently robust, though its sign is positive, which again shows that profligacy is not necessarily an issue for national governments who want to protect national car manufacturers.

The robustness checks show why we must be careful with giving causal interpretation to these estimates, for two reasons. Firstly, the alternative explanation offered by the literature whereby power-sharing arrangements affect aid allocations is essentially ideology-free (i.e. the number of access points directly affects allocations). In Table 4.A1, however, there is a conditional effect that power-sharing arrangements (namely veto players) have on the policy preferences of a government. Thus, it remains unclear whether and how the alternative mechanism of power-sharing interacts with ideology. Nevertheless, the inconsistency in the robustness of H2b suggests that we should be wary about theories purporting to explain economic outcomes through power-sharing arrangements.

Secondly, the findings show that results can be sensitive to sample selection, and one must be careful in providing clear-cut inferences and should instead be forthcoming about the degree of uncertainty surrounding the results. It bears repeating that results should be mainly interpreted as a test of the plausibility of the hypotheses rather than true causal effects. Additional analyses that go beyond 2011 may offer a different landscape due to changing circumstances that the present analysis cannot capture. These include the likes of the State Aid Modernisation initiative of 2012 (SAM, see Micheau, 2016), and the up-tick in nationalist parties reaching government positions, as they may be more willing to help domestic producers – particularly those in sectors with high value added to the economy – in the name of national interest.[30]

4.6 Conclusion

The goal of this chapter was to explore the political determinants of sectoral aid allocations. Following Nicolini et al. (2017), I used the automotive industry as a case study. Three characteristics of the sector made it appealing. First, high industry concentration means that only a handful of firms need to be considered, which makes the data-gathering process easier. Further, these firms may have an easier time organising and mobilising to create privileged relationships with national governments. Secondly, the political sensitivity of the sector seemed to suggest that an analysis of the political determinants of subsidy spending could help shed light on state-business relations (Atkinson & Coleman, 1989). Finally, the automotive industry is amongst the most regulated (see Dancet & Rosenstock, 1995; Maloney & McLaughlin, 1999; Stephen, 2000), meaning that the threshold for hypothesis testing increases, and that the findings could potentially translate well to other, less regulated sectors.

Four main conclusions can be taken from this study. First, one of the major hurdles to doing sectoral analysis when studying aid allocations lies in the poor transparency of the data and the nature of aid, which is often multi-sectoral. Hence, when trying to understand the 'wrinkles that lie beneath' state aid (Zahariadis, 2008), scholars most often simply distinguish between horizontal and sectoral (and sometimes regional) aid, which however falls short of being a *de facto* sectoral analysis. This paper shows, as did Nicolini et al. (2017), that a sectoral study of subsidy spending is indeed possible.

For all its benefits, there exist as many drawbacks to studying a highly concentrated industry such as the automotive one. A first limitation is that focus on this sector would put too much emphasis on the

[30] However, one should also be wary of direct state aid comparisons before and after 2012, as the SAM changed some of the guidelines regarding categorisation of aid.

relationship between the state and the 'big firm' or 'corporate business' (Hart, 2004; Lindblom, 1977; Wilks, 2013), rather than any firm. This could help us understand whether business has any clout over government decisions and if so, how. The findings, however, would be rather difficult to generalise to all sectors of the economy. A second drawback is that government assistance through state aid is only one of the means through which member states supported this sector. Other means include tools such as scrapping schemes and government-guaranteed loans from the European Investment Bank, which are however not registered as aid (Grigolon et al., 2016). Hence, this analysis is still unable to properly capture the entirety of government support to firms. Thus, and keeping in mind the limitations of this strategy, future research would do well to engage in a comparative study not just between countries, but also between sectors, to better understand state-business relations, which have been rarely tackled by quantitative scholars.

The second takeaway of this study is that the results point to some degree of responsiveness of politicians to special interests. However, such responsiveness seems to come from the set up of the electoral system, rather than from governments being able to enact their manifesto promises. These findings suggest that the sector, being highly concentrated and politically sensitive due to the high number of workers and the often non-negligible value added to the economy, might be a crucial test case when studying state-business relations and the influence special interests have over the political institutions. It further suggests that channels other than official political platforms may be at play in their relations. Other similar sectors such as airlines or banking might generate similar results. Hence, the automotive industry can be used as a pathway to understand the behaviour of these actors in other industries.

Thirdly, from a methodological point of view, two points need to be emphasised. Firstly, data on sectoral aid are likely to be overdispersed. Hence, scholars should be attentive in identifying and modelling overdispersion, since failing to account for overdispersion in zero-inflated data leads to Type I errors that confer significance to coefficients when there is none (Perumean-Chaney et al., 2013). Secondly, even then, they need to be careful in their inferences, since the complex web of variables affecting aid allocations shows that there can be significant threats to the estimated parameters, which may not allow for proper causal inferences. Both have important implications for policy-makers, who may mistakenly conclude that issues arise from particular factors when in reality this is not the case.

Finally, the study shows that we need a better understanding of what the literature calls 'national champions' when analysing state-business relations. Not only are scholars unclear over what constitutes a national champion, but national champions are today being abandoned in favour of 'European champions' able to compete globally with their American and Asian counterparts (Thatcher, 2014).

However, there exists a tension between the Commission's desire to have a level playing field in the Single Market and the necessity for growth of European firms. In the automotive industry, mergers like that between Fiat and Chrysler or the incoming one of FCA and PSA,[31] open the door for European firms to compete with giants like General Motors and Toyota. In our quest to understand state-business relations, we must also gain a better understanding of how to situate these special interest within the chessboard of domestic politics, and how to translate this relationship at the European level. Without these key pieces, any inter-sectoral comparison that is to be contextualised in the current European political environment will fall short of providing a clear answer as to the political determinants of sectoral subsidisation.

[31] https://www.ft.com/content/92ff16ec-2162-11ea-92da-f0c92e957a96. The new entity, Stellantis, has been operational since January 2021, see https://www.wsj.com/articles/chrysler-fiat-peugeot-psa-stellantis-name-11610982310

Chapter 5

Putting the ‘qual’ in the ‘quant’: state aid politics and state-business relations in the motor vehicle industry

5.1 Introduction

The previous chapters offered a large-N comparative analysis of distributive politics for state aid allocation in the EU, both at the macro and sectoral levels. The main goal was to provide an account of state aid politics in the EU that revolves around the ideas of responsiveness and accountability. This, in turn, would help shed light on the functioning of the interventionist state and its decline among advanced democracies (Schuster et al., 2013; Zohlnhöfer et al., 2018), which becomes all the more relevant within the context of multilevel governance (Hayward, 1995; Lavdas & Mendrinou, 1999). The question to answer was, why do some member states of the EU allocate more aid than others? The analysis, based on the process of democratic policy-making as envisaged by Persson and Tabellini (2003), found that governments may value accountability (i.e. retention of power) more than they are able to achieve programmatic goals. Internal (coalition partners) and external (EU competition rules) factors also constrain their ability to be responsive to domestic producers, though these findings were less robust in the automotive industry, with only the accountability hypothesis being consistent with the account of state aid politics laid down in Chapter 2. However, these quantitative analyses say little about the state-business relationship and how it evolves over time.

This second part of the project, therefore, aims to fill in this gap to ask the question, how can we understand state-business relations in state aid politics in terms of responsiveness and accountability? The answer to this question entails two shifts of analysis. One is the shift from the macro- to the meso-level (or sectoral level) of analysis. As Grant et al. (1988: 314) remind us, sectoral analysis is crucial to understanding government-business relations, since sectoral variations modify national characteristics (see also Rhodes, 1990).[1] The next section explores the literature on policy networks more in depth and offers an account of sectoral state-business relations, mostly based on the work by Atkinson and Coleman (1989).

The second shift involves putting the 'qual' in the 'quant', that is to say, engaging in a series of case studies to attain a fuller understanding of state aid politics. Qualitative analyses could better identify causal mechanisms, which according to Weller and Barnes (2014: 15) are 'unobserved factors that lie between an explanatory variable and an outcome in a causal chain.' Identifying causal mechanisms, however, while certainly an important goal, is far from the only one in multi-method research. Case studies can also unearth sources of measurement error and identify omitted variable bias (Seawright, 2016b: 77; see also King et al., 1994: 152-83). Therefore, the quantitative and qualitative analyses *integrate* each other by orienting themselves each towards a somewhat different goal and informing each other in a useful fashion (Gerring, 2017: 28).

For instance, the quantitative analysis showed that there is no positive correlation between the economic policy variable, as measured by the Party Manifesto pledges, and aid disbursement, either aggregate or confined to the automotive industry. In the case of the automotive industry, the correlation was even negative. Issues of measurement error cannot be discounted in this case. It could well be that governments are not particularly responsive to special interest demands, but it could also be that this measure does not tell the whole story and that responsiveness may take place through channels other than manifesto pledges. As an example, the Tories and Labour in the UK have at different times included manifesto pledges about intervention in or support of different industries such as coal, railways, communications and even automotive.[2] However, these pledges have not often reflected effective policy. Only in two cases (1992 and 2001) did either party explicitly offered support to the automotive industry through their Manifestos, yet, as the analysis will show, the bulk of state support

[1] Rhodes (1990) suggests a cross-country *and* cross-sectoral comparison. Although this is certainly ideal when the goal is to understand variation in sectoral policy styles, for logistical reasons, the present project only addresses one sector: the automotive industry. Despite this limitation, the analysis can still offer useful insights about (a) how state-business relations in the industry evolve over time (longitudinally); (b) how the national and sectoral policy styles may vary; and (c) how sectoral policy styles in the same industry vary across countries. Each insight reinforces and supports the other two to provide a more comprehensive understanding of state-business relations.

[2] For a list of the manifestos, see `http://www.conservativemanifesto.com/` for the Tories and `http://www.labour-party.org.uk/` for Labour.

to the British industry took place between the 1970s and 1980s. In other words, what is it that the manifestos are not telling us? Quantitative analysis alone cannot unveil the whole story, and this is where intensive case studies come in.

Further, the statistical analysis found, like many other studies, that electoral accountability represents a strong incentive for governments to allocate aid. Politicians will target distributive spending in order to win the next election and retain their seat. Although evidence of *correlation* is widespread (see the literature review in Chapter 2), less is said about *how* this happens. Some works, including the present study, found that this effect is conditional on the personalisation (as opposed to 'partification') of the electoral process: are candidates currying favours to the party leadership or the electorate? Imai et al. (2011: 784) in this sense, suggest that interaction terms already represent a means to identify causal mechanisms, as they push the researcher to ask herself, 'Under what assumptions is this line of reasoning valid?' Yet, the information that interaction effects convey remains limited: the mechanism, by its very definition, remains unobserved – but not unobservable. Hence, if the analysis so far asked 'what is the average casual effect of these political variables on state aid allocation?' to show that the causal effect 'works somewhere', the forthcoming chapters raise a further puzzle: '*how* exactly do these political variable cause aid allocation?'

To solve this new puzzle, the following chapters focus on the meso-level analysis of the study. A sectoral approach, based on the policy network framework, integrates Persson and Tabellini's macro-institutional framework by focusing on the state aid politics of the motor vehicle industry in three major European countries: Italy, the United Kingdom and France. The sectoral approach has a twofold aim. The first is to explicitly model state-business relations in one major sector of the economy – the automotive industry. Secondly, the sectoral approach, by its very virtue of being able to model such relationships, can also offer insights regarding the causal mechanism. Since these are akin to 'intervening variables,' I also do not expect state-business relations to exhibit a common trend *across countries* as well as *over time* in state aid politics. Hence, what the sectoral approach offers, compared to the classic state-centred one, is dynamics. Policy networks differ among sectors, within countries, and over time (Atkinson & Coleman, 1989; Maloney & McLaughlin, 1999), so one should expect different mechanisms to be more important at certain junctures and in certain jurisdictions.

In sum, the study aims to heed the recent call made by Zohlnhöfer et al. (2018: 557) for a combination of quantitative methods and intensive case study research to better understand the European interventionist state. The chapter is structured as follows. Section 2 reviews the policy network literature and describes Atkinson and Coleman's (1989) sectoral approach framework more in detail. It should be noted that this framework does not entail a different theory – rather, it integrates the account delineated in Chapter 2 by providing alternative channels of state-business relations in state aid politics. Section 3, instead, provides a justification for case selection for the three countries under investigation, and Section 4 describes the empirical strategy, based on qualitative methods and particularly comparative-historical analysis. The following chapters will describe the Italian, British, and French experience respectively.

5.2 Modelling state-business relations in the automotive industry using a policy network framework

5.2.1 Breaking down the political system: from state to policy networks

As Chapter 4 makes clear, there is a need for a disaggregated view that looks at the different sectors of the economy. Here, the political system breaks down into a series of sub-systems where it becomes possible to identify a variety of policy-making styles (Maloney & McLaughlin, 1999: 6). In matters of industrial policy, Cohen (1995, 2007) contends that the conditions under which the state intervenes vary depending on (a) the power of industrial actors; (b) the presence of 'lame ducks', or firms that are in dire economic straits; and (c) the complete absence of industrial actors in a sector that is decisive for national independence. However, Atkinson and Coleman (1989: 47) acknowledge that variation exists within single countries and across sectors in the degree to which the state is *able* and *willing* to intervene in the economy. A government's *willingness* to intervene may be a function either of special interest groups shaping the policy preferences, or of the government attempting to achieve public economy or electoral goals (Break, 1972; Hofmann, 2016; Ray, 1987). A government's *ability* to intervene, instead, depends on the level of autonomy the state enjoys. The degree to which the state is autonomous may depend on internal (dispersion of political power; penetration by interest groups) or external (international commitments) factors.

Willingness and ability to intervene, therefore, closely mirror the argument made in the previous chapters about responsiveness of national governments to special interest groups.[3] The logic applied at the macro level easily translates at the meso-level, with the additional advantage of being able to explicitly model intra-sector state-business relations, rather than assume that in distributive politics, government policy *should* align with demands from special interest groups more than the preferences

[3] And, if we see the 'other side of the coin', then they also mirror their need to intervene in order to retain power, since they are electorally accountable.

of the median voter – or vice-versa. A disaggregated view at the sectoral level, therefore, can be a 'valuable corrective to the tendency to assume coherence between different parts of the state by derivation from an ideology of the role of the state as organiser and intervener in civil society' (Cawson et al., 1987: 11).

One way to address the disaggregation of the state is through policy network analysis, which arose as a consequence of the deep dissatisfaction with the macro-level pluralist and corporatists models of policy styles (Börzel, 1998). This also better reflects empirical reality, since due to the sheer size of national governments today, public policy must be broken down into more manageable and smaller groups of participants, often with minimal ministerial interference, thus suggesting that the logic of private-public relationships should hold regardless of the party in power (see Cairney, 2019: 64).

In its most basic sense, a policy network is the set of political actors both inside and outside government that are involved in policy-making and the relations between these actors (Compston, 2009: 7). In the words of Tanja Börzel (2011: 50), the utility of the network concept lies in the fact that,

> [it] should allow for a more 'fine grain' analysis by taking into account sectoral and sub-sectoral differences within the state, the role played by private and public actors, and formal as well as informal relationships between them.

However, the history of policy network theory is fraught with conceptual difficulties – so much so that the literature has developed into two very different schools of thought.[4] In the first one, called the 'intermediation school', policy networks are used as an analytical tool for any type of relationships between public and private actors. The second one, the 'governance school', understands policy network as a specific form of public-private interaction opposed to other types of governance, such as institutional hierarchy and the markets (Börzel, 1998). Here, I follow the first strand and understand policy networks as a meso-level concept of interest group intermediation (Börzel, 1998; Marsh & Rhodes, 1992; Rhodes & Marsh, 1992) rather than a specific mode of governance. In so doing, I *complement*, rather than *supplant* the macro-level of analysis.

Actors in policy networks form relatively stable relations to 'engage in *resource exchange* over public policy (policy decisions) as a consequence of their resource *interdependencies*' (Compston, 2009: 11, my emphasis). This definition provides two key terms, emphasised in italics. First, actors in the policy network engage in an exchange of resources: public actors are the only ones who can provide authoritative decisions, such as policy amendments, veto power, taxes, subsides, or market regulation.

[4]For reviews on the idea and development of policy network, see Börzel (1998, 2011), Rhodes (2006), Rhodes and Marsh (1992) and Thatcher (1998). For a critical approach that sees policy network as nothing more than a 'useful metaphor', see Dowding (1995).

Private actors, for their part, may possess resources that are useful to public actors, including expertise, knowledge, investment or political support. Secondly, these resources are exchanged *because* actors are inter-dependent. This is known as the 'Rhodes model' of dependency relationships between government and interest groups, in which resources are exchanged based on the level of integration and balance of power between actors (Rhodes, 1986).

Policy networks, therefore, are a 'set of resource-dependent organisations' where 'any organisation is dependent on other organisations for resources' (Rhodes, 2006: 431).[5] Groups need both the resources and the legislative authority that only the government can provide, and in turn politicians (and bureaucrats) need the groups' cooperation for policy implementation, as well as their financial and political support to retain power. Thus, three conditions must obtain: (1) a certain resource is controlled by a political actor; (2) this resource is desired by another political actor; and (3) the resource can be transferred (Compston, 2009: 19).

Following Atkinson and Coleman (1992), the idea of policy network prompts two key questions: who participates and who wields power? The relatively stable set of relationships suggests that policy networks can be open to few or many actors, whereas resource interdependence hints at a difference balance of power between the different actors. Is the state dominant, or are the interest groups able to permeate state institutions? In matters of industrial policy, which of Cohen's conditions apply that are conducive to state intervention in any given sector? In other words, when are subsidies allocated to producers?

Here, I adopt a two-step strategy to answer these questions and discuss state-business relations in terms of aid allocations to car manufacturers. First, I identify the type of policy networks that may characterise the relationship between public and private interests in the automotive industry based on some key variables that affect resource exchange, following the literature (see below). Secondly, based on the typology, I identify the possible policy approaches that can be taken in terms of subsidisation.

According to Atkinson and Coleman (1989), the type of policy network conditions the adoption and success of public policies in the sector, Thus, subsidisation may be part of a bigger industrial strategy, like the French *grand projets* (Cohen, 1995), or it could be merely a reaction to exogenous factors, such as clientelism or economic downturns. This entails that not all policies can be carried out in any type of policy network. For instance, if the type of state-business relations in the sector resemble a clientelistic relationship between interest groups and state departments, then it is very unlikely that

[5] Some scholars also differentiate between 'policy community' and 'policy network'. The former refers to the constellation of actors participating in the making of policy. The latter concerns the manner in which state actors share and exchange resources and the resulting distribution thereof among the members of the community (Coleman & Perl, 1999).

resource exchange (i.e. subsidy allocation) is given as the result of a coherent industrial strategy, whether state-directed or concerted with business and labour interests, and that it will instead pursue the particularistic interests of both private and public actors.[6]

Different variables have been proposed over the years to identify the typologies of policy networks. For instance, Rhodes and Marsh (1992) propose a continuum based on the level of integration of the actors involved, ranging from the tight-knit policy community, where there are only few, defined players that interact frequently and continuously and are usually balanced in terms of power, to the loose issue network where both membership and interactions fluctuate and power is distributed unequally. In between are the likes of professional, intergovernmental and producer networks. Although such a typology may be useful to distinguish between inter-sectoral variations, it is less so when one wants to study cross-country variation in the same sector.

Cawson et al. (1987) base their typology of networks in the telecommunications and consumer electronics service sectors in France on two variables, state autonomy and monopoly closure in state-group relations (i.e. the degree of market control that firms have in a given sector). Jordan and Schubert (1992) characterise eleven typologies of policy networks based on the scope of issue discussed (sectoral vs trans-sectoral), the number of participants, and the level of institutionalisation. Atkinson and Coleman (1989), as we will see, identify six different outcomes based on the autonomy of the state bureaucracies, its concentration of power, and the level of mobilisation of interest groups. Van Waarden (1992) builds on this model to distinguish between eleven different state-business relations, based on seven characteristics: actors, function, structure, institutionalisation, rules of conduct, power relations, actors' strategies.[7] Howlett (2002), instead, argues that policy networks can be linked to policy outcomes through the structure of the network and the dynamics of interest intermediation. These factors, as conceptualised by the receptivity to new ideas and actors, and the symmetry between and insulation of the network from the community, respectively, helps explain the extent of policy change.

Of all these different typologies, however, only Atkinson and Coleman (1989) make predictions about the policy style of a given typology of network. Rhodes and Marsh (1992) and Jordan and Schubert (1992) are silent about eventual policy decisions. Van Waarden (1992: 37) only includes strategies with reference to 'selection of actors, the structuring of relations, the provision of functions, and the creation or nurturing of certain conventions,' but not eventual outcomes. Compston (2009) identifies

[6] This suggests that the existence of clientelistic relationships may be a *sufficient but not necessary* condition for a subsidisation policy that is not integrated in a coherent industrial policy. Other types of network may lead to the same outcome.

[7] He also eventually singles out three as the most important: number and type of societal actors involved; the function of the network; and the balance of power between actors.

five key variables that influence resource exchange, either directly or indirectly: resources, preferences, strategies, perceived problems and solutions, and rules and norms. However, while Compston (2009: 41) concedes that 'different strategies can lead to different policy decisions by leading to public actors making different types of policy concessions,' he does not identify any particular typology that should be related to eventual policy outcomes. For their part, and as will be detailed below, Atkinson and Coleman (1989) show that the policy approach, which they label as either anticipatory or reactive, depends both on the type of policy network and the development of the sector (expansionist, stabilising, declining). Hence, while the Atkinson and Coleman model is taken as the basis for the analysis, it will be complemented by other findings in the literature and its limitations will also be highlighted.

5.2.2 Atkinson and Coleman's sectoral approach

According to the sectoral approach, an important factor for state intervention is the dispersion of political power, which assumes a more nuanced meaning than the veto player theory suggests. Ultimate decision-making authority may be either concentrated in the hands of a few officials, in which case the state is able to dominate relations in a given sector; or it could be dispersed and no one group of officials can take the lead in formulating policy (Atkinson & Coleman, 1989: 51). Hence, appeals to common constitutional norms and party politics may not tell the whole story about the ability to intervene in the economy. Within sectoral arenas, state actors and interest groups may form 'clientelistic relations' in which officials see sectoral groups as their clients and attend to their needs accordingly, thus losing autonomy and creating a 'dependency relationship' (Atkinson & Coleman, 1989: 52; see also La Palombara, 1964). But the ability of interest groups to establish these clientelistic relations also depends on its ability to be cohesive. Much like Olson (1965) predicted, producers' mobilisation capabilities determine whether and how they can make a contribution to policy development and implementation (Atkinson & Coleman, 1989: 53). Thus, much more attention must be paid to the bureaucratic arrangements and the degree of business organisation.

The three key words that define Atkinson and Coleman's approach, therefore are the *concentration* of decision-making power of state officials; the *autonomy* of said officials; and the *mobilisation* of the interest group within a sector, which they seemingly understand to be the degree of centralisation of the interest system, which in turn affects the sectoral groups' ability to assume a role in the making and implementation of policy (Van Waarden, 1992: 32). The different ways the three interact and vary define the type of state-business relation within a given sector. The authors identify six categories that represent ideal-types that are not independent of developments from political institutions and macroeconomic conditions, as seen in Table 5.2.1. Thus, it is also possible for each sector to exhibit different patterns over time or none at all, and therefore change the characterisation of the policy network. Below I delineate each.

Table 5.2.1: Categorisations of state-business relations within a given sector

	State structure			
Mobilisation of business interests	*High autonomy, high concentration*	*Low autonomy, high concentration*	*High autonomy, low concentration*	*Low autonomy, low concentration*
Low	State-directed	Pressure pluralism	Pressure pluralism	Parentela pluralism
High	Concertation	Clientele pluralism	Corporatism	Industry-dominant pressure pluralism

Source: Atkinson and Coleman (1989)

In a *state-directed* policy network, autonomy of state officials and decision-making concentration are high, whereas business has low mobilising capabilities since the system of interest representation is dispersed. Business does not necessarily have a privileged position within the capitalist system, and the state can more or less freely embark upon economic projects that may have 'serious repercussions for the investment decisions of business' (Atkinson & Coleman, 1989: 59). One such example is France's failed attempt to engage in a *grand projet* in the computer industry in the 1960s (Cohen, 2007: 218-9; see also Zysman, 1977), where the government acted without support from the business community in order to bolster France's position in the high-tech sector and gain independence from American technological input. Nevertheless, circumstances where the state is free to act independently and willing to do so are relatively rare.

If the state no longer has the upper hand against industrialists as the latter begin to mobilise, *concertation* (a combination of consultation and coordination) is the more likely situation to arise. Here, business or representative of the industry share policy-making responsibilities with the state, but they are unlikely to be able to force their policy preferences because of the high autonomy that state officials enjoy. Thus, what happens is that state officials seek an accommodation with business without compromising broader political objectives (Atkinson & Coleman, 1989: 58-9). The situation described by Nezu (2007) for the economic revival of Japan between the 1990s and the early 2000s seems to approximate this typology. The Ministry of Economy Trade and Industry acted as a 'facilitator' of changes and innovation for business in order to create an environment that would be favourable to the Japanese economy.

Pressure pluralism, which refers to the idea that a plurality of interests are at play in the policy-making process and in resource exchange, is the most common outcome. Historical contingencies force the state to compromise between autonomy and concentration, and business organisation is rudimentary or fragmented (Atkinson & Coleman, 1989: 55). According to the lobbying literature, no group is able, by itself or in concertation with few other groups, to exert the necessary pressure to take over the state (Jordan & Schubert, 1992; Van Waarden, 1992), and the objectives of the state emerge as a consequence of the process of competition among societal actors. As a result, departments and agencies pursue narrow, short-term goals, thus generating conflict with other departments and agencies (Atkinson & Coleman, 1989: 55). Maloney and McLaughlin (1999: 95) suggest that this policy network closely resembles the situation of the British automobile industry in the 1980s, where the disparate nature of manufacturing interests and the fragmentation of government led to an underdeveloped industrial policy in the sector.

In the case of *clientele pluralism*, instead, the prosperity of the sector is the most important goal of both business and the state. Clientelistic relationships exist when an interest group succeeds in becoming the natural expression and representative of a given sector *vis-à-vis* state agencies (La Palombara, 1964: 262). This results in 'capture' or 'colonisation' of state agencies by organised interests, with the former becoming more dependent on the latter, as they do not have the possibility of playing off interest groups one against the other, as is the case for pressure pluralism (Van Waarden, 1992: 43). Here, the state retains decision-making responsibility for specific areas, but does not have the necessary resources to act, suggesting that this type of relationship thrives because it benefits both sides (La Palombara, 1964: 266; Maloney & McLaughlin, 1999: 94). Interest groups are highly mobilised and, because the state lacks resources, they are able to penetrate it by offering their own expertise, thus lowering the autonomy of state officials.[8] A clientelistic relationship, therefore, is not feasible when the state apparatus already has all the necessary information or resources, that is, when it has a high degree of autonomy (La Palombara, 1964).

A key characteristic of clientelistic networks is that public policy often turns into 'private policy'. As Van Waarden (1992: 44) puts it, 'state agencies involved in a clientelist type of policy network will defend particularistic interests rather than more comprehensive general interests'. This is because

[8] Alternatively, state agencies may retain a certain degree of autonomy, but the concentration of power is highly dispersed, thus providing interest groups with several access points.

clientelistic networks create a system of privilege where state actors routinely invite members of the private sectors to share expertise and information, and participants accommodate themselves to the dominant system of clientelism to avoid being cut off from the process (Atkinson & Coleman, 1989: 56). La Palombara (1964: 304-5) suggests that the relationship between Confindustria (the Italian industrialists' association) and the Ministry of Trade and Industry between the 1950s and 1960s approximates a clientelistic relationship to a very good degree.

In a situation of *corporatism*, 'an autonomous but divided state seeks to place the onus for decision-making in the hands of conflicting socio-economic producer groups,' thus creating a situation of 'mutual deterrence' (Atkinson & Coleman, 1989: 57). This definition shows the difference with theories of macro-corporatism: the conflicting actors belong to producer groups, and labour and trade unions only play a marginal role. Indeed, as Rhodes and Marsh (1992: 199) show for Britain, producer groups and professional groups (e.g. the NHS) are those that dominate policy networks. Thus, meso-corporatism arises when the state delegates authority to conflicting groups to allow them to 'resolve their differences without further state interference,' and once an informal arrangement is reached, the conflicting groups seek out the state to 'legitimise the rules needed for implementing the agreement' (Atkinson & Coleman, 1989: 58). Assistance in policy implementation increases the mutual dependencies in the network and leads to more symmetrical relations than in clientelism or pluralism (Van Waarden, 1992: 47). In this way, the state remains autonomous while at the same time dispersing political power, and is thus still empowered to extract concessions from the interest groups.

Finally, *parentela pluralism* arises in situations where a close relationship exists between firms and the dominant political party, based on the idea of kinship. The latter is willing, when not eager, to intervene and employs partisan calculus in the process (Atkinson & Coleman, 1989: 56-7; La Palombara, 1964). The bureaucratic apparatus is not particularly autonomous nor concentrated and the lines between interest groups and the state become blurred. The dispersion of decision-making authority thus gives more freedom to individual politicians to enage in pork-barrel projects at the regional or local level (see for instance Golden & Picci, 2008). The Italian First Republic (1946-1993) is the archetype of parentela relationships. As Barca (2010: 29) writes, in the 1950s, the dominant Democrazia Cristiana (DC, Christian Democrats), used state agencies in the agricultural sector as a distributive tool to garner political consensus.

Once the six categories are identified, the question becomes: how well do they describe the situation for state aid politics in the motor vehicle industry in Italy, France, and Britain? And how can they help to establish the conditions under which the state intervenes? Atkinson and Coleman (1989: 60-

3) further note that industrial policies that are anticipatory in nature and which put emphasis on 'intensive policy instruments, integrated with one another' to achieve structural transformation are not possible in a pressure pluralist environment, since close cooperation between state agencies and sectoral interests is required.

Rather, in such a policy network, reactive industrial policies, which are organised around 'the immediate needs of specific firms' and which is devoted to 'creating a climate attractive to investment' are the more likely outcome. If this is the case, one should observe (relatively) small, continued, targeted subsidisations for lame ducks in a pressure pluralist policy network – or for (quasi-) monopolistic producers in clientelistic networks – and something akin to Cohen's *grand projets* that use state aid to innovate the entire sector in other environments where cooperation is feasible, such as a concertation or state-directed policy networks.[9] This echoes Rhodes and Marsh (1992: 197), according to whom the existence of a policy network constrains the policy agenda and shapes the policy outcomes.[10]

Nevertheless, there is no reason to believe that state-business relationships remain constant over time. By combining Atkinson and Coleman's sectoral approach with the macro-comparative model by Persson and Tabellini as expounded in Chapter 2, different types of policy networks and different goals in state aid politics arise. I test to what degree particularistic spending within the sector could be ascribed to the broader factors of responsiveness and accountability, as the macro theoretical framework suggests. The integration of the two models is particularly important because, as the same authors mention, the 'relative frequency of different types of policy networks will vary systematically across democratic polities depending on the macropolitical institutions' (Atkinson & Coleman, 1989: 66-7).

5.2.3 Limitations and critiques of the policy network approach

As was mentioned earlier, the policy network approach, including Atkinson and Coleman's typology, is not without criticism. I will first deal with the criticism to Atkinson and Coleman's approach, which mostly comes from Thatcher (1998) and Van Waarden (1992), and I will then link it to the more general critiques on the policy network approach.[11]

[9] I say 'relatively' small subsidies as these depend on several characteristics, such as the size of the beneficiary, the scope of the project, the market size of the firms in the industry, and the gravity of the economic predicament, for instance. Such projects, however, should still require less money than industry-wide ones.

[10] Though they are silent about *how* or *in which direction* policy networks constrain the agenda and the eventual outcome.

[11] These is not meant to be an exhaustive list of the critiques to the model, though it seeks to address the most pressing ones. For more detailed comments, see Thatcher (1998) and Van Waarden (1992) in particular, but also Jordan and Schubert (1992), Dowding (1995) and Börzel (1998).

One common critique concerns the typologies of policy networks identified by Atkinson and Coleman (1989). For instance, Van Waarden (1992) notes that the six typologies they draw up omit some important state-industry relations such as issue networks and *pantouflage*, whereas Thatcher (1998) laments that the categories of networks are mere ideal types and that multiple networks can exist in the same sector, thus making the identification of typologies difficult. While both are certainly sensible critiques, they underline an over-determinism that Atkinson and Coleman (1989) explicitly eschewed. These ideal types are not to be found pristine in the real political world. Over-determinism through fixed categories of network would not allow to properly describe empirical reality. For instance, in the automotive industry, different types of networks can exist in the same country at the same time (Maloney & McLaughlin, 1999). The relationships built regarding issues such as technical standards over axle weights or noise reduction measures may be different from those that concern strategies of industrial policy, exactly because different departments may be involved in each. The typology of policy network should not be seen as an end-point, but rather a guideline for the empirical analysis of the process of interdependence.

This under-specification of the categories, however, unearths a more pressing criticism: the three conditioning factors of state autonomy, concentration of power and business mobilisation are necessary, but not sufficient conditions for each type of network, meaning that 'the grid between variables and networks only offers the policy network *most likely* to arise', thus making the hypotheses concerning the establishment of different forms of networks unfalsifiable (Thatcher, 1998: 397, my emphasis). Further, the resulting policy network can be contested on the ground that it is rather difficult to operationalise the levels of the conditioning factors. Thus, I agree with Jordan and Schubert (1992: 18) that different observers will reach different conclusions about the level of each factor in their study, meaning that a certain degree of bias exists when state-business relations are subjected to empirical test.

Such criticism links back to the broader issues with the policy network approach. In particular, the lack of an unambiguous conceptual definition limits the explanatory power of policy networks, since this leads to unclear hypotheses and difficulties in operationalisation (Börzel, 1998; Thatcher, 1998). It is crucial, therefore, that the typology of policy network be seen not as an end-point, as mentioned in the previous paragraphs, but rather as a *means* to categorise state-business relations and understand policy outcomes. Only then can conceptual definitions and issues of measurement be properly addressed. In other words, hypothesis-making cannot be undertaken *a priori*, but must come *after* the categorisation of state-business relations. Hypotheses should involve the process of state-business relations and the eventual policy outcome, not the structure of the policy network.

More importantly, the approach has been accused of not being able to explain change (Börzel, 2011: 51; Rhodes, 2006; Rhodes & Marsh, 1992: 196; Thatcher, 1998: 394). Rhodes and Marsh (1992: 193, 196) contend that change is primarily attributed to exogenous factors of economic, ideological, technical and institutional nature, and that 'focusing on policy networks will never provide an adequate account of policy change because such networks are but one component of any such explanation.'[12] Thus, it is important, as Atkinson and Coleman (1989) also note, to integrate the sectoral approach with macro-level events and observations. As will be seen, developments at the macro-level in the policy agenda shaped state-business relations also at the sectoral level and vice-versa. Hence, it bears repeating that such a sectoral framework must be seen as a complement to the macro-level schematisation of state aid politics based on the model by Persson and Tabellini (2003). Together with a longitudinal approach to state-business relations, this may provide an ideal way to examine the evolution of policy networks to understand how and why the interdependence between public and private actors has changed in matters of state aid politics. So far I have presented the policy network approach and its limitations. The next step is to provide an overview of the political economies of the countries under consideration.

5.2.4 Joining the macro- and meso-levels of analysis

The discussion so far has introduced the policy network approach and has touched on several different issues in the literature. A key claim that has been repeated throughout is that it is important to integrate the sectoral approach with macro-level events. How can these two be joined? Or, in other words, how well do the different concepts of responsiveness and accountability on the one hand, and policy networks on the other relate to one another? To answer these questions, three considerations are of order.

First of all, it should be noted that, although the two levels can be linked conceptually, it would be difficult to graphically represent the linkage between them. For instance, policy networks cannot be included in Figure 2.2.1 because the latter offers an institutionalist account of the story. Which brings me to the second, key point. The analyses offered in Chapters 2, 3 and 4 recount a story that relies on institutions to explain policy outcomes. Institutions provide the rules of the game – the rational incentives for policy-makers to act (Hall & Taylor, 1996). Institutions, shaped by history, in

[12] Compston (2009) is a contrarian and offers a theory of policy change based on policy network theory by providing a 'logically coherent and empirically plausible account of what causes change in the pre-existing policy preferences of relevant public actors and/or in the nature of resource exchange over public policy.' Even he, however, reserves a pivotal role for policy change to 'king trends', which he identifies as important *exogenous* variables such as climate change, globalisation, and other socio-economic factors, which are not intrinsic properties of the policy network.

turn also shape politics (Schmidt, 1996). However, institutionalist accounts suffer from an important shortcoming: they tend to depict a world devoid of people. Herein come policy networks. By focusing on the meso-level of analysis, groups and individuals – real, tangible people – become the characters of the story. These actors play by a set of rules as provided by the institutions; they are constrained by the legacy of these institutions (the path-dependence), but nonetheless they make and shape policy. Hence, policy networks recount the story in a different guise, in which the actors are placed within the broader setting established by institutions.

Thus, and finally, the two levels of analysis can be joined when one keeps in mind these two elements: (a) that different accounts of the same story are being told – or, in other words, different perspectives are being offered; and (b) that the story that is recounted at the meso-level is bounded by institutions acting at the macro-level. The degree of responsiveness and accountability is set by the institutional rules and legacy, but how policy-makers act on them is a story that can be told through the lens of policy network analysis. In this way, the two complement each other by filling in the shortcomings of each: policy networks can now recount a story that is not devoid of people; institutions can instead offer a theoretical boundary regarding the setting in which political actors move.

5.3 Case selection: Italy, Britain and France

5.3.1 Justifying case selection

Once we understand the relevance of policy networks for sectoral analysis, it is important to select which countries to study. A comparative analysis of 27 member states as in Chapter 3 would be far beyond the capabilities of a single scholar. Likewise, as Chapter 4 shows, not all member states have an active automotive industry. Only in 16 member states do we find this industry, but again, studying 16 different countries (and therefore 16 different industries) is not feasible for in-depth case studies. Therefore, some criteria need to be advanced to select the countries to study. Below I propose a strategy to narrow down the number of possibilities.

Many manufacturers *originate* from a few countries: Spain, France, Italy, Romania, Britain, Sweden, Germany, the Netherlands and the Czech Republic, though they are active in more domestic markets.[13] Thus, for instance, Fiat has factories in Poland, Volkswagen and (previously also) Ford have a plant

[13] I use the word 'originate' to highlight the country of establishment of the firm, and therefore the possibility of becoming national champions. Yet, as Table 4.2.1 shows, many brands today have been absorbed by bigger companies flying a different flag – for instance, Germany's Volkswagen bought Spain's SEAT and Czech Republic's Škoda.

near Lisbon, in Portugal, Opel operates in Austria, and so forth, which further restricts the field of choice available for research. On the one hand, this makes case selection easier; on the other, the selected cases may not be representative of the underlying population of state aid allocations and might promote inaccurate or non-generalisable explanations (Lange, 2013: 158; Seawright & Gerring, 2008). Further, as mentioned in the introduction throughout the chapter, the goal of the meso-analysis is to integrate the macro-comparative account of state aid politics in order to establish casual mechanisms and possibly find errors in the sources of measurement. All these considerations have to be counterbalanced with logistical and feasibility factors. Much of the analysis is based on documents and secondary sources, some of which may not be available in English or in another language with which the researcher is familiar, making research time-consuming and resource-intensive. In sum, four criteria are adopted in case selection: (a) the necessity for the country of choice to have an active motor vehicle industry; (b) the goal of discovery; (c) theoretical considerations; and (d) logistical considerations.[14]

The first criterion by itself eliminates one third of the member states. Cyprus, Denmark, Estonia, Greece, Ireland, Latvia, Lithuania, Luxembourg and Malta do not have an active motor vehicle industry. The second criterion, instead, aims to provide additional insights to the analysis, rather than making the case studies mere anecdotal evidence that confirms the findings of the quantitative analyses. Seawright (2016b) argues in favour of deviant cases (that is, cases that 'fall outside the line') and extreme-on-the-independent-variable cases (here, those that have the most extreme policy preferences on subsidies and the most different electoral systems, regardless of the value of aid allocations). While the latter increase the chances of finding cases with a good deal of measurement error, the former put the statistical findings to more rigorous testing by analysing exceptions, and provide an opportunity to discover additional factors affecting the response variable (Lange, 2009).[15] In other words, deviant cases could help us understand why, for instance, manifesto pledges may not be a good measure for the policy preferences of a government on subsidisation. For their part, extreme-on-the-independent variable cases could help us discover factors and mechanisms other than the achievement of policy

[14] One could also argue that case selection methods should also be adopted in the choice of the motor vehicle industry. Beyond the justification of case selection operated in Chapter 4, the choice of the sector was a result of different considerations based on analytical feasibility, background knowledge, and plausibility of the model applied to the sector. In other words, it would make little sense to explore a sector of the economy that is often not politically sensitive and receives little to no state aid, such as the aquaculture sector. Four criteria, broadly, would be said to have been applied: (a) the sector must have received state aid between 1992 and 2011; (b) state aid rules must not completely forbid producers in the sector from currently receiving state aid; (c) the sector must have clearly identifiable beneficiaries for ease of analysis; and (d) there must be wide available data on the sector.

[15] Lange (2009: 12) also follows Lieberman (2005) in suggesting that 'on-the-line' cases provide the possibility of discovering general processes and mechanisms that underline statistical relationships, although Seawright (2016b: 94) and Beach (2020: 13) discount its usefulness in terms of discovery. The reasoning is that choosing a case with an 'onlier' that exhibits low values of both the independent and response variable means that the causal mechanism may have not kicked in yet or not be present at all.

goals and electoral competition that could help explain aid allocations. However, an extreme-on-the-independent variable might also lead to choosing outliers, as the descriptive statistics in Table 5.3.1 may suggest. The received wisdom is that one of the goals of case selection should be to have useful variation on the dimensions of theoretical interest (the independent variables), while at the same time ensure that background conditions (the controls) do not differ vastly (see Plümper et al., 2019). I will follow this suggestion in engaging in case selection.

In the third place, theoretical considerations also drive case-selection. When looking at the broader comparative politics literature, the countries to be selected should provide enough variation in terms of institutional structures, which represent the quantities of interest, as just mentioned. One way to assess this is to situate the countries on the two-dimensional conceptual map of the federal-unitary dimension and the executive-parties dimension, as operationalised by Lijphart (2012). The cases should not be clustered in one single quadrant to allow for the study of how different institutional structures affect the outcome of interest.

Finally, in terms of logistical considerations, no more than three cases are potentially feasible. To choose from the remaining 18 that have a motor vehicle industry, I also eliminate those where the possibility of a national champion would never have been possible – that is, those from where no manufacturer originates.[16] This choice is motivated by one of the findings in Chapter 4, whereby the role of national champions seems rather important and warrants further investigation. This leaves on the table Italy, Spain, Germany, France, Britain, the Netherlands, Sweden, Romania and the Czech Republic. Table 5.3.1 provides an overview of key independent variables along the lines of responsiveness and accountability, and control economic variables both at the country- and sector-level, as used in the quantitative analyses of Chapters 3 and 4, which can help in the case selection.

The table highlights interesting country- and sector-level patterns, but suffers from two limitations. First, the use of averages hides intra-unit changes. For instance, the electoral system in Italy changed from open-list PR (1946-1992) to mixed majoritarian (1993-2005) to closed-list mixed proportional (2005-2016), and eventually open-list mixed proportional (2017-present). Secondly, the use of quantitative measurements may be misleading in terms of what is effectively happening. For example, the United Kingdom presents high levels of vote personalisation, which suggest that candidates curry favours to the electorate rather than the party leadership. Yet, the candidate-selection system in Britain is *de facto* party-run, in that political party candidates must be authorised to stand for election for

[16] For the sake of exactness, countries like Finland, Belgium, Bulgaria, Slovakia and Poland have had or currently have some kind of domestic producer. Nevertheless, these remain extremely circumscribed and are unlikely to become (or have, in fact, not become in the case of Belgium) national champions.

their party by their party's 'nominating officer', or someone authorised in writing by the nominating officer (Mitchell, 2005: 170-1).[17] This contrasts with the French case, where powerful local *notables* can go against party leadership when unwilling to stand down (Elgie, 2005: 130). Despite these limitations, Table 5.3.1 offers some insights for case selection. Nevertheless, such insights would be of little value on their own: small-N comparison requires, for purposes of external validity, that variation be explained across closely matched cases (Slater & Ziblatt, 2013: 1307).

It is useful to first subdivide the countries in two groups that show the importance of the sector to the national economy, as calculated by the value added of vehicle manufacturing (as a %GDP). This is meant to control for the political sensitivity of the industry. The more people are employed or the more value added comes from the sector, the more politicians are likely to be cautious about taking action against the industry. In the first group are Italy, Spain, Britain, France and the Netherlands, which average 1.04% of the GDP (with 0.37 as standard deviation). In the latter are Germany, Sweden, Romania and the Czech Republic, averaging 2.64% of the GDP (0.607 standard deviation).[18]

I will focus on the first group, since it is for these countries that most data are available. Here, only the Netherlands shows a yearly production below 100,000 units, which suggests that the sector is less influential (Klier & Rubenstein, 2015: 102). Indeed, as the trade index shows, the Netherlands, unlike the other countries in the first group, is strongly export-oriented. Other economic variables, however, also show that Italy presents the lowest economic growth, both when looking at the economy as a whole and when matriculation of new cars is taken into account (in both cases Spain is the highest). Italy also shows lower degrees of financial openness (financial index in Table 5.3.1) than Spain (by 4 points), Britain (22 points), France (13 points) and the Netherlands (23 points), suggesting that other means can help business grow or expand, such as FDI, are not well or fully employed in this country. Not surprisingly, then, Italy is one of the few countries (together with Germany) where assembly plants are almost completely in the hands of domestic producers.

In terms of ideology, maximum variation is shown between Italy as the highest value and the Netherlands as the lowest. This reflects the financial and trade openness variables: whereas the Netherlands has several instruments to create inducement to firms in order to expand and grow, Italy is more limited and Italian politicians often call on the use of subsidies and other similar state-backed incentives for economic growth, rather than embrace globalisation. In terms of political institutions,

[17] See also Registration of Political Parties Act of 1998.

[18] Taking out the two outliers, the Netherlands and Czechia, the result come out as a mean of 1.16 and standard deviation of 0.29 for the first group, and a mean of 2.37 and standard deviation of 0.35 for the second group.

Table 5.3.1: Overview of key variables in some selected European countries

	Italy	**Spain**	**United Kingdom**	**Germany**	**France**	**Netherlands**	**Sweden**	**Romania**	**Czech Republic**
Political variables									
Economic Policy (avg. 1991-2010)	4.45	2.37	3.09	3.80	2.08	1.87	3.19	2.53	2.84
Coalition partners (avg. 1991-2010)	4.05	1	1.05	1.85	1.8	2.4	1.59	2.5	2.125
Veto players (av.g 1991-2010)	6.81	3.87	0.88	13.12	6.99	5.53	9.67	6.40	6.53
Electoral System (2015)	List Proportional Representation	List Proportional Representation	Plurality	Mixed-Member Proportional	Two-round system	List Proportional Representation	List Proportional Representation	Mixed Member Proportional	List Proportional Representation
Average District Magnitude of Lower House at the lowest tier (avg. 1991-2010)	9.68	6.73	1	1	1	150	10.69	2.30	14.29
Vote Personalisation (avg. 1991-2010)	0.857	0.34	1.67	0.823	1.67	0.67	0.67	0.654	0.67
Economic Variables									
Economic growth (avg. 1991-2010)	0.95	2.34	2.15	1.38	1.72	2.28	2.71	1.70	2.67
Trade index (avg. 1991-2010)	37.74	41.73	45.93	49.79	43.14	80.32	61.37	54.67	70.83
Financial index (avg. 1991-2010)	65.65	69.19	87.18	73.42	76.11	88.50	85.35	56.87	73.29
EMU	Yes	Yes	No	Yes	Yes	Yes	No	No	No
Value added of vehicle manufacturing (avg. 1991-2010)	1.034	1.574	0.906	2.778	1.142	0.546	2.12	2.22	3.439
Matriculation of new cars (avg. 1990-2009)	-0.145	0.907	0.335	-0.095	0.334	0.371	6.012	-15.38	1.68

Note: averages are 2004-2011 for the Czech Republic, 1995-2011 for Sweden, and 2007-2011 for Romania. Sources: ACEA (2019b); Armingeon et al. (2016); EU KLEMS (2019); Golder (2018); Gygli et al. (2018).

the United Kingdom and France are 'simple' polities, whereas Italy and Spain are 'compound' (see Schmidt, 2009).[19] This means that in the latter typology, reform often needs to be negotiated (i.e. there are more veto players), which may make policies more difficult to pass.

Italy, unlike Spain, has always had coalition governments, meaning that the major coalition partner (often the DC) has always had to face more intense common-pool resource problems. This is less of a problem in Spain (despite the presence of minority cabinets), but also in Britain, where government is traditionally made of the majority party (with very few exceptions), and even France, where it is easy to identify a clear major partner in government coalitions. Nevertheless, as was noted in the theoretical discussion in the preceding chapters, although the number of effective government parties reduces common pool problems, smaller parties can still have important veto power: France (with Italy coming close behind) and Britain sit at the higher and lower extremes, whereas Spain, in virtue of its single-party governments combined with the its two parliamentary chambers, receives a middle-of-the-road score. Indeed, when looking at Lijphart's (2012) conceptual map of patterns of democracy, we also note how France, Italy and Britain are situated in different quadrants, thus providing enough institutional variation for analysis, whereas including Spain instead of Italy would mean that two of the three cases (the other being France) would sit in the same quadrant, reducing institutional variation.

In terms of electoral system, Spain on the one hand, and France and Britain on the other sit at the two extremes: Spain is a closed-list PR system, whereas France and Britain have single-member district constituencies, which are traditionally open list. However, in Italy constituencies are, on average, larger than Spain's, which suggests that there may be more intra-party competition. Furthermore, Italy has had various electoral reform, which makes longitudinal comparison more interesting, due to the larger variation in the quantities of interest.

In sum, Spain sits 'in the middle' within the first group, both in terms of responsiveness and accountability. The matching of cases suggests that Italy, Britain and France present the largest variation on the key independent variables, while minimising differences in controls. One major difference, however, is the absence of Britain from Economic and Monetary Union. Yet this may be considered a minor problem for two reasons: first, much of the case studies will also look at the decades prior to the establishment of EMU; and secondly, as the analysis in Chapter 4 shows, it remains unclear how direct the mechanism is and whether it could be effectively disentangled from other supranational developments.

Another issue that may arise is the puzzling absence of Germany from the analysis. Germany includes

[19] 'Simple' and 'compound' here refer to the level of federalisation and the degree of autonomy of sub-national political entities, such as the presence of autonomous regions (e.g. Catalunya, Comunitat Valenciana, Sicily, the provinces of Trento and Bolzano).

the major vehicle manufacturers in Europe, with Volkswagen topping the charts for global production, surpassing American and Japanese giants alike. Yet, despite Germany possibly being an influential case, it is also nothing more than that. Firstly, it is not necessarily representative of the underlying population; on the contrary, it is an outlier in vehicle production and domestic market share, as tables and figures in Chapter 4 show. Secondly, it does not closely match with other member states in the sector in terms of responsiveness and accountability. As was the case for Spain, Germany sits 'in the middle' on many independent variables, which does not maximise variation on the quantities of interest.

Thirdly, unlike the other three countries, Germany is both a federal and decentralised state (Lijphart, 2012: 178), whose power-sharing arrangements are radically different from other non-federal states. This complicates analysis on several levels, particularly when analysing its key sectoral manufacturer, Volkswagen. This company, as was mentioned in Chapter 4, is to this day partially state-owned by the Land of Lower Saxony. This is a sub-national government, which is interdependent with and constrained by the federal government in Berlin. Hence, in none of the other cases is such an intricate web of interdependencies present, impinging on the unit homogeneity of the sample.

Finally, while the criterion of the Varieties of Capitalism (VoC) is not the main driver of the case selection, it is still useful to explore the institutional complementarities of the political economies of the different member states. Germany is what is known to be an ideal type of coordinated market economy (CME), which is traditionally pitted against the liberal market economy (LME) of the Anglo-Saxon tradition and the French statist approach, as shown in the next sub-section (Amable, 2003; Hall & Soskice, 2001; Hancké et al., 2007; Schmidt, 2002, 2009). Historically, states in CMEs are more involved in market affairs and help coordination between firms more often than in LMEs, where state agencies keep 'at arm's length'. However, the VoC framework is not predictive of the type of policies adopted by the state in a given sector, nor of the level of employment of state resources in each market economy. For instance, Schmidt (2009: 539) notes that in some cases state intervention in Germany has been slower not only compared to France, but also to Britain, whereas Culpepper (2001) shows that training aid schemes in Germany have been more successful than in France. While in both cases state resources were necessary to undertake policy reforms, neither makes predictions about the level of state intervention. Thus, adding a different type of market economy is not necessarily helpful in maximising variation on the quantities of interest.

5.3.2 The political economies of Italy, Britain and France

Italy, Britain and France have historically had different approaches to state-business relations. Using the vocabulary of the VoC literature, Britain is a liberal market economy in that firms eschew state intervention and prefer market-oriented solutions to coordination problems (Hall & Soskice, 2001). The British producer is thought of as being no more than a 'servant of the market' and British capitalism would not easily entertain the notion of a producer with a long-term policy, whether or not this was guided by the state (Shonfield, 1965). In Britain, anything that 'smacked of a restless or over-energetic state, with ideas of guiding the nation on the basis of a long view of its collective economic interest, was instinctively the object of suspicion' (Shonfield, 1965: 88). Here the state is 'external, irrelevant, most usually encountered as a regulator and to be fended off' and its first inclination in case of crises is to 'define the problem as the concern of the enterprise' (Wilks, 1983: 139-40). As Grant (1995a) puts it, the role of the British government in relation to industry has often been that of a 'spectator' or 'auxiliary' state, with a strong emphasis on deregulation and privatisation.[20] Indeed, in the automotive industry, Britain was the first to welcome foreign capital, with the Americans, and then with the Japanese – something that the French industry has for a long time carefully avoided.

France, according to Schmidt (2003), represents a political economy where the role of the firm cannot be analysed with the state being a mere bystander like in Britain: the state was and still is a necessary feature of the French economy, as the national industry looks up to government policy in order to coordinate. For the French state, it is important to have a foothold within the business of production because it allows its representatives to claim a place on the side of management and be involved in planning (Shonfield, 1965). Thus, Cawson et al. (1987: 10) mention how French government-industry relations (GIRs) operate

> within the context of a historical background that takes for granted a close relationship between government and industry, that accepts that the state should articulate historical priorities and expects that such priorities will continue to maintain an almost "mercantilist" concern with French economic interests.

Hence, the state has been historically expected to play a major strategic role within society. The roots of this attitude are to be found in the French scepticism about the effectiveness of market mechanisms and the belief that firms should be insulated as far as possible from market forces, the

[20] It could be argued that this was not the case before the Thatcherite years, and that even during Thatcher's premiership privatisation did not lead to immediate liberalisation of the sector. Moran (2006) also argues that over the past forty years, trust in business has declined steeply, calling for more regulation, yet this has not happened. Thus, it is also in light of these discrepancies that a sectoral analysis is useful: cross-country comparisons of industrial policies for all the sectors of the economy aimed at identifying a single 'national policy style' is a difficult, if not outright impossible exercise.

so-called *dirigisme*. *Dirigisme* represents a peculiar policy style that, while not necessarily entailing direct government action, exhibits a capacity for long-term projects and a propensity to impose its own will to achieve political objectives (Germano, 2009: 48). Thus, those industries that are important to the nation's geopolitical interests are to be actively protected and promoted. Industrial policy then becomes an overt apology for subsidisation (Green, 1983; Zysman, 1983). Paradoxically, however, this has not translated to a coherent pattern in industrial policy, with a variety of interests being at play and a plethora of different means being used (Green, 1983; Wright, 1984). Moreover, although commentators agree that since the late 1980s the French state has abandoned its tradition of *dirigisme* (Culpepper, 2006; Hall, 1990b; Levy, 1999, 2008, 2017; Schmidt, 1996, 2002), its shadow and influence continue to loom and condition economic activities to this day, as Chapter 8 will show. Thus, while certainly retreating, the state has been reluctant to become a mere 'spectator'.

Finally, Italy represents a case of 'dysfunctional state capitalism' (Della Sala, 2004). It has mimicked elements of both the Anglo-Saxon and the Rhenish models of capitalism. The Italian state has further fallen short of performing a directing or enhancing role as did its French counterpart, due to the fragmentation of political power. Rather, its role has been that of facilitator, as it lacked the necessary expertise and authority to play a leading role in the economy (Amyot, 2004: 79-80). Further, the Italian economy has been historically characterised by structural disequilibria that made typical Keynesian demand management policies inadequate to overcome barriers to growth (Kreile, 1983). This has led to an inability to pursue coherent industrial strategies, often based on indiscriminate measures (Amyot, 2004; Kreile, 1983). Thus, Italy has mostly provided wide-ranging subsidies to promote underdeveloped areas, to encourage innovation in small and medium enterprises and to induce re-organisation in large firms, but without a clear end-goal in mind (Bianchi, 1995: 113). As Amyot (2015: 102) further concludes, the state's main role was that of seconding the decisions made by the major firms which it, at most, influenced by making subsidies and support available.

The outcome of the institutional framework of these political economies can be seen in the amount and type of aid allocated by these member states, as shown in Table 5.3.2 and Figure 5.3.1.[21] In the 1980s there was a clear divide in policy outcomes between the three countries. Despite an overall declining trend, Italy consistently subsidised its industry at higher levels than the other two member states. Thatcherism and its legacy is also apparent in Britain's low levels of allocation, which seemed to reflect the historical arm's length approach to GIRs. France sat in the middle, and its levels of aid declined less sharply than in Italy and Britain. This may suggest that, while France helped its

[21] It should be noted that, while the figures tell similar stories, they likely are not directly comparable due to different methodologies and a changing understanding of what constitutes state aid.

industries less indiscriminately than Italy, it retained some of its statist elements. As Cohen (2007: 222) puts it, since 1984 the French economy policy can be summarised as a 'dirigist end to dirigisme,' with the government pivoting from *grand projets* to competitive horizontal policies, while still maintaining a central role in industrial policy.

Table 5.3.2: Volume of state aid to industry as %GDP (1981-1992)

	1981-1986	**1986-1988**	**1988-1990**	**1990-1992**
Italy	4	3.1	2.9	2.4
Britain	1.8	1.1	1.1	0.5
France	2.7	2.0	1.8	1.7
EU10/12	3.0	2.2	2.0	1.8

Source: European Commission (1988, 1990b, 1992, 1995)

Since the Treaty of Maastricht, however, the situation has wildly changed, as Figure 5.3.1 shows. Except for an anomalous peak in 1996-1997 in France due to an urgent intervention in the banking sector, total state aid allocation has stabilised, with France becoming the most profligate state after 2003, and Italy and Britain battling it out for second place.

The four plots in the figure also distinguish between horizontal, sectoral and regional aid to get a better idea of the *type* of aid that is being allocated. As a reminder to the reader, horizontal aid is today the most common kind of aid. It applies indiscriminately to all undertakings and is meant to achieve specific policy objectives, often in line with the Commission's agenda, such as research and development, or environmental efficiency and energy saving. Sectoral aid is targeted to specific industries or firms, and it is therefore more distortive of competition. In line with the Commission's requests, sectoral aid is being abandoned in favour of less discriminatory forms of subsidisation (Blauberger, 2009b). [22] Finally, regional aid is often understood to be horizontal as it is meant to achieve the objective of growth in underdeveloped areas. However, its restricted geographical scope makes this kind of aid targeted and excludes *a priori* many undertakings outside of the area under consideration. Much of the aid to the Italian auto industry was given under the regional guise, in hope it would improve the economic conditions of the Mezzogiorno (the Southern regions) and level the structural disequilibria of the country. In Britain, too, regional policy was a major goal to be achieved through geographically targeted aid to assembly plants in the West Midlands, particularly in the 1960s. Finally, in France,

[22] It should be noted, however, that horizontal aid can be easily earmarked for specific firms, rendering it more similar to sectoral aid.

regional policy has played a less important role, with the state instead promoting a brand of 'offensive protectionism' to help expand their national champions to markets abroad while at the same time preventing take-overs from foreign firms.

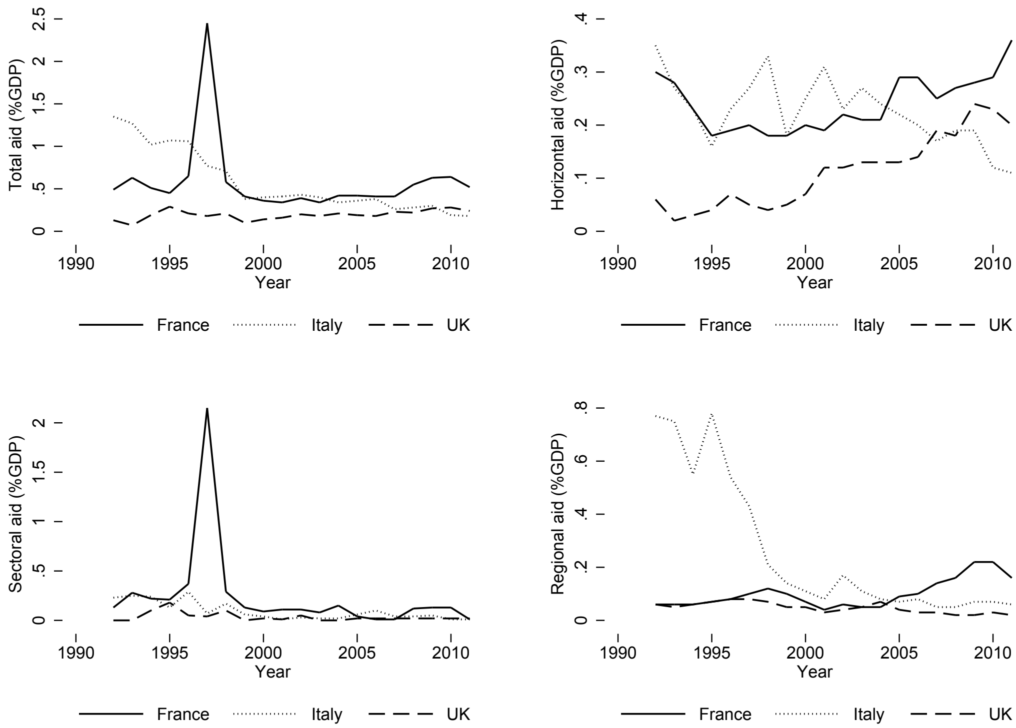

Figure 5.3.1: State aid to selected countries, 1992-2011

Regardless of the role of the state in GIRs, it is necessary to 'put the political back in political economy,' in the words of Vivien Schmidt (2009). The questions at hand become: how well do country-level industrial policies and GIRs translate to the automotive industry? Why did Italian, British and French government give aid to vehicle manufacturing companies? And how can we explain variation in responsiveness to the industry's demands? In order to answer these questions, the study turns to in-depth case studies and employ the sectoral approach to better model state-business relations. The next section lays out the empirical strategy for the case studies.

5.4 The empirical strategy

As the literature review in Chapter 2 shows, most qualitative case studies on state aid politics look at specific events where aid allocations created economic or political problems (e.g. Chari, 2004; Featherstone & Papadimitriou, 2007; Rickard, 2018; Woll, 2014). Opting for this strategy involves answering the question: which instances of aid expenditures should be subject to analysis? To this aim, Rickard (2018) employs a selection process by elimination to arrive at her two case studies on wine subsidies in France and Austria.[23] Her process begins by finding those cases where the Commission recognises that a measure constitutes state aid. As a second step, she only includes cases where the Commission issued a negative decision. Her rationale lies in the fact that scholarship showed that there is no difference in the determinants of compatible and incompatible subsidies (see Franchino & Mainenti, 2016; Rickard, 2010), and there are far fewer instances of incompatible aid. Thirdly, she only limits her analysis to the 1990s, on the claim that state aid rules during this period remained relatively constant. Finally, she chooses one single sector – wine.

Although certainly smart in avoiding selection bias, this process runs into three potential shortcomings. First, there exists the possibility that one of two extremes happens: either the selection process bears no cases, or there are still far too many to choose from, which involves additional steps in the selection process. Secondly, the order of the selection process can impinge on the outcome. Let us suppose that no subsidies were given to the wine industry between 1990 and 2000, but they were in other years. Choosing the time period after the sector would have returned no cases instead of three. Finally, the choice of sector of analysis always involves some degree of bias. In Rickard's case, the wine sector was justified in light of its geographical properties, which cannot be influenced by the political system. While certainly true, this criterion does not exclude other types of agricultural manufacturing.

These types of cases typically attempt to explain a particular outcome by re-tracing the steps that have led to such outcome and gather clues that can help understand the causal mechanism behind the process (called causal process observations, see Collier, 2011). Thus, for instance, Rickard (2018) asks how electoral institutions affected allocation of subsidies to the wine industry in France in 1999 and in Austria in 1991. Likewise, Smith (2001b) showed how Europeanisation, and in particular competition rules, shaped the relationship among Germany's public sector banks in 2000. However, it is apparent that these studies suffer from issues of external validity. Studying particular events generates inferences that are difficult to apply not only in different spatial contexts (i.e. other countries), but also in different temporal contexts (i.e. within the same country, but over a longer period of time).

[23] She actually finds a potential third case, Germany, which she discards as being in-between.

Applied to the present research, this would mean that analysing an instance of aid to a car manufacturer in a given country at a given time may not provide the necessary insights to understand whether the measure being analysed is part of a trend or represents a one-off. Very few studies, instead, take a long-term perspective, thus allowing for a longitudinal analysis of state aid politics (Chari, 2015; Germano, 2009).[24] The automotive industry is an old, established and powerful industry. If one is to understand state-business relations in the sector, one single case of aid allocation may not prove particularly useful. Understanding the effect of X on Y necessarily involves taking into account the context in which X operates (see Falleti & Lynch, 2009). To this aim, the preferred methodology is that of a comparative historical approach (e.g. Lange, 2013; Mahoney & Rueschemeyer, 2003). This approach hinges on temporally oriented research, whereby temporal location and structure of causes and outcomes matters for explanation and analysis (Mahoney & Thelen, 2015: 20). In other words, not only is context important, but many processes are slow-moving and gradual, and require a long-term perspective to be captured.

As the name suggests, comparative-historical analysis is made up of two key elements. The first is within-case study, which provides the temporal dimension, and therefore the historical context. Within-case studies describe what happened in particular instances and explore the causes of a phenomenon in a particular setting (Lange, 2013). The second element is that of comparison, which is the bread and butter of political science. There is no real understanding of political phenomena when there is no range of comparison. Here, the three case studies provide an instance of small-N comparison. Insights gained from each within-case study can be maximised by providing a benchmark of inter-case comparison that can highlight differences and similarities in the causal processes involved in explaining variation in the outcome (Lange, 2013).

In the following chapters, I employ a process-oriented comparison, whereby the politics of state aid is analysed through the lenses of responsiveness and accountability. With the former, I want to highlight the dynamics of state-business relationships: are government responsive to demands from business in the industry? If so, under which circumstances, and how do differing policy networks impact on the success and adoption of subsidy measures? With the latter, I want to highlight instead an alternative causal mechanism that looks at whether legislators are incentivised to demand subsidy spending to show they are engaged in constituency service.

This needs not be seen as a mechanism that is completely separated from policy networks, but rather as a complement to it. Indeed, governments often seek to exchange resources for electoral support, which

[24] Although Chari (2015) mostly treats privatisations and mergers and acquisitions, state aid is an important determinant that is treated at length for each sector of the economy being analysed.

can be helped by the creation of policy networks Compston (2009: 33). However, certain electoral institutions may make it politically expedient for politicians to respond to demands of concentrated interests in different ways. If voters are located in a geographically defined constituency, then only these voters matter for a candidate's re-election chances (Rickard, 2018: 110-1). In such situations, local constituents and firms in a concentrated industry are more easily mobilised to lobby politicians for subsidies (Zahariadis, 2005: 118). Likewise, parliamentarians, who by and large do not initiate legislation, can lobby ministers to publicise their causes, thus acting as some sort of 'constituency lobbyists', who engage in lobbying activities on behalf of local producers (Cain et al., 1987: 20; Wood, 1987). Then, individual legislators will have an interest in creating and sustaining the policy network within the sector because they help them to maximise their chances of holding office, and are therefore more likely to be effective when legislators deliver subsidies that are specific to the region or sector located in the region (Verdier, 1995; Zahariadis, 2005). In such situations, one would expect individual legislators to be more engaged in constituency service.

In sum, by affecting intra-legislative relations, coordination between legislature and executive and the pattern of interest group mediation, electoral rules affect the policy-making processes and their outcomes (Cain et al., 1987: 21). Similarities and dissimilarities will emerge both through longitudinal and comparative analysis. The data and methods employed for the comparative historical analysis are detailed in each chapter.

5.5 Conclusion

The present chapter introduced the qualitative-oriented part of the project by advancing the puzzle of *how exactly* the political variables of the large-N analyses affect aid allocation, particularly in the automotive industry. The chapter aimed to provide a justification for (a) the shift from the macro-level of analysis to the sectoral approach; (b) the shift from quantitative to qualitative analysis; and (c) the selection of countries to investigate. It also offered an overview of each, and set up the analytical framework and strategy for the empirical chapters. The shift from the macro- to the meso-level of analysis was justified in two ways. First, with the inadequacy of the state-centred approach to properly compare political-economic outcomes; and secondly with the need to explicitly model state-business relations. The sectoral approach framework should not be seen as an alternative to the theory laid down in Chapter 2, but rather as complementary to it, as it seeks to locate alternative channels of government responsiveness to business and provide insights about the mechanisms at play.

The selected case studies were the result of an elimination process based on three factors: that the countries under consideration have an active automotive industry; that the countries have or have had the possibility of grooming domestic producers to become national champions; and that variation on the quantities of interest across closely matched cases be maximised while at the same time controlling for background conditions. The goal of the following chapters is to provide a comprehensive account of the dynamics of state aid politics in the automotive industry to complement the regression-based analysis in Chapter 4, as well as to discover potential omitted variable bias, measurement error, or spell out the causal mechanisms. To this aim, the automotive industries in Italy, Britain and France will be examined in each of the following three chapters, allowing for a more complete overview of state-business relations in the automotive industry, and the underlying causal mechanisms therein.

Chapter 6

State aid politics in the Italian automotive industry: a one-firm show

6.1 Introduction

This chapter introduces the first case study on aid allocations, Italy. The aim of this chapter, as well as the next two, is to explore *how* the ideas of government responsiveness on the one hand, and legislators' accountability to voters on the other can help make sense of divergences in and patterns of aid allocation. In particular, the previous chapters showed that responsiveness in state aid politics is not necessarily understood as being favourable to the median voter. Hence, it is useful to have a better look at state-business relations to unearth potential clout that special interests may have on government policy. As was noted, this will be done through a double shift in analysis: from regression-based analysis to in-depth case studies; and from macro-comparison to industry-level analysis of the automotive sector. The shifts in the level of analysis represent an important aspect of the study. They allow for a more direct comparison both between sectors and over time for each country, and pick up factors that cannot be detected by a quantitative analysis.

Italy makes for an interesting case study in that it only partially conforms to the typical expectations of political economy. One the one hand, the mix of public and private economy typical of the First Republic (1948-1993) provides several incentives for the government to ensure that its own business does well. Of the two main manufacturers, Alfa Romeo and Fiat, the former was a public company, whose management was appointed by the government by means of political kinship. Hence, it is little surprise that between the 1970s and 1980s Alfa Romeo was among the major European carmakers in terms of aid received (European Commission, 1990a). Fiat is a private company that, nonetheless, has always had a privileged relationship in the Italian economy. There is no country in Europe where the main manufacturer has been as dominant as Fiat has in Italy, *vis-à-vis* its direct competitors. Even in Germany, where Volkswagen has hit a 40% market share in the 2010s, there are other major manufacturers such as BMW and Mercedes. In Italy, instead, Fiat's levels of production have always been one order of magnitude higher than its closest rival, Alfa Romeo. In other words, despite the presence of more than one manufacturer, the automotive industry in Italy is, for all intents and purposes, a 'one-firm show'. On the other hand, the country's electoral institutions have not always been conducive to constituency service as theory suggests. Yet, despite these constraints, as we will see, legislators continued to use this strategy. In other words, such a case study can both provide evidence in support of the theory and help in the process of discovery by unearthing sources of measurement error or point to potential omitted variable bias, suggesting, in turn, possible revisions to the framework.

The chapter, therefore, seeks to understand how responsiveness and accountability work in the Italian automotive industry, and is structured as follows. Section 2 provides an overview of the automotive industry in Italy. Section 3 analyses government responsiveness to the industry. A historical narrative explores how state-business relations have developed in the sector and why certain paths were not feasible. Section 4, finally, concerns the accountability side of the story. The different electoral systems that Italy has had provide for a good deal of variation to test the proposition of electoral accountability under different conditions. The section employs records of legislative behaviour to see whether legislators engage in constituency service to bring subsidies (and therefore investment and jobs) in order to get re-elected. Section 5 concludes by tying together the two sides of the account. The findings provide three insights. First, multiple government-industry relations exist within the Italian MVI. Secondly, these relations have not been consistent over time, and depend less on ideology than on the political and economic institutional context. Finally, legislators can adapt to overcome constraints generated by less favourable electoral institutions to continue engaging in personal vote-gathering.

6.2 The motor vehicle industry in Italy

The automotive industry in Italy is among the oldest and most prestigious. Alongside the giant Fiat, it includes many other historic brands, such as Lancia, Alfa Romeo, Maserati (subsidiaries of Fiat), and sportscars like Ferrari (formerly a subsidiary of Fiat, now under Exor NV) and Lamborghini (subsidiary of Volkswagen). Beyond these more well-known brands, other manufacturers have tried their luck on Italian soil. Some, like Isotta Fraschini and De Tomaso, went bankrupt (in 1949 and 2012 respectively); others, like Autobianchi and Iveco (trucks manufacturer) were created as joint ventures, and were eventually incorporated into Fiat;[1] and a few more, like Pagani, remain independent, though their market share is negligible.[2] As a result, since the mid-1980s the Italian automotive market has been strongly concentrated in the hands of the Agnelli family, owners of Fiat. Nevertheless, while certainly the major recipient of government subsidises, Fiat has not been the only one. Alfa Romeo in the 1970s and 1980s, in virtue of its being state-owned, was the major recipient of aid – even more so than Fiat. De Tomaso, a racing car company, was also an important recipient of aid in the 2000s, with almost €100mn, up until its bankruptcy in 2012. De Tomaso is also known as the company that, in 1976, and thanks to public funds coming from the government agency GEPI (*Società per le Gestioni e Partecipazioni Industriali*), acquired Innocenti, then a subsidiary of the failing British Leyland, fending off advances by Fiat (La Repubblica, 1992).

A peculiarity about the Italian motor vehicle industry is that the almost entirety of production involves national brands. This situation mirrors Germany where, as of 2015, only three of 38 assembly plants were involved in the production of foreign vehicles (two for Ford Europe and one for Iveco). In Italy, only two of 19 plants produced foreign cars, one being a joint venture FCA-PSA, and the other belonging to Volkswagen.[3] In contrast, France hosts five Volvo plants, two of Daimler and Volkswagen each, four Iveco plants, and one belonging to Toyota. Likewise, Spain has historically been a hub for the likes of Mercedes, Ford and Volkwsagen, whereas Britain hosts several Japanese manufacturers such as Nissan, alongside historical Ford, Vauxhall and BMW hubs.[4]

The Italian automotive industry is strongly concentrated in a few major areas: Trentino (for commercial vehicles), Piedmont, Lombardy, Emilia Romagna (for luxury and sportscars), and the Mezzogiorno, covering Molise, Campania, Apulia, Abruzzi, Basilicata and Southern Lazio. This mapping creates two production poles, one in the North, and one in the South. This distribution can be ascribed mostly to historic factors: most of the automotive brands were founded in the North, between the nineteenth and the twentieth century, as the North was far more industrialised and a more fertile ground for industrial innovation. Accordingly, Fiat was founded in Piedmont, Alfa Romeo and Lancia in Lombardy, and

[1] Like Ferrari, Iveco was later moved to a different capital goods company affiliated to Fiat, CNH Industrial NV.

[2] Even when they announced a record year in February 2018, the company's chief designer said, 'We anticipate 2018 to be the busiest and the most rewarding year with the delivery of 40 new vehicles to their respective owners.' See `https://www.pagani.com/press/pagani-automobili-with-record-year/`. To put it in perspective, Fiat alone produced over one million cars in the same year.

[3] Data provided personally by the ACEA statistics team. Data do not include non-ACEA members, such as Piaggio, Pagani, Wiesmann, among others. See also `https://www.acea.be/statistics/article/automobile-assembly-engine-production-plants-in-europe`.

[4] And, as we will see in the next chapter, in the past it also hosted plants for Peugeot, Chrysler and De Lorean.

Ferrari in Emilia Romagna. However, the strong economic asymmetry between North and South led to the establishment of the so-called *Cassa per il Mezzogiorno* in the 1950s, which aimed to funnel government funds to the South, in order to improve the economic conditions of Southern regions. This has led Fiat (alongside other major companies) to exploit laws meant for the technological advancement of the Southern regions by using the incentives provided by the government in order to build new plants in the South (Amyot, 2004; Germano, 2009; Kreile, 1983). The Pomigliano d'Arco plant, near Naples, was founded in 1968; the Termini Imerese plant, in Sicily in 1970 (but closed down in 2011 due to its peripherality); the Cassino plant, south of Rome, in 1972; and the Melfi plant, in Basilicata, in 1993. This contrasts with the Northern plants, which were set up between the 1930s and the 1960s, with no further plants being built after that time.[5]

Figure 6.2.1 maps the density of assembly plants throughout the Italian territory. Two poles can be clearly distinguished. The Northern pole covers Modena/Maranello, Milan and Brescia, with Turin's plants just outside the area. The Southern pole, instead, presents a high concentration as well as a curious, almost perfect circular shape, likely to optimise transport and minimise the costs of employee transferability.

In such a setting, it becomes easier for automotive interest groups (mainly Fiat) to propose region-specific investments and ask for highly targeted subsidies. The presence of many plants in the under-developed Southern regions, furthermore, should make it even easier to obtain aid, as it conforms to objectives of the European Commission regarding regional development and cohesion. The objectives of the state and of the automotive industry, then, seem to partially converge. Further, industry concentration, coupled with a historic personalistic electoral system (until 2005), made it so that the link between the local MPs and their automotive industry-driven constituencies should be stronger, pushing these MPs to be more vocal about subsidising industry plants in their constituency area. In sum, it is no wonder that the production numbers in Italy strongly mirror those of Fiat: talking about the motor vehicle industry in Italy very much equates talking about Fiat. Although an in-depth analysis of the history and governance of Fiat are beyond the scope of the present project,[6] it remains important to understand the position of Fiat in state-business relations and the relevance of the automotive industry for the Northern and Southern poles. This is what the next sections set out to do.

[5] See `https://www.webcitation.org/6HoPd3b0h` and `https://www.fcagroup.com/en-US/group/plants/Pages/default.aspx`.

[6] For such an analysis see Barca et al., (2010), Castronovo (1999), Volpato (2008) and Germano (2009: 103-34).

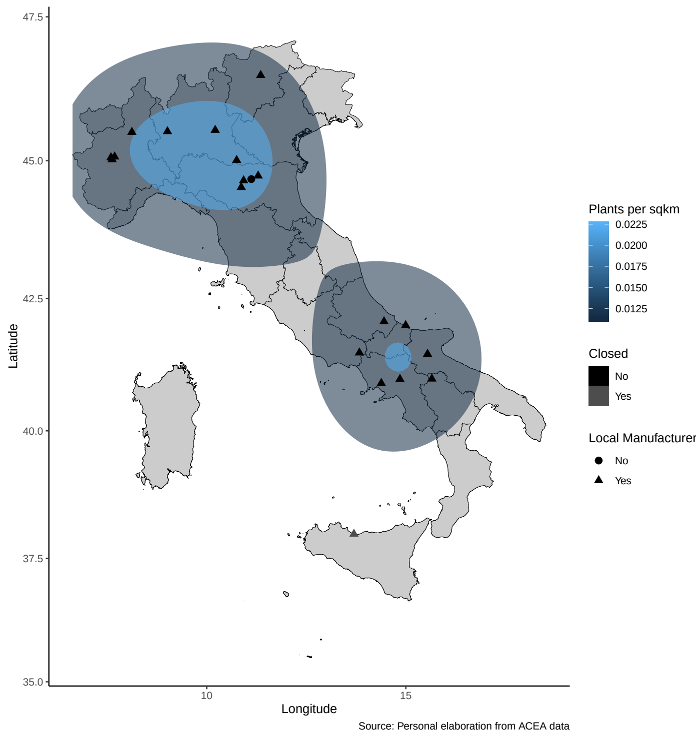

Figure 6.2.1: Density of automotive assembly plants in Italy, 2016

6.3 Responsiveness: a paradoxical clientelism

6.3.1 The automotive industry and interest groups in Italy

Since the groundbreaking work on Italian interest groups by La Palombara (1964), studies on interest groups in Italy have become abundant (see for instance Lanza & Lavdas, 2000; Lanzalaco, 1993; Morlino, 1991). Less attention, however, has been given to the role of sectoral interest groups, and particularly of the motor vehicle industry, in shaping public decisions. One possible reason is that up until the 1980s, only two main actors were present in the sector: Alfa Romeo and Fiat. Whereas Alfa Romeo had been part of the state holding IRI (*Istituto per la Ricostruzione Industriale*) since the 1930s, Fiat is a private firm that was part of the peak association for industry in Italy, Confindustria, as well as the sectoral interest group, ANFIA (*Associazione Nazionale Filiera Industria Automobilistica*), whose goal is to ensure a channel of communication between the manufacturers and suppliers in the

Italian MVI and the state agencies and public administration.[7] ANFIA, too, is part of Confindustria, so the lobbying channels often overlapped, with Confindustria being the favourite venue of lobbying for more politically salient issues due to its greater financial and human resources.

Hence, instead of focusing on the automotive industry *per se*, scholarship has taken a keener interest in these two institutions (IRI and Confindustria), which defined the very peculiar and mixed nature of Italian capitalism (see Arrighetti & Seravalli, 2010; Barca & Trento, 2010). After the acquisition of Alfa Romeo by Fiat (see Bianchi, 1988), the Turin company remained the only major actor within the automotive industry. Yet, even as the historically largest Italian firm (in terms of number of employees, see Barca et al., 2010: 158-9) with a go-it-alone power, its actions need to be contextualised within the broader umbrella of Confindustria. In order to understand the responsiveness of Italian politicians to car manufacturers, it is necessary to first explore its position within the constellation of other interest groups.

Italy has always had a disproportionately large sector representing small and medium enterprises, with very few large businesses (Barca & Trento, 1997). This has led to small and big businesses co-existing within the peak association, with a member of Fiat's Agnelli family even serving as chairman, from 1974 to 1976. Beyond Confindustria there has been a high fragmentation of the interest group system, as the result of political parties that control and shape the very same interest groups, and the close ties between the two (La Palombara, 1964; Morlino, 1991). Although these may be reminiscent of a neo-pluralist system, in which no single group is dominant and groups act competitively for access to policy-makers, Lanzalaco (1993) more correctly speaks of 'oligopolistic pluralism'. Here, interest groups are indeed extremely fragmented, but competition among groups is not symmetrical. This is because there are strong selection mechanisms that limit access to decision-makers, with the latter being receptive to fewer interests through different gatekeepers: political parties, bureaucrats, and even policy networks (quoted in Germano, 2009: 51). In particular, Lizzi and Pritoni (2017) show that both in the 1980s and the 2010s, the political system has been biased towards economic interests, highlighting some sort of continuity, if not stasis, in the diversity of interest groups and the selection mechanisms underlying their relationship with the state.

Hence, for politicians to be responsive, it is important for an interest group to be able to establish 'a special and privileged bond with a party, a sector in the public administration, a branch of the executive, a politician or a civil servant' in order to render institutions permeable (Lanza & Lavdas, 2000: 207). Selection mechanisms, therefore are a function not only of a group's strength, but also

[7] See `https://www.anfia.it/en/association/vision-and-mission`.

of its *parentela* with the state. This can be seen as a two-way colonisation mechanism in which political parties 'colonise' interest groups to control civil society, but interest groups also use political parties as channels to pursue particularistic interests (Lanzalaco, 1993: 119). In the case of Fiat, the constraints put on by Confindustria were mitigated in light of its own size, but also its ability to weave intricate political relationships. Between the 1970s and 1980s, in particular, the hegemonic party Democrazia Cristiana (DC, Christian Democrats) managed to permeate the state holdings system created under the fascist regime, thus increasing its discretionality with regard to political intervention in key sectors of the economy (Germano, 2011: 282). In the automotive industry, examples of these 'organic relationships' involved the sale of important state holding companies such as Alfa Romeo to Fiat, as well as the purchase of Fiat's 'lame ducks' like Teksid by the government (see Amatori & Brioschi, 2010: 137-8). In sum, a rather fragmented and convoluted picture emerges where car manufacturers are only partially integrated in the network of business interest groups, and where a tug-of-war between parties and the automotive industry lies at the heart of this kind of state-business relations.

6.3.2 State-business relations in Italy: an overlook of aid to the motor vehicle industry

How can we understand state-business relations between institutional actors and the motor vehicle industry in Italy, and the degree to which the former supported the latter through subsidies, protectionism, and investment grants? In order to provide evidence of this relationship, the next two sub-sections draw data mainly from three sources, two primary and one secondary.

As for primary sources, Annual Reports on Competition Policy and the Commission state aid register, as well as deliberations from the Inter-ministerial Committees on Economic Policy (CIPE) provide figures for the measures in favour of the automotive industry, as well as more specific information on the beneficiaries and goals of these measures. It should be noted, however, that until the mid-1980s, when Peter Sutherland became Commissioner for Competition, transparency was hardly a priority for the DG (see also Chapter 4). As a result, tracking down all individual measures is nearly impossible.

The other primary source involves parliamentary documents on investigations conducted particularly by two parliamentary committees: Budget (fifth permanent committee) and Productive Activities (tenth permanent committee). The use of such documents aims to provide a picture of the relationship between political and economic actors. During these investigations – which have involved the automotive industry either specifically or as part of a larger inquiry – several key actors, ranging from presidents of car manufacturers to trade union representative, from Confindustria people to relevant ministers, have been audited. Although it is unlikely that all actors always answered sincerely, these documents nonetheless offer good insights on how keen politicians have been on supporting the industry. Finally, secondary accounts from monographies, reports and articles will be used to complement the pictured offered by the primary sources, and fill in the gaps left unanswered (if possible) by the primary sources.

Between the 1970s and 1980s, Italian automakers were second only behind Renault in the amount of subsidies received by the state. The situation changed in the 1990s when the level of subsidies plummeted in magnitude compared to the previous decades, though it continued to be somewhat sustained at more or less regular intervals. Between 1993 and 2011, the Commission approved €677mn in state aid in Italy, third behind Germany (€1,589mn) and Spain (€776mn), but ahead of Britain (€470mn) and France (€229mn).[8] It should be noted, however, that these figures may also be misleading about state-business relations if taken at face value: while aid in Italy went mostly (if not exclusively) to Italian firms, aid to the Spanish MVI went in good part to non-Spanish firms, such as Mercedes, Volkswagen (who, it should be reminded, have owned SEAT since 1986) and Renault. Thus, it is likely that in Spain state-business relations were also a reflection of the transnational nature and financial strength of the beneficiaries (for such an argument applied to the US, Canada and Britain, see Thomas, 1997).

This, however, does not mean that Italy had a clear vision for industrial policy in the sector – or any other area. As Arrighetti and Seravalli (2010: 370) put it, Confindustria was openly against sectoral intervention by the state and deemed any comprehensive state-led industrial programme to be 'dangerous' and 'unacceptable'. In a Senate audit, then Confindustria President Antonio D'Amato went even as far as to observe how, within a system of open and integrated markets, protectionism towards one firm or sector has no place (Camera dei Deputati, 2002: 19). However, given the characterisation of the previous paragraphs on the interest groups in Italy as a case of 'oligopolistic pluralism', the state did not forcefully go against Confindustria or such other peak associations. The selection mechanisms at play meant that the state has been unable (or unwilling) to provide a blueprint for industrial policy. Using Cohen's (1995; 2007) definition, then, Italy has been devoid, from the very beginning, of any possibility of engaging in *grand projets*. For the automotive sector, as in many other areas, policy is

[8]These figures only include aid as defined by the Commission, and excludes those measures, such as scrapping schemes, which do not conform to the four criteria laid down by DG Competition: use of public resources, selectivity, economic advantage, and distortion to competition and trade in the Single Market.

reactive rather than *proactive.* This meant that measures hinged on two goals: catering to the immediate needs of specific firms; and creating a climate attractive to investment (see Atkinson & Coleman, 1989: 60). Italy's automotive industry is no exception.

Many of the measures that involved the automotive industry could be regrouped into three big categories. First are subsidies to lame ducks. Alfa Romeo netted a negative ECU 2.3bn profit between 1977 and 1987 and received over ECU 3.4bn from the state in turn (European Commission, 1990a: 57). The second are subsidies given to the Southern regions of the country to redress economic asymmetries. This was not typical of the motor vehicle industry, and represented rather a piecemeal adjustment to a shortcoming of Italian capitalism. Unlike Germany, where the banking system was closely linked to credit for the development of business, banks in Italy have historically held little to no stake in non-financial companies, as a consequence of the separation between banking and industry introduced by the fascist regime (Barca, 2010; Barca & Trento, 1997). The state was thus called forth to address this gap, and the automotive industry managed to exploit the pressure put on government authorities to establish large manufacturing facilities in the South through subsidies that provided fiscal advantages to firms. This eventually led to the creation and development of many of the Southern assembly plants. The last category is aid for R&D and training, which is more in line with horizontal objectives as established by the Commission. Here, too, larger industries managed to use a good part of the funds that were meant for applied research and industrial restructuring. As an example, the automotive industry managed to garner about 28% of the total allocations to R&D in the 1970s from the so-called 'Fondo IMI (*Istituto Mobiliare Italiano*)', an institution that aimed to provide credit to firms for industrial development (Senato, 1978).[9] The XIII and XIV Annual Reports on Competition Policy, for instance, found no fewer than fifteen instances that involved the motor vehicle industry in Italy whereby aid was granted through R&D legal bases (European Commission, 1983, 1984).[10]

Until the 1980s, aid was allocated through specific laws, aimed at supporting particularly the Mezzogiorno and R&D. For example, Laws No. 717/1965, 853/1971, 183/1976, and 91/1979[11] all aimed to improve

[9] Germano (2009, 2011) includes three more different types of aid, which I exclude because of their indirect nature, though it is important to acknowledge them. First is *ad hoc* measures, such as scrapping incentives, used heavily particularly in the 2000s. These are consumer subsidies, rather than producer subsidies (Grigolon et al., 2016). Second is protectionist measures such as taxation of large engine size cars and voluntary export restrictions of Japanese vehicles – but these are not formally state aid, either. Finally is a measure that is typical of Italy: *Cassa Integrazione Guadagni*, known as CIG or Cassa Integrazione, which is basically an unemployment benefit. As Simoni (2010: 200-1) puts it, it is a 'short-time work (STW) scheme' that allows companies to 'ride out negative economic cycles by reducing the working time of their employees rather than shedding labour.' It is the state that subsidises workers for a temporary time frame, thus giving *indirect* advantages to the firm. Like the first two forms, however, CIG/STW is also an indirect benefit that is not counted as state aid, following the Commission's criteria.

[10] Unfortunately, the reports do not specify the beneficiaries or the amount of the aid that was approved.

[11] Respectively, Law 717 of 26 June 1965 on interventions in the Mezzogiorno: `https://www.gazzettaufficiale.it/eli/id/1965/06/30/065U0717/sg`; Law 853 of 6 October 1971 on the financing for the Cassa del Mezzogiorno for the 1971-1975 years: `https://www.gazzettaufficiale.it/eli/id/1971/10/26/071U0853/sg`; Law 183 of 2 May 1976 on

the economic conditions of the Mezzogiorno. Laws No. 1089/1968, 652/1974, 675/1977, and 46/1982,[12] instead, had the goal of incentivising R&D in the industry. However, many of these laws were seen as a failure, as they acted in isolation, had clientelistic goals, and allocation of funds was delayed, when not outright absent (Amyot, 2004: 153-4; Germano, 2009: 167). In fact, Fiat representatives asked the legislators to provide a strategic framework that could substitute these laws:[13]

> ...there lacks a stable and realistic strategic framework where the different objectives and tools of industrial policy could find a place: both the general ones and the more specific ones, those aimed at making the industrial system more efficient, and those aimed at stimulating structural changes and paving the road for development; those aimed at promptly intervening, and those that work in the long run. Today, instead, all these different goals are mixed in one single law and we try to achieve them with the same tool, thus making [intervention] not particularly effective (Senato, 1984: 7)

In making this claim, Cesare Romiti, then Fiat CEO, was attempting to steer legislators towards a different type of state-business relations.[14] One that was not based on clientelism (or even parentela), but rather one based on concertation, where state officials seek an accommodation with business without compromising broader political objectives, without however devolving into outright *dirigisme*. Although this cannot be directly proved, it can still be inferred from his desire to have a framework that could be used for both the short and long term. As will be shown below, Romiti's attempt, whether or not it was voluntary, was only partially successful.

Table 6.5.1 (see end of chapter) includes aid, mostly in these three forms, given to – or, in some cases, only approved for – the automotive industry from the late 1960s until the early 2010s.[15] The originality of the data presented in the table compared to other similar studies is three-fold. Firstly, unlike the data presented by Germano (2009), I go beyond aid measures to Fiat alone, and include other (albeit often minor) beneficiaries of state subsidies. Indeed, the table shows that, in line with

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extraordinary interventions in the Mezzogiorno for the years 1976-1980: `https://www.gazzettaufficiale.it/eli/id/1976/05/08/076U0183/sg`; Law 91 of 29 March 1979 on incentives and grants to the industrial sector: `https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:1979-03-29;91`.

[12] Respectively, Law 1089 of 25 October 1968 on grants and tax reliefs for investment in industry, trade and handicrafts: `https://www.gazzettaufficiale.it/eli/id/1968/10/28/068U1089/sg`; Law 652 of 14 October 1974 on IMI funds for applied research: `https://www.gazzettaufficiale.it/atto/serie_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=1974-12-18&atto.codiceRedazionale=074U0652&elenco30giorni=false`; Law 675 of 12 August 1975 on coordination of industrial policy and sectoral restructuring and development : `https://www.gazzettaufficiale.it/eli/id/1977/09/07/077U0675/sg`; and Law 46 of 17 February 1982 on interventions to sectors relevant to the national economy: `https://www.gazzettaufficiale.it/atto/serie_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=1982-02-27&atto.codiceRedazionale=082U0046&elenco30giorni=false`.

[13] All quotations from official documents and other Italian sources are automatically translated.

[14] A few years earlier, Agnelli raised similar concerns. He asked that the logic and the intervention in the economic sector could be clearly redefined, and that there was a need for a concerted industrial policy at the European level (Castronovo, 1999: 1377).

[15] As expected, many of the measures are expressed in Italian Lire. These are not translated into euros, as it would be difficult to properly assess the value of a measure taken fifty years ago in today's currency. To help the reader, however, it would be good to keep in mind that the exchange rate established in 1999 was €1 = LIT 1,936.27.

the aggregate data of the European Commission (1990a), Alfa Romeo was a major recipient of state aid during the 1970s and 1980s. These additional data can help us better understand the kind of state-business relations between state agencies and different firms.

Secondly, the data go up to 2013, beyond the time frame explored by Germano (2009), which stops in 2006. Two points of note should be highlighted for these additional years. Firstly, during the 2008 economic crisis, Fiat was not a major recipient of state aid, unlike companies such as PSA and Renault in France,[16] therefore suggesting a detachment of the company from the state. Secondly, aid measures stop in the early 2010s, just before the merger between Fiat and Chrysler, which created a new company, FCA, with legal headquarters in Holland. As we will see, this hints to the possibility of the company finding new sources of state support from other governments. Indeed, since 2012, after Fiat got a majority stake in Chrysler, FCA received over US$450mn in subsidies from the US government, $405mn of which were used for the conversion of two existing plants into a new Jeep assembly plant in Michigan.[17] These are numbers that the Commission, today, would find difficult to justify under normal economic circumstances.

Finally, the table includes both allowed and illegal aid, which can unearth patterns that aggregate data cannot. For instance, just because aid in a certain year was zero does not mean that the firms in the industry did not require any or that the state was unsupportive. It could also very well be that external forces (in this case the Commission) did not allow for the aid to be allocated. Though it should be noted that the table is not exhaustive of all measures due to scarce transparency, especially until the mid-1980s, it nevertheless highlights four key points.[18]

First, as expected, the major beneficiary of the aid was Fiat. According to a report by the Institute for Economic and Social Research (IRES), already in the 1980s, measures in the automotive industry followed mainly the strategies of the chief private group, Fiat (IRES, 1988: 255). After the acquisition of Alfa Romeo in 1987, Fiat remained the only major player in the industry, thus seemingly entrenching its standing *vis-à-vis* the state.

Secondly, and also in line with the expectations provided by the discussion so far, aid intensity (i.e. the percentage of the sum invested coming from public coffers) has also become much lower. This can be seen especially in the so-called *Contratti di programma* (literally programme contracts, hereafter CDPs, discussed shortly below), where state aid intensity fell from 55% in the first CDP, to an average of less than 20% in the 2010s, as a result of tighter control by the Commission.

[16] See Chapter 8.

[17] Data from: `https://subsidytracker.goodjobsfirst.org/parent/fiat-chrysler-automobiles`.

[18] The table excludes subsidiaries that are not involved in the automotive sector (e.g. the newspaper *La Stampa*, owned by the Agnelli family), but includes those that are, such as Fiat Powertrain or Sevel.

Thirdly, a second, geographical, shift also took place. With the establishment of new assembly plants in Southern Italy between the 1970s and 1990s, much of the aid started being redirected towards the Mezzogiorno. Further, as evidenced by the Commission decisions in the 1990s and early 2000s, aid that was meant to be allocated to areas that the EU did not deem as a priority was denied, as was often the case for aid asked for plants in Piedmont. Both these points highlight that there is a clear supranational influence in state-business relations in the sector, which forces domestic actors to adapt accordingly.

Finally, with the introduction of CDPs, firms in the sector, particularly Fiat, could no longer exploit individual laws to allocate aid to their liking, as was the case of the aforementioned Fondo IMI. CDPs, in fact, are a comprehensive tool of industrial policy that has been employed by various Italian governments to favour business investing in underdeveloped areas or areas under economic duress, within a defined time frame (usually two or three years), and which require specific types of investment, particularly in R&D and training (Germano, 2011: 290).

As Table 6.5.1 shows, almost €2.5bn in aid was covered by CDPs, making them an important policy tool that the state has employed to subsidise domestic producers. It is then worthwhile to delve a bit into the role of CDPs in terms of its centrality for the understanding of industrial policy in the Italian automotive sector.[19] CDPs were introduced in 1986 with a deliberation of the Inter-ministerial Committees of Industrial Policy (CIPI) as agreements between public and private entities, and remained throughout one of the main tools for public intervention in the industry. First utilised in the sector in 1988, with a ten-year programme agreement between Fiat and the Ministry for Extraordinary Interventions in the Mezzogiorno (MISM), CDPs cover the realisation of those objectives that require a unitary management of resources by different ministries and that embrace three key areas: industrial innovation, R&D, and regional development (Germano, 2009: 144). It is interesting to note, then, that CDPs somehow reflect the 'strategic framework' that Romiti asked for in his 1984 Senate audit. CDPs can be employed both by the main firm and by its subsidiaries, as can be discerned by Table 6.5.1.

Since the 1980s, there have been eight main CDPs in the motor vehicle industry. The first one, due to its novelty, has a decade-long troubled history: first approved in 1987 by the CIPE and then signed by the MISM and Fiat the following year, it underwent a series of changes and adjustments until its final form in 1998, when it was *de facto* recognised on a legislative level. It covered investments in technology, training and research from 1988 and 1998, and allowed Fiat to only pay for around 55% of the total investment of over LIT 3,000bn while at the same time avoiding incurring in sanctions

[19] See http://www.camera.it/cartellecomuni/leg14/RapportoAttivitaCommissioni/testi/05/05_cap23_sch03.htm for a more in-depth look at CDPs.

from the European Commission, as the investment projects were undertaken in the Mezzogiorno. The first CDP included 21 projects of several Fiat companies, ranging from automotive to agricultural machines, and from manufacturing to aeronautics. Part of the aid was also used for research centres. The major investment (almost one third of the total) was done in the Cassino plant, followed by plants in Termoli (Molise), Sulmona (Abruzzo), and Foggia (Apulia).[20]

The second CDP covered investments for over LIT 6,000bn, of which Fiat paid around 60% during the 1991-1998 period. It was mostly used for the establishment of new, key plants in the Mezzogiorno, the Melfi plant in Basilicata, which opened in 1993; and the Pratola Serra (Avellino, Campania) plant, which opened in 1994. Together, the two accounted for more than 70% of the total investment.[21] The third CDP, which covered the 2004-2006 period, was more modest – a bit over €1,200mn. It was directed to three main plants in the Mezzogiorno: Pomigliano d'Arco (Naples, Campania), Melfi, and Cassino (Lazio). Fiat paid a much higher share of the investment, 87%, since the majority of the expenses were used for technological investment, with a very small part covering R&D.[22] The fourth and fifth CDPs were both stipulated in 2005, for a two-year period and, except for a €33mn investment to Fiat Powertrain in Turin, state aid was once again funnelled to plants in the Mezzogiorno. The share of investment the state paid for was more in line with the third CDP, averaging 18% among the two.[23] The final three CDPs were stipulated with Fiat subsidiaries for the assembly and development of transmission mechanisms (Fiat Powertrain in Turin), commercial vehicles (Sevel in Chieti), and truck engines (Iveco in Foggia) for a three-year period.[24]

All in all, most of the CDPs cover two main areas: technological investment (i.e. innovation of the process or the product within the assembly plants) and R&D. The preponderance of these two objectives explains why most of the aid outside the CDPs cover different objectives, such as regional development, employment and training.[25] CDPs are certainly the most comprehensive tool that Italian governments used in industrial policy in the sector, but they are far from mirroring Cohen's *grand projets*: CDPs remain localised both geographically and sectorally. Geographically, the discussion above shows how CDPs, even when substantial or highly innovative, remained circumscribed to very specific locations. The use of the second CDP for the establishment of new assembly plants in Melfi and Pratola Serra shows that they can be used so that the company can branch out, but CDPs in

[20] http://ricerca-delibere.programmazioneeconomica.gov.it/76-09-luglio-1998/.

[21] http://ricerca-delibere.programmazioneeconomica.gov.it/78-09-luglio-1998/.

[22] http://ricerca-delibere.programmazioneeconomica.gov.it/5-29-gennaio-2004/.

[23] http://ricerca-delibere.programmazioneeconomica.gov.it/104-29-luglio-2005/ and http://ricerca-delibere.programmazioneeconomica.gov.it/111-29-luglio-2005/.

[24] http://ricerca-delibere.programmazioneeconomica.gov.it/27-05-maggio-2011/, http://ricerca-delibere.programmazioneeconomica.gov.it/29-05-maggio-2011/ and http://ricerca-delibere.programmazioneeconomica.gov.it/65-03-agosto-2011/.

[25] In terms of employment, the main (indirect) subsidy was through CIG, which is not discussed here.

general were almost entirely used in the Mezzogiorno, due to Commission guidelines.

Sectorally, there was little overlap with activities other than the automotive sector. *Grand projets*, in light of their very definition, require a strong collaboration (whether voluntary or state-led) between firms of different sectors to push for industrial development. However, CDPs are stipulated between individual private entities and public actors. Hence, even though some CDPs covered sectors such as manufacturing, aeronautics or telecommunication, this was only possible in light of their being subsidiaries of a huge corporation, Fiat. Yet, CDPs do not provide guidelines for cooperation between Fiat and other competitors or partners, neither within the same industry, nor inter-sectorally. This was a shortcoming that was recognised by the legislators, but for which little has been done. In their 2002 document on the investigation on the automotive sector, they write,

> ...it appears, in truth, to be rather difficult to imagine [a form of] public support to the motor vehicle industry with clear and long-lasting effects. This is not only due to the extremely strict constraints for state aid to business that the European Union imposed. Rather, to merely subsidise, in whatever form, the existing industrial structures without a radical change in business strategy, would represent a short-term solution that could not provide a change of direction. [...] For this reason, it appears to be pivotal to focus on R&D to favour the technological updating of firms, which represents one of the key factors for competitiveness, and a requirement to garner new market shares. R&D investment would, in particular, be finalised to promote collaboration between larger and smaller enterprises, and to create synergy among all actors of the automotive industry (Camera dei Deputati, 2002: 20-1)

Thus, though already in the 1980s Fiat's CEO Cesare Romiti advocated for a change in industrial policy by implementing strategic frameworks that could better serve both short- and long-term goals, CDPs fall short of his wants. They are not *grand projets*, and although some degree of concertation does exist, CDPs do not provide for an inter-sectoral 'strategic framework', for which he advocated. His position was also interestingly supported by Roberto Di Maulo more than a decade later, then heading the metalworkers' union. In another Senate audit, Di Maulo advocated for a 'broader vision' whereby subsidies in the automotive industry should not merely be finalised to increase car sales; rather, he deemed it 'necessary to set up an industrial policy aimed at increasing employment rates and the development of technologies', suggesting that CDPs were certainly a step in the right direction (Senato, 1996: 11). All the evidence above provides some insight over the amount, type and trend of aid allocation, but it says little about the effective relationship between government and industry. The next sub-sections explore the position assumed over time by the relevant political and business actors over public support of the industry.

6.3.3 State-business relations in Italy: a diachronical sectoral approach to the automotive industry

The discussion above suggests that there is some degree of alignment between the automotive industry and the state, and in some cases that private firms, namely Fiat, were able to dictate conditions. For instance, Pirone and Zirpoli (2015), retracing the history of Alfa Romeo, show how Fiat was able to influence the choices of the state holding IRI, of which Alfa Romeo was a subsidiary, to maintain its position as main mass producer of vehicles, and its privileged role *vis-à-vis* the government. The authors provide several examples. One is the criticism, if not outright sabotage of the joint ventures between Alfa Romeo and Renault in the 1960s, and Nissan in the 1980s. Another example is the hostility, in the late 1960s, of the Turinese company with regard to the production of a new car in Naples which could compete with Fiat's mass brands. Particularly to Romiti, this represented a danger to Fiat's privileged position on the Italian market (see Romiti & Pansa, 1988). A final example is Fiat's well-known intrusion in the negotiations between the sale of Alfa Romeo to Ford in 1986, with the former eventually acquiring the Milanese brand. As Bianchi (1988) recounts, IRI and Ford announced negotiations in May 1986 for the sale of Alfa Romeo to the Americans, and a month later Fiat representatives said they were not interested. However, within a few months, things changed radically as Fiat's CEO contacted and negotiated with then IRI president Romano Prodi, discouraging him from selling Alfa Romeo to Ford, and instead consider an offer from Fiat, which arrived in November of the same year (Romiti & Pansa, 1988).

All these instances, as well as the aid figures provided in Table 6.5.1, offer two insights. First, that Italian governments have not balked at the opportunity of subsidising investments by car companies. The reasons adduced were often based on the need to redress economic asymmetries, as well as the pivotal importance of R&D to industrial policy. As former Fiat CEO, Cesare Romiti, said to a Senate committee in 1989, redistributing resources from the richer to the poorer areas is about 'planting an entrepreneurial seed' that can offer new opportunities to firms; likewise, in the same audit, he mentioned how 'industrial policy hinges on support to R&D' – in other words, there can be no productive industrial policy without consistent involvement in and support of R&D (Senato, 1989). Ironically, the importance of R&D to the industry was still the subject of discussion almost fifteen years later. In a 2002 Senate audit, it was found that, while Fiat (and writ large the automotive industry) represented 15% of the whole investments in R&D in Italy, R&D expenditures in the industry are relatively low compared to other countries: Italy spent just €683 per car, whereas Germany was able to go over €1,600 per car (Camera dei Deputati, 2002: 11, 17). As a result, the conclusive document on the investigation into the automotive industry states,

> We will need, particularly, to intensify intervention measures in R&D [...]. Investing in R&D is conducive to the restructuring and renovation of firms and puts them in a position to be competitive globally. [...] We should engage in networking with universities and potentially set up mixed public-private holdings, with the goal of fostering applied research in automotive technologies (Camera dei Deputati, 2002: 27)

The second insight these examples provide is that there effectively was some degree of permeability between business, and in particular the largest firm, Fiat, and the state. In a Senate audit, the Mayor of Pomigliano d'Arco (Naples), where Fiat has had an assembly plant for more than fifty years, brazenly said, 'if we were to sum up all the incentives and subsidies [given to Fiat], both direct and indirect, I believe that the major shareholder of the Fiat Group would be the state' (Senato, 2002a). In the very same audit, then, the President of the committee provides some data: in the years preceding 2002 (though the time frame is not specified), Fiat received around LIT 10,000bn in subsidies, both direct (around LIT 7,000bn, including LIT 6,000bn of incentives for the Mezzogiorno) and indirect (around LIT 3,000bn, of which a third was used for CIG and almost another third for scrapping incentives) (Senato, 2002a: 15). But how can this relationship be characterised over time?

Drawing on the work of the economist Giulio Sapelli, Germano (2009: 135-40) delineates three periods where different state-business relationships existed within the Italian automotive industry. The first one, going from the 1920s to the 1960s, was characterised by strong economic growth and expansion, where Fiat in particular started to exert itself *vis-à-vis* the political power by means of particularistic targeting and party contributions. Wells Jr. (1974: 233) recounts an instance in 1929, where Fiat was able to force Mussolini's hand to avoid Ford from acquiring land in Tuscany to set up an assembly plant. The post-war reconstruction was difficult for both Alfa Romeo and Fiat. The former had to convert its production from bellic to civilian. This was not a foregone conclusion, given that during the regime the automotive sector of Alfa Romeo's activities was set aside to favour the production of trucks and airplanes (Felice, 2010; Pirone & Zirpoli, 2015).

For their part, Fiat had to fend off attempts of nationalisation, and deal with the death of the founder in 1945. The company made ample use of the funds coming from the Marshall Plan – more than US$30mn – in order to stay afloat after the war. Between 1945 and 1950, Fiat was allocated LIT 65bn for the restructuring of its assembly plants, five times the sum government-backed Renault received (Castronovo, 1999: 807, 904). Eventually, Fiat got on its feet and mass motorisation started in the mid-1950s. Vittorio Valletta, then Fiat's CEO, was among the most influential men in Italian politics and it was him, together with a handful of other managers from state holding companies, that *de facto* decided the direction of economic policy (Castronovo, 1999: 975).[26] It is during this period that the *dictum* ‘What is good for Fiat is good for Italy’ started to take hold.[27]

The second period, covering the 1970s and 1980s, was rather troubled due to the oil crises in 1973 and 1979, but also the debris of the social tensions of 1968-9. The aftermath was continuous strikes, widespread absenteeism, outright hostility between the manufacturers’ managements and trade unions, and even acts of terrorism (for an account involving Fiat, see Romiti & Pansa, 1988). This is also a period of contradictions: political parties consolidated their power, particularly through the system of state holdings. Rather than being conditioned by private companies, they now attempted to condition firms’ decisions. This was the result of the hybrid between the political apparatus and public industry, which made the rules of intervention discretionary, and placed them increasingly in the hands of political forces, creating a ‘patronage without political purpose’ (Prodi, 1974: 61-2). In the words of Romiti, there was a

> race to establish privileged relationships with this or that company, to establish ‘protectorates’ over this or that industrial group. This is the problem of the ‘shirts’ that some political parties want to impose on entrepreneurs so they can then say: that [one] is ours, that other one is within our sphere [of influence], the third one will become our friend. [...] During that time, many entrepreneurs were forced to accept this kind of [political] protection, to wear the ‘shirt’ of party X or party Y, of this or that political man (Romiti & Pansa, 1988: 297)

This phenomenon of ‘party state’ has been widely acknowledged in the literature.[28] As Bull and Newell (2005: 175) note, ‘state holdings and the agencies and companies they controlled became subject to a meticulous system of distribution between the different factions of the DC and those of other parties.’ Barca and Trento (2010: 225) summarise the situation in the following way: the suggestions and directives of political power were transmitted to the management of state holding companies, with the former overseeing the implementation of these directives step by step. The result of this system of party state was that it created a ‘vicious circle for the mutual promotion of politicians and public managers,’ where each actor needed to remain close to the other in order to reap the benefits (Wilson & Grant, 2010: 202). One such example in the automotive sector is the walking out of Alfa Romeo long-time manager, Giuseppe Luraghi in 1974, after he criticised an expansion plan in the Mezzogiorno, which was supported by both the government and the Minister for state holdings (Pirone & Zirpoli,

[26]In 1961, journalist Eugenio Scalfari wrote: ‘they say there is no economic planning in Italy. It’s not true: there is, but it’s Valletta who heads it’ (cited in Castronovo, 1999: 1015).

[27]The reader might recollect from Chapter 2 that this saying is reminiscent of ‘what is good for business is good for America.’

[28]Wilson and Grant (2010: 201) define a party state as one where ‘interaction takes place through a political party or, in particular, through the factions of a dominant political party.’

2015).[29]

Private industries were not exempt from this relationship either. The same political patronage between the Ministry of State Holdings and public companies was present in the relationship between the Ministry of Industry and private companies. Fiat lamented its loss of power *vis-à-vis* the government, claiming that both political parties and the executive were against support of Fiat, and that the company had to go against the grain in its investment choices, lest they ended up like the failed British Leyland (Senato, 1984: 42). Agnelli himself, in a 1970 interview, recognised that Fiat did not hold as much sway on politicians anymore (Castronovo, 1999: 1265).

Yet, according to Prodi (1974: 62), the policy of the Ministry of Industry was focused on 'doling out subsidies to the private sector rather than on designing a specific industrial policy,' with no fewer than twelve laws providing credit subsidies to firms, with big firms (including the automotive industry) managing to capture a fair share of these funds.[30] The situation continued into the 1980s, where Romiti himself admitted to LIT 600bn in direct grants between 1982 and 1987, not counting loans (Romiti & Pansa, 1988: 156). Between 1981 and 1990 the tally was around LIT 1,000bn, half of which in direct grants (Castronovo, 1999: 1679). Fiat, in other words, exploited political power in the sense that it persuaded policy-makers, regardless of who held the reins of government, to take the necessary action for the development of the Italian industrial system (Romiti & Pansa, 1988: 298, 301).

Thus, a paradoxical situation came to the fore whereby, if one side of the coin is represented by the increasing inability of the automotive industry to exert its power over policy-makers due to the high discretionality of the state, the other side of the coin is one in which there is nonetheless a consistent and continuous support to the sector. This contradiction is explained by the idea of 'patronage without political purpose': it was this kind of patronage that, despite the diminished ability of business to influence politics, pushed legislators to deliver consistent benefits.

This can be seen by the numerous programmes laid out in Table 6.5.1 that were undertaken during the 1970s and 1980s. This apparent paradox can be explained by the fact that, since the 1960s, Italy's response to its problems has been to intervene with a series of particularistic, fragmented programmes, rather than a comprehensive national planning (Prodi, 1974: 46), a situation that was also criticised by Fiat (see Romiti a few paragraphs above, but also Castronovo, 1999: 1267). This scattered style of intervention left the door open for particularistic distributive politics where the winners are the

[29] Fiat CEO Romiti claims that the decision to expand southwards was taken for purely electoral goals, an objective that Luraghi was not willing to accept (Romiti & Pansa, 1988: 172).

[30] As Cain et al. (1987: 225) report, '[t]he substitute for overall planning in Italy has been an increase in the amount of resources distributed through existing bureaucratic and parastate agencies [...] it enables politicians to deliver concrete benefits to constituents.'

legislators themselves, who can engage in personal vote-gathering exercises in order to increase their chances of re-election (Golden, 2003).

Starting from the late 1980s, which marks the beginning of the third period, the situation changed swiftly. First, the Commission started tightening the policy on state aid in the motor vehicle industry. Secondly, even with the acquisition of Alfa Romeo, Fiat started losing ground compared to the other car makers. This loss of market share has a two-fold explanation. First is the 1993 crisis in the sector, which hit the European market by 15% on average, but the Italian market by 30% (Senato, 1998: 11). Second is the fact that, until the nomination of Sergio Marchionne as CEO in 2004, Fiat failed to have an internationalising strategy, remaining instead inward-looking (Germano, 2012: 75). As one expert in the sector eloquently put it in front of a Senate committee, the mistake was that Fiat always made calculations 'one market at a time' – whether Italian, Brazilian, or otherwise (Senato, 2002b: 39-40; see also, Bianchi, 1995). Finally, the advent of the Second Republic in 1994 entailed a reshuffling of the party system, though Fiat's ambiguity towards the political parties remained the same. While Agnelli was supportive of a victory of Berlusconi's centre-right coalition, the *Polo delle Libertà* (Pole of Freedoms) in 1994, he did not think that, were Berlusconi to lose, Fiat would have lost, too. Likewise, when Italians were called to the ballots again two years later, Romiti said, 'the Left has a sense of the state, unlike the *Polo*' (Castronovo, 1999: 1719).

With the arrival of Marchionne, Fiat attempted to do away with 'the culture of hand-outs, which produces dependency and extinguishes the spirit of initiative and the sense of responsibility' (cited in Germano, 2012: 77). This attitude had already begun a few years before with one of his predecessors, Paolo Fresco, who claimed the company neither needed nor wanted government help (Clark, 2012: 150), but truly blossomed under Marchionne. Interestingly, since Marchionne's arrival, state aid to Fiat totalled €432mn, compared to the ~€300mn in the ten preceding years[31]. However, these figures can be misleading if one wants to understand state-business relations. While it is true that Fiat remained, even under Marchionne, a large recipient of state subsidies, compared to other car manufacturers, two key events help make sense of the renewed relationship.

The first key event is the advent of the economic crisis in 2008, which put the automotive industry in jeopardy. In the past, governments have used subsidies to rescue car manufacturers in difficulty. This phenomenon was not limited to Italy. In the 1970s Britain allowed a rescue of both British Leyland and Chrysler (see Wilks, 1988); in the 1980s, the French authorities allowed state-owned Renault to benefit from billions in capital injections, as did the Italians, with both Fiat and Alfa Romeo (see for

[31] Excluding the first two CDPs, indirect subsidies, and aid not allowed by the Commission.

instance Dancet & Rosenstock, 1995). With tighter state aid rules starting from the 1990s, straight capital injections or rescue and restructuring operations were no longer possible. Nevertheless, the Commission recognised that, due to the severity of the 2008 crisis, some degree of laxity on state aid rules was warranted. Hence, at the end of 2008, it adopted a Temporary Framework 'to support access to finance in the current financial and economic crisis.'[32]

Although the framework was implemented through horizontal schemes, meaning it was inter-sectoral, some countries, like France and Germany used it to support their automotive industry (Grigolon et al., 2016). Renault and PSA were granted almost €15bn through various measures, both direct and indirect; German manufacturers, and in particular Opel, instead benefited from almost €19bn in incentives, with 80% of the monies being guarantee funds (Germano, 2012). Italy only allocated €1.2bn through scrapping incentives with Law No. 33/2009.[33] During the crisis, Fiat did not benefit from direct subsidies, capital injections, unemployment aid or R&D incentives from the Italian government, signalling a 'go-it-alone' international strategy that eventually led the Turinese company to merge with Chrysler and create a new group, FCA (see Clark, 2012).

The second element that shows the newfound distance between Fiat and the Italian political system, with a subversion of the typical state-business relations in the sector is the breaking up of Fiat from ANFIA (the country's automotive manufacturers' association) and especially Confindustria. This was due to disagreement over industrial relations and collective wage negotiation. Whereas Confindustria wanted to retain its central position in the concertation, Fiat preferred a decentralised model of bargaining over a national one (Berta, 2012). This rift with Confindustria, as Giuseppe Berta recounts, was a consequence of Fiat's decision in 2009 to close down the Termini Imerese assembly plant because of its peripherality, and to engage in a restructuring of the Pomigliano d'Arco plant for the production of the new Fiat Panda. Neither decision was particularly welcome by policy-makers and trade unions. The Minister of Economic Development called the shutdown of the Termini Imerese plant 'a folly', whereas metalworkers were reluctant to agree to the pre-conditions for Fiat's investment in Pomigliano, as they would see their striking and sick leave rights curtailed (Simoni, 2010). In the end, Fiat went ahead with its plans. Termini Imerese has been closed, the Pomigliano agreement has been signed, Fiat has fully acquired Chrysler and moved its legal headquarters to the Netherlands, and the last three CDPs, signed for the 2011-2013 period, show not only a significant decrease in the utilisation of state resources, but also that these contracts are being signed with the subsidiaries rather than the

[32] OJ C 16 of 22 January 2009. See also Chapter 4.

[33] Law 33 of 9 April 2009 on urgent support measures to sectors in crisis: `https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:2009;33`.

parent company, signalling a further rift between the state and its main automotive firm.

To conclude, the most conspicuous absence in the Italian automotive industry in the past 20 years has been that of the state, which has not been able to 'build and effectively pursue a feasible political and industrial agenda for the automotive sector' (Calabrese, 2020: 193). However, this does not mean that Fiat has pursued a fully 'go-it-alone' strategy in face of globalisation, as suggested by Germano (2012). Instead, in a global market where 'stateless firms' are now abounding (see Crouch, 2010), Fiat has established new and multiple relationships with other governments by means of foreign direct investment (FDI), on which it has become increasingly reliant. In its internationalising strategy, Fiat has not relied purely on its own resources. Rather, it has established networks abroad that have resulted in several aid measures in favour of the Turinese company. As one blunt article title put it, 'the new model of Fiat is made...through the old system of state subsidies.'[34]

Table 6.3.1: Aid to Fiat/FCA outside Italy since 2000

Country	**Number of measures**	**Total Amount**	**Notes**
Serbia	A ten-year contract	€350-415mn	Several other agreements with the Serbian government remain undisclosed
United States	20	US$450mn	Includes measures at the federal, state and local levels
Canada	1	CAN$85.5mn	The request was withdrawn
Brazil	7	€815mn	Monies come from the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES)

Source: subsidytracker.org, Windsor Star, BNDES press releases (various years), Serbian Monitor, FCA financial statements (various years).

Table 6.3.1 shows that, since the turn of the century, Fiat has obtained resources in the ballpark of €2bn from four other extra-EU countries where it has set up operation.[35] This is a figure far larger than the amount it has received from the Italian government alone during the same time.

[34] https://insajder.net/en/site/focus/4904/.

[35] To be sure, the list is far from being exhaustive. For instance, Fiat Powertrain Poland requested a €40mn aid allocation in 2008, which was later reduced at the insistence of the Commission. Further, as noted, many of the agreements between Fiat and the Serbian government have to this day remained undisclosed. Other countries where Fiat has set up operations or has joint ventures are: Argentina, Mexico, Turkey, India and China. Unfortunately, extra-EU countries are not up to the standards of transparency of the European Commission's state aid register, and calculating the effective allocations remains an extremely difficult endeavour.

In Serbia, Fiat commenced operations at the Kragujevac (Zastava) plant in 2009, with a US$1.1b investment for a 66.3% stake in the plant, with the rest of the stake remaining in the hands of the state. Fiat pledged US$624mn over three years to retool the factory, with the Serbian government pitching in for the remaining third of its stake, US$156mn. However, the Serbian government further invested $435mn in roads, railways, power transmissions and environmental mitigations in the Kragujevac area in support of the project (Jacobs, 2017: 306). Although the details of the agreement are not published, it has been reported by various sources that Fiat Serbia is exempt from income tax and social security contributions for its employees, property tax and local fees, and that the state has committed itself to refund the full amount paid to all workers for a period of ten years, on top of subsidising the sale of Fiat cars for up to €3,000 per car.[36] Furthermore, as late as November 2019, after the agreement expired, Serbian President Vucic stated that 'one thing all Fiat workers in Kragujevac can count on is further assistance or support from the Serbian state for Fiat's survival, should it be necessary,' thus showing the commitment of the Serbian state to the inflow of FDI provided by foreign firms.[37] This is not surprising, given that Fiat accounted for just short of 3.5% of Serbia's whole industry, therefore underlying the strong interdependence that exists between the two actors.[38]

In Brazil, Fiat has been active since the 1970s. However, since the company's internationalising strategy under Marchionne, it has improved its presence in the country, and subsidies to Fiat increased following two events. First, a renewed interest of the government in industry's role in boosting consumption and exports, which incentivised firms to also take an interest in government tax concession (Duarte & Rodrigues, 2017). Secondly, an internationalising shift in the main financing institution in the country, the Brazilian Development Bank (BNDES). The BNDES is a fully government-owned corporation that answers directly to the Ministry of Development, Industry and Trade, and indirectly to the President.[39] Its aim is to execute national industrial priorities and export activities and to finance ventures and services aimed at the economic development of the country. Originally, its focus was on the import substitution strategy typical of Latin American countries, but it has since evolved to be more concerned with corporate matters, foreign investment and technical innovation, following Lula's presidency (Doctor, 2015; Hochstetler, 2014). Under these circumstances, Fiat was able to extract a series of concessions, which eventually led, in 2015, to a €1.2bn (R$7bn) investment for a new automotive complex in Goiana (Pernambuco). Two thirds of the funds came from the Brazilian Development Bank

[36] See https://www.serbianmonitor.com/en/serbian-government-gave-fiat-almost-3-billion-dinars-in-2018/, https://www.euractiv.com/section/economy-jobs/news/fiat-serbia-strike-ends-negotiations-kick-off/ and https://insajder.net/en/site/focus/4904/. See also https://www.serbianmonitor.com/en/fiat-serbia-business-deal-or-business-fraud-of-the-century/ for an investigative report on the financial assistance provided to Fiat.

[37] https://www.serbianmonitor.com/en/vucic-if-necessary-the-state-will-help-fiat-with-other-subsidies/.

[38] https://www.euractiv.com/section/economy-jobs/news/fiat-serbia-strike-ends-negotiations-kick-off/.

[39] For more information on the BNDES, see https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en.

(BNDES) and other national funds, with the BNDES alone disbursing €516mn (R$3.3bn, see BNDES, 2015). Hence, here too, the politics of subsidisation followed a logic of interdependence that did not differ substantially from those in Serbia – or even Italy for a long period.

Finally, both in Canada and the United States, Fiat's presence can be ascribed to its acquisition of Chrysler, which has plants in Ontario in Canada, and in several US states, such as Michigan, Ohio and Indiana. The CAN$85mn measure in Canada followed a controversial CAN$3bn investment in the retooling of the Windsor plant, for which Marchionne advanced and then withdrew a request of CAN$2bn in 2014.[40] This was in line with a shift in Canadian policy starting from the mid-2000s, whereby Canadian governments have increasingly provided incentives for periodical capital investments in R&D – particularly in existing plants – to face decreasing greenfield investment (Sweeney, 2020: 82). Between 2004 and 2013, the Government of Ontario introduced the Ontario Automotive Investment Strategy (OAIS). Through the OAIS, the government committed to CAN$500mn to support large-scale capital projects that contribute to the long-term competitiveness of the automotive industry for investments of at least CAN$300mn and/or 300 jobs.[41] Since 2013, the government has also provided cash incentives of approximately 10% of the value of manufacturing investments through the Jobs and Prosperity Fund (JPF), a 10-year, CAN$2.7bn fund that allows the government to partner with businesses to enhance productivity, innovation and exports (Sweeney, 2020: 82).[42]

In the US, instead, the majority of the measures were in the order of few hundred thousand dollars to a few million dollars, with the exception of a US$405mn subsidy for a US$1.6bn investment in Detroit, MI, for the conversion of two existing plants into a new Jeep assembly plant.[43] In both countries, however, subsidies were not driven by the promise of FDI (indeed, the subsidy in Canada was given *after* Fiat had initiated its investment, which is unusual), but were rather due to the commitments Fiat had to taken on following its acquisition of Chrysler.[44]

Thus, in its internationalising strategy, and despite its growing rift with the Italian state, Fiat has not acted as a 'stateless firm' and has instead attempted to take roots in other countries. This has taken the form either of the promise of FDI in developing countries, which they sorely need, or attempts to retool and restructure existing plants, following M&A operations. Yet, regardless of the country or the means of subsidisation, this brief overview shows that large firms continue to be dependent on

[40] https://www.wsj.com/articles/fiat-chrysler-withdraws-request-for-canadian-subsidies-1393962188.

[41] See https://collections.ola.org/mon/11000/254513.pdf.

[42] See https://www.ontario.ca/page/jobs-and-prosperity-fund-regional-business-support-program-progress-report-lead and _https://www.ontario.ca/page/driving-prosperity-future-ontarios-automotive-sector.

[43] https://subsidytracker.goodjobsfirst.org/subsidy-tracker/mi-fiat-chrysler-.

[44] In Ontario, for instance, the primary condition to receive assistance is that the investing firm must maintain certain levels of employment over a defined period of time, usually ten years (Sweeney, 2020: 82-3).

national governments' support. Even today, with FCA asking to open the state coffers following the 2020 economic crisis, trade unionists and neoliberal economists alike are calling for the Italian state to take a stake in the company.[45] Thus, if during the first period, until the 1960s, the state had a mostly hands-off to the industry in virtue of the good health of its main domestic producer, and if in the second period (1970s-1980s) the state and the automotive industry started playing a tug-of-war to see who would colonise and control whom, the third period has been characterised by a continuous widening of the gap between the state and its automotive industry that, nonetheless, seems to always lead back to the state – whether domestic or foreign. The next sub-section takes stock of these different relationships over time and contextualises them within the policy network approach.

6.3.4 Taking stock of state-business relations in the Italian automotive industry

What emerges from these sections is that state-business relations in the Italian automotive industry have significantly changed over time. Up until the early 1980s there was a strong alignment between the state and its automotive industry: what was good for Fiat was good for the country. Moreover, Alfa Romeo, being a public firm, had a privileged relationship with the state through its parent company, Finmeccanica, which was in turn part of IRI. The allocation of subsidies was facilitated in light of two factors. First is the lax rules on competition policy. This allowed governments throughout Europe to engage in the 'national champions' policy in a swathe of different sectors, including the motor vehicle industry. The second factor is the absence of a 'strategic framework', substituted by a plethora of different, targeted laws, which allowed for particularistic allocations to emerge, especially in the Mezzogiorno, where political patronage was long-standing.

Hence, the automotive sector of this period was characterised by three elements, summarised in Table 6.3.2. First, low state concentration, whereby a plurality of ministries and agencies were involved in the allocation of subsidies. In the case of Alfa Romeo, the competent ministry was that of state holdings, whereas the Ministry of Industry liaised with Fiat. However, negotiations also involved the CIPE/CIPI and the Ministry for the Mezzogiorno (for either company) if the investment was made in the South. This led to an incoherent industrial policy, which did not particularly help in terms of economic development.

Second, there was a relatively scarce autonomy of the state from business. Multiple accounts mention

[45] https://www.ilfattoquotidiano.it/2020/05/24/prestito-a-fca-leconomista-giavazzi-se-il-problema-e-la-liquidita-gliela-dia-la-casa-madre-se-e-la-solvibilita-lo-stato-entri-nel-capitale/5812274/.

the permeability between state agencies and the automotive companies. In the case of Alfa Romeo, IRI managers were chosen by and affiliated to political parties, which was *parentela* by the book. The state's relationship with Fiat is more ambiguous.[46] While Bull and Newell (2005: 181) write that Fiat was 'known to have benefited [...] from DC government policies that protected the domestic car market, kept petrol prices low, and constructed motorways,' it is also true that there was no love lost between Agnelli and the DC, and that the legislators have attempted to rein in Fiat's power with a series of measures. The attempt to use Alfa Romeo's Southern investments in the 1960s to create a potential competitor to Fiat to the mass market has already been mentioned. Further measures include a freeze on prices in 1973, which were wanted and could be enacted only by the Ministry of Industry, and which severely damaged Fiat with the advent of the oil crisis in the same year; and the development of anti-trust legislation in the 1980s, strongly wanted by almost all parties, and which eventually led Fiat to divest itself of its editorial branch in the 1990s (Romiti & Pansa, 1988: 300, 315-36).

Finally, the degree of mobilisation from business varied. Alfa Romeo was public and there needed not be any mobilisation: its fate was already in the hands of the policy-makers. Fiat, instead, was part of Confindustria, but the relationship between the two was always fraught, with Fiat often acting alone and outside of the logic of Confindustria, suggesting a somewhat high degree of mobilisation for the company. As Lanzalaco (1993: 118) writes, the assumption by the political class of a more autonomous position in dealing with private business with the entry of the socialists in the government in the early 1960s, weakened Confindustria and allowed direct relationships between firms (including Fiat) and political power to develop.

Table 6.3.2: State-business relationships in the Italian automotive industry until the mid-1980s

	Concentration	*Autonomy*	*Mobilisation*
Alfa Romeo	Low	Low	Low
Fiat	Low	Low/Medium	Medium

Although evidence seems to point towards a clear-cut *parentela* relationship in the case of Alfa Romeo,

[46]To be sure, Umberto Agnelli, a key Fiat figure, became senator with the DC in 1976. However, his choice towards the DC was driven less by ideological affinity and more by a sentiment of wanting to play a more important role in politics, something that was not possible with the smaller parties, such as the republicans and the liberals (Romiti & Pansa, 1988: 32). He justified his decision in these words: 'if one wants to play politics, they have to go there where decisions are made,' and that 'only by operating from within a party that is expression of several factions can we realise the necessary solidarity to stop the decline of the country' (Castronovo, 1999: 1379-80).

it would be difficult to characterise the Fiat-state linkages as such. Rather, while Fiat had certainly succeeded in becoming the natural expression of the private automotive industry *vis-à-vis* the state, typical of a clientele relationship (La Palombara, 1964: 262), the pluralistic nature of the party system, combined with scarce state resources, created a system of privilege without effective competition.[47] Atkinson and Coleman's (1989: 52) description of the clientele relationship seems to closely mirror the situation encountered in Italy during this period:

> ...when the state is penetrated by sectoral interest groups, bureaus have little autonomy, officials see sectoral groups as their clients and, accordingly, attend to their needs rather than any broader public interest. A weak state organisation disperses critical information among a larger number of officials or leaves that information in the hands of firms and associations in the sector. The result is a dependency relationship

Two caveats apply. First, Atkinson and Coleman (1989) assume a high degree of state concentration in the sector for a clientelistic relationship to arise. This is hardly the case, but it is not a predicament specific to Italy. Maloney and McLaughlin (1999: 94-5) claim that a similar issue arises within the British automotive sector, but also that 'the general pattern of policy-making is well captured by the term "clientele pluralism".' The second caveat is that, according to the authors, clientele pluralism entails that the state relinquish some of its authority to private sector actors, the typical example being that of self-regulation. However, as Van Waarden (1992: 44) shows, this is not necessarily the case: the state will remain responsible for policy formulation and implementation, though heeding the interests of its clientele. In return, it will get support from its clientele in form of information, compliance and political support, as has been shown in this chapter. In terms of subsidisation, this can be seen in the the myriad laws that were meant to make up for the lack of a clear strategic framework in industrial policy, but which only exacerbated particularistic, electoral goals. Such laws, as was shown, did not provide for clear guidelines and a coherent policy, and allowed big firms, including Fiat, to exploit them.

Therefore, parallel state-business relations within the industry existed, depending on the nature of the firms involved – private or public. This is not unexpected: already thirty years ago, Atkinson and Coleman (1989: 54) acknowledged how, for any particular sector, there could 'occasionally be evidence of more than one network.' Figure 6.3.1 illustrates the logical mechanism described so far.

[47] The evidence of scarcity of state technical resources can also be seen in the several Senate audits analysed here, whereby the senators themselves used data and information provided by Fiat to deliberate.

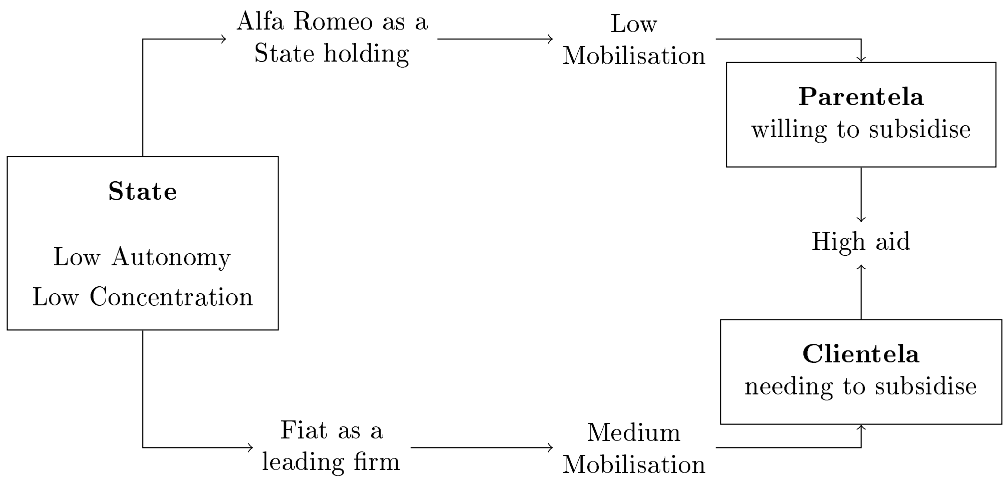

Figure 6.3.1: State-business relations in the Italian automotive industry (1960s-1980s)

The situation changed between the end of the 1980s and the beginning of the 1990s, again summarised in Table 6.3.3. With the introduction of the first sectoral framework for state aid in the automotive industry, car manufacturers understood that the bonanza was drawing to a close. Around the same time, Italy abandoned the state holdings framework and with Law No. 488/1992 terminated any extraordinary intervention for the Mezzogiorno.[48] This increased the concentration of political power within the hands of the Ministry for the Economic Development.[49]

Table 6.3.3: State-business relationships in the Italian automotive industry since the 1990s

	Concentration	*Autonomy*	*Mobilisation*
Fiat	Medium	Medium	Medium

The last project where there was a substantial intervention by the state, with around €3bn was the 1991-1998 CDP, which helped set up new assembly plants in the Mezzogiorno. After that, CDPs fell both in terms of amount invested and state participation. The arrival of Marchionne, furthermore, signalled a new market strategy for Fiat, where the state plays a diminished role. It would be unfair to characterise this new era as clientelistic. European rules would not allow it, in the first place; and

[48]Law 488 of 19 December 1992 concerning extraordinary intervention in the Mezzogiorno: `https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:1992;488`.

[49]While previously it was fragmented between Industry (which is what Economic Development previously was), State Holdings, and Mezzogiorno. Since 2012, a new office, the Department of European Policies, is the main interlocutor with the Commission in matters of state aid.

Fiat itself, which had by now become the only major actor in the industry, was not too keen on it, either.

With the CDPs, broader objectives were introduced to supersede laws that were either too particularistic or which failed in achieving the objectives that had been set out. Although this never achieved the loftiness of the *grand projets*, the new set up in state-business relations could have led to concertation. Here, it is business that shares the policy-making responsibility with the state, with labour only marginally involved in investment decisions; and investment decisions are in step with a set of broader political objectives (Atkinson & Coleman, 1989: 58-9). This is partially seen in the use of CDPs, and in the state's repeated favouring of scrapping incentives (five rounds between 1997 and 2010) as an attempt to achieve multiple policy goals, such as environmental, economic and safety-related aims (IHS Global Insight, 2010). However, the subsequent distancing of Fiat from the state, which was due to its non-integration within and rupture with the peak business association, Confindustria, meant that the sector fell short of attaining *de facto* concertation. Both the government and the firm's priorities changed since the 1970s and 1980s and there was far less willingness and ability to engage in clientelistic relationships on both sides.

Hence, this new relationship does not seem to fit any of the six configurations of the sectoral approach by Atkinson and Coleman (1989). Rather than emphasising shared policy-making, this experience seems to highlight a process of divergence – not so much of interests, but rather of domain of action. As was shown in the previous sub-section, the only remaining important private actor in the automotive industry found that it had fewer and fewer incentives to develop and maintain a policy network with Italian state agencies, leading instead to new, multiple relationships with different jurisdictions, be they Serbia, the US, Canada, Poland or Brazil.

There are three potential reasons why the outcome is not contemplated in the matrix of combinations of policy networks. First, the authors probably did not foresee a situation in which state and business had any interest or incentive in breaking off previous relationships. Although the six configurations allow for a loosening or a tightening of relations, there always exists at least one firm (whether public or private) in the sector whose performance the state can, in some way, influence. Although Fiat is still present on the territory, the relationship between the firm and the state has developed in an adversarial manner (if not outright indifference at times), which prevents any possibility of proactive and coherent policy. Reactive policies whereby the state intervenes in times of crisis are still present, as shown by the April 2020 request for aid by FCA. However, as the firm began to operate in different domains, subsidy spending in Italy was necessarily starting to go down.

The second reason is strictly related to the first one: as the power of big business increases, it becomes less reliant on organised groups (Woll, 2019). The power of capital thus draws force not from its being a special interest which is easy to organise, following the Olsonian tradition (Olson, 1965), but rather from capital itself. In other words, the advantages business enjoys are due to a *structural* advantage *vis-à-vis* other interests. Fiat was able to leave Confindustria exactly because of its globalisation strategy, meaning it was no longer reliant on a relationship with the home state filtered by peak associations and that it could seek out other relationships with other states. Thus, as was mentioned in Chapter 2, structuralist arguments of state-business relations still find a place in today's political science.

A final reason may come down to the shortcomings of the policy network approach and of Atkinson and Coleman's model specifically. As other commentators (e.g. Jordan & Schubert, 1992; Thatcher, 1998; Van Waarden, 1992) have pointed out, this classification of policy networks relies on the *structure* of the relationship between public and private actors, but is silent about the *process*. In other words, the model does not allow to properly explore the functions of the network and the strategies and aims of each actor. These, as Jordan and Schubert (1992) note, must be subject to empirical scrutiny and cannot be determined *ex ante*. Indeed, the analysis shows that, while the structure of relationships (i.e. the conditions for the policy networks, based on concentration, autonomy and mobilisation) has not fundamentally changed, the process (i.e. strategies and functions of the network itself) has: Fiat went from the 'one market at a time' to a globalising strategy; at the same time, legislators' strategies shifted from a 'colonisation' approach to one where the interaction with Fiat was more adversarial. Hence, it needs to be reiterated, the policy network approach must not be seen as an over-deterministic outcome, but rather as a flexible starting point to analyse policy outcomes.

It is rather difficult to identify the role of ideology and political institutions in a clear-cut manner. In terms of ideology, two are the main hindrances. First, Italy, under the First Republic (1946-1993) had one dominant party, the centre-right Christian Democrats (DC) which were always included in the cabinet, more often than not at the helm of the government. Hence, there is very little variation in this sense to determine different ideological relationships. Further, as Romiti puts it, Fiat always collaborated with all colours and levels of government, whether national or local (Romiti & Pansa, 1988: 301). Fiat's historic CEO, Vittorio Valletta, weaved political alliances ranging from Christian Democrats to Socialists to Social-Democrats to Liberals; even Agnelli himself said, in an interview to Scalfari, 'the big entrepreneur, financier, banker is a liberal' (Castronovo, 1999: 1048). At the same time, Romiti also admitted that the dominant party, the DC, thought Fiat was not particularly friendly to them, and even went as far as to openly support Alfa Romeo to create a more competitive sector (Romiti & Pansa, 1988: 171).

Yet, it was less of an ideological issue as it was an institutional one: the Ministry of State Holdings was often distrustful of Fiat, regardless of who was heading it – be it a Christian Democrat or a Socialist. Many legislators, regardless of partisan affiliation, were also fearful that Fiat was becoming 'too big for Italy' (see Romiti & Pansa, 1988: 315-336). Hence, it was the role of institutional and partisan veto players that determined the nearness or distance of Fiat to the state.[50] The situation became clearer with the advent of the Second Republic in 1994. Here, some parties (Lega Nord, leftist parties) were outright opposed to the interests of big business, while the likes of Forza Italia (centre-right) and L'Ulivo/Margerita (centre-left), who filled in the political vacuum left by the DC and the socialists,[51] and were more open to engaging in a dialogue with Fiat, despite the latter's internationalising strategy (Germano, 2011). Forza Italia, in particular, under the Berlusconi government, made no secret that they thought that Fiat was central to the Italian economy and that it needed to 'remain Italian' (Clark, 2012: 150). Both Forza Italia and the preceding Ulivo coalition government engaged in significant scrapping incentives in order to keep the company afloat, but no longer made Fiat a national priority as it had been during the First Republic. This contextual shift in state-business relations is represented in Figure 6.3.2.

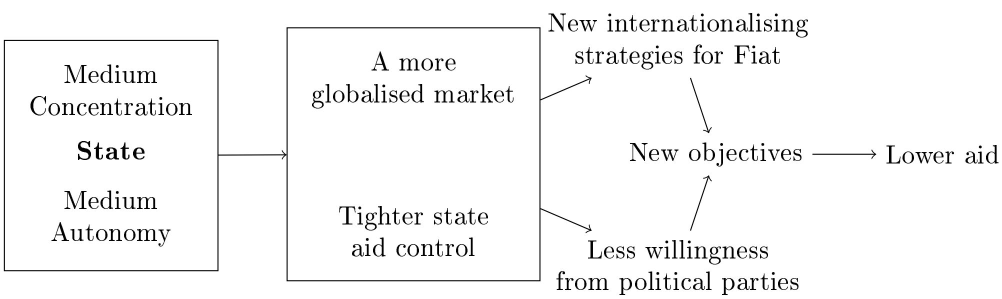

Figure 6.3.2: State-business relations in the Italian automotive industry (1990s-2010s)

Hence, while Germano's (2009: 139) assessment that policy-makers have allowed for generous subsidies to Fiat when there was an alignment of interests, but they have refused to do so when such alignment was absent is certainly in line with the discussion so far, the present study goes a step further and categorises more clearly the state-business relationships in the sector. Moreover, it shows

[50]In some cases, non political veto players, such as other businesses, were also relevant. If there exists a systemic crisis, the government is more likely to help all sectors of the economy rather than single out one or two. Knowing this, representatives of other sectors would not prevent aid from being given to a particular industry, knowing they are more likely to also get it. Further, they would also not want the other sector to retaliate, were they to lament subsidy spending that benefits that sector.

[51]By this I mean that they inherited the position that the DC and the PSI (the socialist party) *vis-à-vis* Fiat, but not necessarily their standing on the Left-Right spectrum.

that his assessment of a 'got-it-alone' strategy following the rift between Fiat and the Italian state (Germano, 2012) was only partially correct in that Fiat has instead sought new relationships with other jurisdictions from which to extract concessions.

Finally, the diachronical account of state-business relations has helped shed light both on how policy networks may change, following changes at the macro-level or in other domains (such as the Confindustria–trade unions–Fiat disagreements in the late 2000s), and on how the current typologies of policy networks need to better accommodate the new reality of the international political economy and the transnational firm. For instance, Coleman and Perl (1999) show how the presence of transnational policy communities may strengthen the autonomy of national state officials *vis-à-vis* national interests. However, it would be interesting to see how national policy networks develop when the issue becomes internationalised, but no transnational policy community exists or these are very weak.

This long account of state-business relations, however, is only part of the story. The following section analyses how, given a certain policy network, the legislators themselves may be incentivised to push for the allocation of subsidies, given a democratic state where policy-makers are accountable and need to garner approval, either with their constituents or with the party leadership.

6.4 Accountability: a never-ending particularism

6.4.1 Electoral systems in Italy

Italy is notorious for its several electoral reforms, summarised in Table 6.4.1 below. The last three have been adopted in the span of less than a quarter of century, averaging a reform every 12 years. From a diachronical perspective, therefore, Italy represents a theoretically appropriate environment, with a great deal of variation in the incentives that legislators have or are able to exploit when engaging in distributive politics. As Rickard (2018: 110) reminds us, since subsidies benefit producers, if these are concentrated in an MP's district, then she has an incentive to push for and secure such programmes, which could help her chances of re-election. The ability to do so, however, depends on the configuration of the electoral rules. This sub-section briefly recaps the three main electoral systems and their characteristics,[52] whereas the next sub-section deals with the intersection of electoral and

[52]A different electoral system, called *Italicum*, a two-round system based on PR and a majority bonus, was approved in 2015, but then repealed in 2017 and never used in a General Election. The latest electoral system, the so-called *Rosatellum*, adopted in 2017, is a mixed-PR system where 37% of seats are allocated through FPTP and 61% in a one-round PR manner. It is not subject to analysis, since no aid during this period is under scrutiny. Further, for ease of analysis, only the more relevant chamber, the lower House, will be analysed.

state aid politics: what kind of incentives did legislators have with regard to supporting measures in favour of the automotive industry? And what does this tell us about state-business relations in the sector?

Table 6.4.1: Electoral systems in Italy (1948-2015)

	Electoral System
1948-1993	Open-list PR (up to four preferences)
1994-2005	Mixed majoritarian (75% SMCs and 25% multi-member)
2006-2015	Closed-list PR with majority bonus

After over twenty years of suspension of the electoral rules under the fascist regime, Italy adopted a PR electoral system that reflected the composition of the Constituent Assembly. It was based on 32 large constituencies and the possibility to cast preference votes for as many as three or four individual candidates on the party's list (Katz & Bardi, 1980). This multi-preference vote was an important tool of intra-party competition, and provided a good electoral environment for local patrons of faction parties, particularly the DC (Cotta & Verzichelli, 2007: 69). The existence of this patronage enabled a system of 'clientele votes' and of alliances between local and national leaders, when not outright corruption (D'Alimonte, 2005: 255). In other words, this open-list PR system made pork-barrel projects and patronage more important than it would be if legislators had been confined to currying favour to party leadership rather than voters (see Golden & Picci, 2008). In such a system, individual incumbents have the ability to distinguish themselves from other candidates and claim credit for district-specific policy outputs (Aydin, 2006; Franchino & Mainenti, 2013; Persson & Tabellini, 2003; Rickard, 2009, 2012b, 2018). Aside from a failed attempt in 1953 by the DC to change the law to include a majority premium (the so-called *legge truffa*, or swindle law), this system was used throughout the entirety of the First Republic, until it was supplanted by a new mixed-majoritarian law in 1993.

The new electoral system was the result of two parallel efforts. On the one hand, growing complaints of excessive party fragmentation, due to the pure PR nature of the electoral system in the First Republic; on the other hand, the *Tangentopoli* scandal that was unravelling at the time created a sense of disenfranchisement among the public opinion. As Bull and Newell (2005: 74) put it,

> ...it was hoped that in place of the old system of governance, based, as it had been, on unstable coalitions whose composition owed more to behind-the-scenes negotiations after the votes had been counted than to the voting choices of citizens, the changed electoral law might bring with it a new, bipolar, system providing greater stability, responsiveness and popular accountability

As mentioned, the 1993 law was mixed-majoritarian, with 75% of seats allocated via 26 single-member constituencies (SMC), and the remaining 25% through closed-list PR at the national level. Its main feature is that each voter had two ballots, one for the SMCs, and one for the multi-member PR constituencies. The preponderance of the SMC seat allocations made it so that parties were incentivised to coalesce around pre-electoral coalitions, without however making it a two-party system. As D'Alimonte (2005: 268-9) shows, the majority component is strongly 'proportionalised' in the sense that the average effective number of parliamentary parties is not close to two, as one would expect, but rather it is around six. Further, the existence of pre-electoral coalitions means that the choice of candidate within SMCs is not a matter related solely to the individual parties, but becomes a distributive issue among coalition partners, who have to share SMCs in an optimal way. Candidate nomination is a top-down process that is highly centralised – hence, in spite of the presence of SMCs, the system is less open and candidate-centred than it was during the First Republic (D'Alimonte, 2005: 270). Although the expectations would be that accountability plays less of a role now than it did before in a candidate's choice to curry favours to their constituency, Gagliarducci et al. (2011) find that, within this electoral system, politicians elected in majoritarian constituencies did carry out more targeted policies than those elected in the PR constituencies.

In 2005, the electoral system was reformed once again, in a mostly PR fashion. Its key features were 27 large regional constituencies (plus one constituency for Italians abroad) and a closed-list vote. The most contentious issue in the new system was its majoritarian element: a majority bonus for the winning coalition so as to ensure at least 340 seats in the lower House, with the other 277 being allocated to other parties (Cotta & Verzichelli, 2007: 92).[53] Such a system clearly emphasises the role of parties over candidates (Renwick et al. 2009: 440), so much so that Pasquino (2007: 82) dubs it a 'de-personalised proportional system with a majority bonus.' Incumbents have very few incentives – even less than under the previous electoral system – to push for subsidies in their constituencies.

Given these different electoral rules, how did legislators engage in constituency service by securing subsidies for their constituents? The literature suggests that such incentives should change with each system. The next sub-section provides an analysis of legislators' parliamentary questions concerning

[53] The remaining seats to reach 630 were reserved for candidates voted by Italians abroad.

assistance to the automotive industry as a proxy for gauging the level of constituency service under each system.

6.4.2 State aid and electoral politics in Italy

It is widely acknowledged in the literature that electoral institutions shape legislators' re-election strategies, which in turn influence their legislative behaviour (Carey & Hix, 2013). The underlying idea is that an electoral system that incentivises personal vote earning and stresses accountability, showing whether a legislator cares about their constituency, or whether at least they *need* their support in their quest for re-election. Even if each legislator has personal policy concerns (e.g. defence, trade, immigration), gaining re-election is a necessary condition to achieve those goals (Heitshusen et al., 2005: 33). Thus, parliamentarians can act as 'local promoters' for territorial concerns, depending on whether the electoral system incentivises them to do so (Wood, 1987). As Cain et al. (1987: 19) note, a representative elected 'with the votes, efforts, and resources of the people of a specific geographic area naturally attaches special importance to their views and requests.' For instance, in the aforementioned study by Rickard (2018) on aid measures to wine manufacturers in France and Austria, she finds that French deputies are fare more likely to curry favour to their constituencies to lobby for subsidies in the area, whereas Austrian legislators toe the party line, as they have fewer incentives to appeal to their constituencies.

This section draws in particular on her work to study legislators' behaviour with regard to state aid to the automotive industry in Italy, Britain and France. As was shown in the previous sections, the Italian MVI is geographically concentrated in a few areas, and represents a relevant source of employment and growth for those areas. It would make sense for legislators in those areas, therefore, to ensure that, when necessary, subsidies be granted to ensure employment rates and economic development, about which constituents often care. In other words, it would make sense for the individual legislators to cultivate a personal network by engaging in 'constituency lobbying' on behalf of local interests. Further, Italy, with its numerous electoral reforms, represents an ideal case study in that it offers some degree of variation within a single country.

There are several ways in which legislators can lobby for subsidies for their constituents, and very few of them are transparent. For instance, as Smith (1996: 572) reminds us, it is not uncommon for civil servants or government ministers to phone key members of the cabinet to make their case on the importance of a particular subsidy. It is not unlikely that such a behaviour also applies to legislators, especially those that may have some clout on the government. However, there is no way of knowing who was involved, how, and to what degree. Other, more transparent, ways, inherent to the legislative arena, would be to put forward private bills, to make parliamentary speeches or raise motions and resolutions. But as was mentioned several times, parliamentarians by and large do not initiate legislation. Following Rickard (2018), instead, I analyse a further tool, parliamentary questions (PQs), whereby legislators table a question to a minister of the government, requiring the latter to provide an answer (Martin, 2011b: 474). As Gavoille and Verschelde (2017: 183) note, asking questions to the government 'can also be seen as a way to transmit information about constituencies' concerns.'

Although this strategy represents an unbiased way to analyse the effect of electoral rules on legislators' incentives in that it is not conditioned by political party affiliation (unlike, for instance, parliamentary speeches), it suffers from a shortcoming: it provides no *direct* evidence of the effectiveness of constituency service in terms of aid allocations. In other words, we cannot know whether the legislator was successful in her efforts to bring aid or investment in her constituency, or whether her success can be attributed to her actions. Therefore, the inferences based on the analysis are necessarily indirect in nature. Nevertheless, by bringing attention to an issue and prodding the government into doing something about it, PQs can still be employed as a useful tool to gauge the level of constituency service of a particular parliamentarian. While a strong focus on constituency service through allocation responsiveness does not ensure that local producers will necessarily receive the subsidy, absence thereof necessarily means that the mechanism is also absent.[54] Hence, an analysis of PQs helps to identify the behaviour of individual MPs and provides insight into their concerns – whether national or parochial – and therefore whether the PQ is aimed at promoting the interests of the legislator's constituents, including businesses located in the area (Martin, 2011a: 259).

Parliamentary questions are ubiquitous: they exist in almost all national legislatures, and can be employed for a variety of reasons. Russo and Wiberg (2010: 217-8) identify at least 14 different functions, including information acquisition, requests of demands and explanation from the government, grandstanding, pushes for action, and showing concern for the interests of constituents. The latter function in particular shows how PQs can help identify personal vote-earning behaviour by uncovering the role orientation of individual legislators. According to Martin (2011a: 263), analysis of PQs is characterised by four distinctive advantages in the identification of personal vote-earning behaviour. First, PQs are time- and resource-intensive, and therefore provide an indication of the priorities of

[54] According to Cain et al. (1987), we can identify three types of responsiveness. First is policy responsiveness, whereby we ask how faithfully the MPs respond to the wishes of the constituency. Second is allocation responsiveness, which seeks to understand whether the MP works to ensure that the district gets a fair share of government projects, investment and expenditures. Third comes service responsiveness, in which we look at how assiduously the MP responds to requests for assistance. Constituency service can be understood as the sum of allocation and service responsiveness, whereas policy responsiveness is more in line with our understanding thereof as described in Chapter 2.

legislators. Secondly, PQs are not controlled by party leadership, thus offering a more reliable perspective of the choices of MPs themselves and whether they focus on parochial interests. Thirdly, PQs eliminate issues of selection and recollection bias typical of interviews. Finally, the data are readily available, making replication easy. To be sure, and as mentioned in the previous paragraph, PQs are but one tool that legislators can use to represent local interests and cannot be purported to provide a complete picture of legislative behaviour, though research has found that PQs are a rather standard tool for constituency representation and personal vote-gathering (Martin, 2011b: 477).

I look at 148 PQs between the seventh (1976-1979) and seventeenth (2013-2018) legislatures involving calls for intervention in the automotive sector, with particular attention to the two main manufacturers, Fiat and Alfa Romeo.[55] I also include those supplier firms that are closely related to the automotive industry and that in Italy form what is known as *indotto*, that is, the combination of and relationship between suppliers and manufacturers. PQs in Italy assume four different forms: interrogations that can be answered orally, in written form, that can be answered in committees, and interpellations, which are a formal request of a parliament to the respective government, and which usually requires the relevant minister or secretary to respond.[56] While interrogations deal with specific events, interpellations carry more political weight and are used to obtain answers regarding the political direction of the government and its conduct. The tables below present some descriptive statistics about what PQs parliamentarians table, how they are categorised, and what they say about the impact of electoral institutions on legislative behaviour and requests for subsidies.

[55] PQs before 1976 are not available. A search of PQs can be made at `http://aic.camera.it/aic/search.html`. A list of Italian legislatures is found at `http://legislatureprecedenti.camera.it/`. Unfortunately, the website does not allow for proper web-scraping of PQs as does the Hansard website for the United Kingdom and the National Assembly website for France. Thus, all PQs are hand-picked.

[56] In Italian, *interrogazioni a risposta orale*, *interrogazioni a risposta scritta*, *interrogazioni a risposta in commissione* and *interpellanze*.

Table 6.4.2: Words used by Italian parliamentarians in PQs (1976-2017)

Fiat (400)	*stabilimento/i* plant/s (313/103)	*lavoratori* workers (208)	*produzione* production (203)	*lavoro* work/job (180)
gruppo group (161)	*crisi* crisis/crises (151)	*auto* car (146)	*cassa* (125)	*integrazione* (125)
industriale industrial (125)	*settore* sector (120)	*sapere* to know (118)	*situazione* situation (115)	*sviluppo* development (110)
fine end (105)	*iniziative* initiatives (104)	*termini* ends/Termini (104)	*motori* engines (97)	*piano* plan (93)
azienda/e firm/s (60/91)	*stato* state (90)	*dipendenti* employees (89)	*attività* activities (82)	*occupazionali* occupational (78)
Imerese (77)	*anni* years (76)	*mercato* market (74)	*economico* economic (74)	*sociali/e* social (73/57)
livelli levels (70)	*Italia* Italy (69)	*particolare* particular (68)	*produttiva/e* productive (68/55)	*chiusura* closure (63)
territorio territory (56)	*paese* country (53)	*industria* industry (52)	*assumere* to employ (52)	*perdita* loss (52)

Source: personal elaboration from Chambers of Deputies data: http://aic.camera.it/aic/search.html

Table 6.4.2 indicates that most questions were focused on Fiat, the biggest manufacturer in the country.[57] Many PQs focus on one specific type of intervention that aims to ensure employment levels, without firing workers in the assembly plants – the so-called *Cassa Integrazione Guadagni*. It should be remembered that CIG is not considered state aid by the Commission, because it provides a safety net to workers, rather than a direct economic advantage to the firm. Nevertheless, MPs focus on words evoking the necessity to maintain employment levels by using words such as *lavoratori* (workers), *occupazionali* (occupational) *lavoro* (work, job, or employment), and *assumere* (to employ).[58] The frequent use of the word *stabilimento* (as in [assembly] plant) suggests that many of the PQs are geographically targeted. Indeed words like *territorio* (territory) and *imerese* (as in the plant in Termini Imerese) are often used by MPs.[59] Other words seem to be specific to the growth of the automotive sector: *produzione* (production), *sviluppo* (development), *iniziative* (initiatives) and *piano* (plan). A heavy accent is also put in PQs about the fact that the sector might be traversing times of crisis: the word *crisi* (crisis/crises) appears more than 150 times, evoking the cyclical nature of the industry, whereas

[57]Stopwords, as well as other uninformative words such as *cento* (when expressing percentages) and *intenda*, which is found in the formulation '*cosa il governo intenda fare*' (what the government aims to do) when introducing requests, are removed using the quanteda package for RStudio (Benoit et al., 2018).

[58]The high frequency of the word *lavoro* may also be due to requests to the Ministry of Labour in the form '*Al Ministro del Lavoro...*'

[59]Pratola Serra (near Avellino) and Turin appear 44 and 41 times, respectively.

another word that is often used is *perdita* (loss [of jobs or profits]). Finally, the repeated use of *sapere* (to know) suggests that the function of information acquisition is pivotal to the use of PQs in Italy.

Table 6.4.3: Parliamentary questions about the Italian automotive industry (1976-2017)

Questioner	Government	38 (*25.7%*)
	Opposition	110 (*74.3%*)
Jurisdiction of PQ	Not own constituency	25 (*21.4%*)
	Area larger than constituency	11 (*9.4%*)
	Own constituency	81 (*69.2%*)
Type of PQ	Interpellation	23 (*15.6%*)
	Oral answer	27 (*18.2%*)
	Written answer	71 (*48%*)
	Committee answer	27 (*18.2%*)
Electoral system	1948-1993	43 (*29.1%*)
	1994-2005	46 (*31%*)
	2006-2017	59 (*39.9%*)

Source: personal elaboration from Chambers of Deputies data:
`http://aic.camera.it/aic/search.html`

Table 6.4.3 differentiates PQs by questioner, jurisdiction (i.e. whether or not the PQ is targeted to the MP's constituency), type, and under which electoral system they were asked. The great majority of the questioners sat on opposition benches, as expected from the function that PQs absolve as checks on the government's accountability and conduct.[60] Another function of the PQs that was mentioned earlier, that of showing concern for one's own constituency also seems to be present. Out of 148 PQs, 117 specify a location.[61] Of these, almost 70% were asked with regard to events arising in the questioner's constituency. Slightly less than 10% of PQs, moreover, concerned an area larger than the constituency, but in which the legislator's own constituency is located (e.g. a deputy from Naples asking about aid to the Mezzogiorno). The remaining 21.4% were questions not related to one's own constituency.

[60] Several PQs have co-signatories. For the sake of simplicity, here I only account for the main signatory, since signatories often (though not always) come from the same party.

[61] When a location is missing from the PQ, this could also be due to dearth of information. Up until the tenth legislature (1987-1992), only the title of the PQ is reported.

Such PQs might be explained through solidarity. As an example, during the troubling times that surrounded the Sicilian Termini Imerese plant and which eventually led to its closure, MPs from Veneto, Lazio and Molise also tabled questions about the future of the plant. This was no doubt a way to express solidarity and ask for accountability for the government over the thousands of workers that would soon find themselves unemployed. For the remaining 31 PQs, no geographical element was present. Questions were asked regarding help to the automotive industry writ large. These questions arose particularly during times of crisis that hit either the whole industry, like in 1979 and 2008-9, or when one manufacturer (particularly Fiat) was traversing dire straits, as in the mid 1990s and early 2000s. Often, in such instances, legislators asked for sector-wide solutions such as scrapping schemes, rather than targeted aid to specific plants.

As for the type of PQ, almost half required written answers, and almost 82% of the total required an answer that was not to be presented on the spot, suggesting that the questioner sought a more detailed explanation and relevant solutions and was not interested in an exercise of grandstanding. This is in line with the findings by Rozenberg and Martin (2011), according to whom written questions (and answers) are more conducive to raising local issues and attracting the interest of local media, voters and interest groups. Hence, it is not surprising that a high number of geographically targeted PQs correlates with an equally high number of written requests, asking for detailed answers.

Table 6.4.4: Frequency of targeted PQs under different electoral systems in Italy (1976-2017)

	PQs targeted to own constituency	**Including PQs for areas larger than own constituency**	**Increase**
1948-1993	15 (*34.9%*)	24 (*55.8%*)	37.5%
1994-2005	27 (*58.7%*)	28 (*60.9%*)	3.6%
2006-2017	39 (*66.1%*)	40 (*67.8%*)	2.5%

Source: personal elaboration from Chambers of Deputies data: `http://aic.camera.it/aic/search.html`

Finally, there seems to be little difference in the frequency of use of PQs under different electoral systems. Roughly 30% of PQs were asked both under the open-list PR and the mixed-majoritarian, and almost 40% under the closed-list PR with majority bonus. This seems counter-intuitive: if, under closed-list systems, an MP's best hope for election depends on pleasing party elites rather than a geographic constituency (see Cain et al., 1987; Heitshusen et al., 2005; Rickard, 2018), why would the Italian legislators in the closed-list PR system use targeted PQs more than under the majoritarian or open-PR systems? The tables below help shed some light on this paradox.

Table 6.4.4 shows how the 81 PQs targeted at the legislators' constituencies were subdivided across different electoral systems. 15 – or 34.9% of the total 43 PQs asked until the eleventh legislature – geographically targeted PQs were found under the first, open-list PR system; 27 – or 58.7% of the 46 PQs in this period – were under the second, mixed majoritarian system; and 39 – or 66.1% of the total 59 PQs asked during this period – were under the last, closed-list PR system. This seems to confirm the trends found in Table 6.4.3 about the frequency of PQs under each electoral system. However, the second column shows that, including PQs asking for intervention in areas where the constituency is located helps to slightly dilute the trend, with 24 PQs now associated to the first electoral system, 28 to the second, and 40 to the third. This is not interesting *per se*: a dilution of the trend is a foregone conclusion when adding elements from different categories. Rather, what is noteworthy is that adding the second set of PQs generates an increase of 37.5% under the first electoral system, compared to only 3.6% and 2.5% under the second and third systems. This is likely due to the scarcity of information available (remember that until the tenth legislature (1987-1992), only the title of the PQ is reported), meaning that an MP might have wanted to talk about her own constituency, but the information available only specifies an area larger than the constituency itself. Although this increase does not ensure that all the second sets of PQs could be categorised under the first, it nonetheless helps to shed some light on the situation. Yet, even here the paradox remains: most of the PQs are conducted under the closed-list PR system. Before addressing this issue, it is useful to briefly analyse Table 6.4.5.

As was mentioned, the electoral system in force between 1994 and 2005 was a mixed-majoritarian one, with 75% of the seats allocated in SMCs and the remaining 25% through PR in multi-member constituencies. Table 6.4.5 shows that, out of 41 PQs asked between 1996 and 2005, most were tabled by members elected in SMCs.[62] Of these, 28 contained geographic references, and 24 were targeted at the MP's own constituency. Almost of 80% of such PQs were asked by deputies elected in a SMC. PQs about other constituencies are evenly divided between the two types of legislators. Finally, MPs elected in majoritarian constituencies dominate non-targeted PQs. Nevertheless, 70% of these MPs represented constituencies where the automotive industry was an important reality. Many of these PQs, as mentioned, were tabled around the mid-1990s and the early-2000s, when Fiat was experiencing a downswing and when the first rounds of scrapping schemes were enacted. Hence, in a way, these

[62]Information for MPs elected in the twelfth legislature (1994-1996) was not available.

parliamentarians, too, were engaging in constituency service, though in a more indirect way.

Table 6.4.5: Targeted PQs under mixed majoritarian in Italy (1996-2005)

	Frequency of PQs	**Targeted PQs**	**PQs about other constituencies**	**Non-targeted PQs**
Elected in majoritarian constituency	31 (*75.6%*)	19 (*79.2%*)	2 (*50%*)	10 (*77%*)
Elected in PR constituency	10 (*24.4%*)	5 (*20.8%*)	2 (*50%*)	3 (*23%*)

Source: personal elaboration from Chambers of Deputies data: `http://aic.camera.it/aic/search.html`

It is rather difficult to disentangle the effects of PR and majority in a mixed electoral system, and the (properly weighted) incentives that each generates for legislators. Nonetheless, the brief quantitative analysis made so far seems to be in line with the findings by Gagliarducci et al. (2011) who, analysing this peculiar electoral system, find that politicians elected in majoritarian constituencies did carry out more targeted policies than those elected in the PR constituencies. PQs, therefore, provide some important insights over the incentives electoral institutions give to MPs with regard to their legislative behaviour.

Finally, two out of three PQs tabled under the closed-list PR system (2008-2017) were targeted to the questioning MP's constituency, far more than under the first two systems, which were more candidate-centred. How to explain this paradox? Some help can come from the literature on legislative studies. Russo (2011) found a similar puzzle trying to explain Italian MPs' personal vote-earning strategies since 2006. He proposes that personal vote-gathering behaviour still makes sense under the new electoral system, though in indirect ways. Parties, he claims, can be 'the mediators between electors' and activists' preferences and the behaviour of parliamentarians' and may 'reward constituency service as far as they think it would benefit their electoral success,' making it a viable strategy for MPs seeking to curry favours to party leadership (Russo, 2011: 294). He finds that three factors can be indicators of an MP's constituency attention: junior position (i.e. first legislature as MP); hailing from the South, where clientelism has historically been widespread; and membership to a party that has strong ties to local realities (e.g. *Alleanza Nazionale* in the South and *Lega Nord* in the North). Table 6.4.6 below tests these propositions.

Table 6.4.6: Italian MPs' characteristics for legislative behaviour (2006-2017)

	Frequency of PQs	**Targeted PQs**	**PQs about other constituencies**	**Non-targeted PQs**
Elected in a Southern constituency	18 (*33.9%*)	13 (*29.5%*)	3 (*6.8%*)	2 (*22.2%*)
Junior MP	31 (*58.5%*)	22 (*50%*)	5 (*16.1%*)	4 (*44.4%*)
Party with local ties	10 (*18.9%*)	6 (*13.6%*)	3 (*6.8%*)	1(*11.1%*)

Source: personal elaboration from Chambers of Deputies data: `http://aic.camera.it/aic/search.html`

The table shows that, despite a good deal of the automotive production being located in the Mezzogiorno, only 34% of the PQs came from MPs elected in the South. Likewise, Southern MPs were not more prone to table targeted PQs than their Northern counterparts, even despite the fact that there is not a strong difference between PQs targeted to Northern or Southern plants (24 to the North and 20 to the South): only 29.5% of targeted PQs came from Southern MPs. On the contrary, a majority of PQs were tabled by junior MPs. In fact, half of targeted PQs came from junior MPs. Junior MPs seem to be more incentivised to curry favours to the leadership by means of constituency service, and therefore support Russo's (2011) proposition that party leadership can act as a mediator for MPs' careers. MPs hailing from parties with strong local ties, however, do not seem to frequently ask questions. Only in 19% of cases did such MPs table a question, and only 13.6% of targeted questions came from MPs parties with local ties.[63] Finally, none of the deputies boasting these characteristics seemed to be particularly concerned with non-constituency-related work, suggesting therefore that they value constituency service.

6.4.3 Taking stock of electoral politics in the Italian automotive industry

The analysis so far presents two important shortcomings: it can generate descriptive, but not causal inferences; and it does not tell us much about the linkage between legislative behaviour and aid

[63] By 'party with local tie' I mean those parties that have a strong geographically concentrated constituency. I included Lega Nord, with strong ties in Northern Italy, Fratelli d'Italia, which historically has roots in Rome and some parts of Southern Italy, and political groups for territorial autonomy, namely Misto - MPA and Misto - Noi Sud, both of which are strongly affiliated with Southern constituencies, particularly Sicily.

allocation. In other words, how successful were MPs in their re-election efforts through constituency service?

As for the *first shortcoming*, descriptive inferences are still useful. The analysis uncovered at least three novelties about electoral politics that could not be picked up by the quantitative analyses. First, personal vote-earning behaviour is constant throughout all electoral systems. Theory suggests that such behaviour should be found more often under electoral institutions that incentivise strong links between the legislator and her constituency, yet the present analysis finds that this is not always the case. Personal vote-earning behaviour can take different forms. Politicians adapt to the new rules, and parties can act as mediators. Secondly, and as a corollary, the electoral insitutions-distributive measures linkage might be spurious, and micro-level elements can help explain constituency service and under which circumstances MPs might use subsidies as a tool for re-election. Similar trends will be encountered for the British and French cases, too. Finally, although state aid is about government support to business, Italian legislators often focus on the social aspect of it. They stress the importance of maintaining occupational levels, rather than simply keeping the business afloat, though it should be noted that this could be a specificity of an industry dominated by big firms. Evidence in Section 3 of this chapter shows that many legislators were often hostile towards Fiat management, but they had few reasons to be so towards its employees. Raising the point of employment rather than the firm's financial success could be a more effective way to present the PQ.

With regard to the *second shortcoming*, it is extremely difficult to establish a certain causal linkage between PQs and aid measures. In other words, inferences are necessarily indirect. There are many confounders along the way that make the relationship fuzzy. It is also not clear how seriously the government took these PQs: only in sixteen instances did a representative of the government answer. Let us consider two examples of PQs to which a ministry replied that demonstrate the difficulty in establishing a causal link. In the first, in May 2002 the *Democratici di Sinistra* party (centre-left) parliamentarian Mimmo Lucà (elected in a SMC) asked about how the government would solve the crisis Fiat was going through, with a particular attention to his district, located in Turin.[64] He says,

> the crisis Fiat is traversing has all the characteristics to be considered one of the gravest and most preoccupying crises of the [company's] last few years [...] Fiat remains today, and not just in the Turin area where its biggest plants are located, the main Italian industrial group

and asks the government to

[64]Interrogation 4/02976 of 27 May 2002.

> adequately face Fiat's and the whole sector's grave economic situation, so as to avoid the negative occupational effects and the dangerous impoverishment of the productive fabric and of the economy of Piedmont [where Turin is located] and of the whole country, that a crisis of this magnitude might bring

Undersecretary Mario Valducci answered two years later. He recognised that Fiat had been going through some difficulties since 2001 and retraced the steps that eventually led to the CDP that Fiat and the Ministry had drafted for the years 2004-2006. This included investments for over one billion euros, €155mn of which would be considered state measures. A first step was taken in December 2002 already, where an agreement was reached between the government and Fiat, with the former committing to enact measures to support innovation in terms of environmental sustainability and to ensure occupational levels. A series of meeting in 2003 between the two parties then were taken to refine the CDP, which CIPE approved in January 2004. Although it is suggestive to believe that Lucà's PQ was the catalyst for a new CDP, five more parliamentarians asked around the same time for government intervention due to Fiat's crisis, either in their constituencies, or without making reference to any particular geographical area. Yet, these findings do not go in contrast to what has been argued so far. In all cases, all but one of the MPs that intervened hailed from constituencies where Fiat and its suppliers represented an important economic asset; and in all cases, all but one of these MPs were elected in SMCs.

A second example concerns the events surrounding the Termini Imerese plant around 2009-10, which eventually shut down. In this case it was IDV's (*Italia Dei Valori*, centre-left) Leoluca Orlando that was among the first to table a PQ on the topic, in June 2009.[65] Orlando was born in Palermo, not far from the plant, and was eventually elected Mayor of the city, a few years after his time as MP. However, at the time he was MP for a constituency in Lazio, which included Rome. In his PQ he expressed grave concerns over the decision to close the plant, which strongly affected employment in the area. These concerns were reasonable giving the trying times the European economy was going through. As a result, in his PQ he asked what the government should do both in terms of the automotive crisis, and in terms of safeguarding occupational levels.

Three months later, the Undersecretary Stefano Saglia replied that action to address the automotive crisis was twofold. On the one hand, consumer subsidies were being provided, mainly through scrapping schemes. On the other hand, there was financial aid to the manufacturers, too. At the same time, he noted that Fiat would continue to produce at the Termini Imerese plant until 2011, and that the Ministry would keep an eye on the developments.[66] Here, too, Orlando was not the only deputy to table

[65] Interrogation 4/03173 of 9 June 2009.

[66] Nevertheless, on 15th November 2009, Fiat decided to close the plant, to which the Ministry of Economic Develop-

a PQ on the subject. Several MPs from different constituencies also came in support of the plant. Unlike the previous example, which was set under the mixed majoritarian system, however, these MPs did not always represent constituencies where the automotive industry was an important reality. Moreover, two of these PQs were *Interpellanze*, which reached 31 and 29 co-signatories respectively, many of whom did not represent a constituency with an active industrial sector. This situation was reflected again in a subsequent Assembly session where all the parties voted in favour of motions in support of Termini Imerese.[67] This suggests that cross-party support was not merely a solidarity action, but one in which legislators acted strategically in order to curry favours with the party leadership, who is in charge of candidate selection.[68]

These examples are not representative of the whole 148 PQs, nor certainly of all and any of the PQs involving targeted measures. They hardly establish a causal link between the request and the effective government measure, nor do I believe it possible to fully retrace the chains of events in such a causal manner. Nevertheless, these examples provide important clues as to the mechanisms at play. The section as a whole shows therefore that it is important to explore the link between electoral institutions and constituency service to see what incentives these institutions actually offer legislators, and how these MPs can adapt in order to ensure that they make the best of what is offered them to ensure political survival. This section also shows the importance of incorporating electoral politics in the policy network approach. The typology of network and the electoral incentives to legislators seem to be closely interlinked. In the Italian case, they both led to clientelistic and parochial relationships between politicians and domestic producers aimed at the delivery of constituency benefits, often far removed from greater societal and national interests.

6.5 Conclusion

In this chapter, I provided evidence of state support to business in the automotive industry through two different mechanisms: state-business relations and electoral politics. I showed how state-business relations seldom passed through umbrella organisations of interest representation due to the peculiar position that both Fiat and Alfa Romeo had in the Italian economy. This allowed the two main companies to nurture parallel relationships *vis-à-vis* the state. Alfa Romeo, in virtue of its public company status, developed *parentela* relationships. Fiat's relationship with the state was rockier.

ment was strongly opposed.

[67]Stenographic account of Session No. 302 of 30 March 2010.

[68]Interestingly, though perhaps not entirely surprising, the most reticent legislators to support the motion for Termini Imerese were the *Lega Nord* deputies. They knew that they had no chance of winning in Sicily, and tried instead to steer the conversation towards the needs of the Northern industry.

Legislators continuously recognised the importance of the company to the Italian economy, Fiat being one of the few truly globally recognised companies in the country. Yet, the firm's relationship with the state was hardly one of smooth sailing.

I retraced the roots of each company's relationship with the state with regard to subsidy spending. I found that, while Alfa Romeo was continuously sustained by different governments, so much so that for a time it received more aid than Fiat, despite being a far smaller company, the balance of power between Fiat and the state changed several times. When the Republic was still young, the company had the upper hand, but as the parties started to consolidate their political power, they were able to better manage their relationship with Fiat. Alliances were in a continuous state of flux and depended less on political kinship than they did on opportunity.

Starting from the early 1990s, the relationship between the two started to falter, with the state playing a diminished role for the company, due to European rules and the necessity to expand internationally. This, however, did not translate to a 'go-it-alone' strategy for Fiat in its internationalising endeavours. Rather, the company sought to build new policy networks abroad where conditions were more favourable, such as Serbia, Brazil, Canada and the US, as was shown. As a result, this finding has important implications for international political economy and shows the importance of 'putting the political back into political economy by bringing the state back in' (Schmidt, 2009). Multinational corporations today hold great sway over political actors to the point that they do not even *need* lobbying to produce unequal results (Woll, 2019). Yet, the analysis also shows that firms cannot do it all alone – they keep coming back to the state, regardless of whether it is the country of origin or not. Thus, in the age of globalised, 'stateless' firms, the state is still today a key element to the competitiveness of the firm.

The case study highlights that state-business relationships are strongly dependent on the institutional setting of a country. Alfa Romeo was able to cultivate a particular type of relationship because of its being a state holding company, whereas Fiat did not have this possibility. It further shows why not all paths of industrial policy were feasible and how these were dependent on the typology of policy network in the industry. The fact that Fiat was always the main manufacturer allowed the company to cut itself a privileged relationship with the state. Neither government nor bureaucrats were opposed to Fiat incorporating its smaller rivals, such as Lancia and Alfa Romeo.[69] Hence, there was no possibility to create a pluralist industry, with the smaller firms levelling the playing field with Fiat. Nor was it possible for the state to take the reins and engage in *grand projets* due to the legislators' inability to provide a common strategic framework, of which CDPs were but a surrogate.

[69] To be sure, some degree of opposition existed, especially in the Alfa case, on the part of some legislators.

In sum, aid allocation to the automotive industry was generous for both Alfa Romeo and Fiat due to the privileged relationship each had with the state, though they highlight different mechanisms. At the same time, however, this also meant that industrial policy did not and could not be anticipatory or proactive. Aside from the CDPs, which were still confined in scope, the majority of the measures in the industry were highly fragmented, often parochial and mostly reactive in nature. Hence, this highlights the importance of the policy network approach in providing a useful analytical tool to study and understand sectoral state-business relations. Without such an approach, it would be difficult to distinguish between the parentela and clientela relationships that the state differently held with Alfa Romeo and Fiat, respectively.[70] Likewise, suggesting a 'national policy style' or a 'variety of capitalism' would be misguided insofar as the relationship between state and business in this industry changed over time, possibly in ways that differ from how state and business engaged with each other in other sectors of the economy (such as airlines, where the main flagship company, Alitalia, was first privatised and then bought back by the state).

The other story the chapter recounts is how legislators used promises of or attempts at getting subsidies for their constituencies in order to get re-elected. This line of thought was tested by analysing parliamentary questions that involved support to the industry to gauge the level of constituency service of the MP, in order to assess whether MPs acted as 'constituency lobbyists' on behalf of local producers. Of course, the concentration of the industry in two poles (one in the North and one in the South) means that not all legislators could do so. Indeed, most legislators that tabled PQs with regard to help to the industry wanted it directed at their own constituency. The findings confirm previous evidence of the legislator-voters accountability link, but they also find a paradox whereby this link persists even when the conditions for it to be present should not obtain. This was explained by omitted variable bias, insofar as there are specific characteristics inherent to the legislators themselves that can help make sense of this apparent incongruity. Thus, alongside the macro-level analysis of electoral rules typical of quantitative studies, it is important to also address the micro-level, concerning the behaviour of the individual legislators. Only then could such a puzzle be understood.

Furthermore, an interesting trend that can be discerned from combining the two stories is that they seem to go hand-in-hand and reinforce each other. The relationship between state and business in terms of aid allocations often also reflected the electoral rules of the time. The open-list PR electoral system of the First Republic (1948-1993) can help make sense not only of why clientelistic relationships

[70] To be sure, a shortcoming of the policy network approach in this sense remains that the typology of network resulting from the interaction between state agencies and business is subject to the judgment of the scholar. However, one would be hard-pressed to suggest that – at least in Italy – the configuration of policy network would resemble anything different, such as a state-led or a pressure pluralist environment.

developed between legislators and local producers, but also why industrial policy was so fragmented and parochial in nature. Likewise, the switch to a more party-centred system, while showing the ability of MPs to adapt in order to continue engaging in constituency service, is also accompanied by the faltering of the relationship between Fiat and Italian politicians.

There are two limitations to the case study. First, the automotive industry, although bearing characteristics conducive to ease of analysis and importance of results, cannot be said to be representative of the economy of a country. This industry is dominated by few big firms, which is rarely the case for many other sectors of the economy, particularly in Italy. State-business relations could have a very different effect when firms do not hold a privileged position as did Fiat and Alfa Romeo. One should thus be wary to generalise results.

Secondly, the case study only provides descriptive inferences. The chapter shows *how* a particular state-business relationship can be more or less conducive to aid allocation, but it does not tell us what would happen if, *ceteris paribus*, there was a different relationship. The policy network approach provides important insights into state-business relations, but in itself it lacks the necessary causal power to explain how and why these changed. Instead, we can only ascribe such changes to exogenous factors at the macro-level, which is why – it must be repeated – it is important to see this approach as a *complement* to the macro-level account set out in Chapter 2, rather than a substitute to it. Likewise, Section 4 explains how certain electoral institutions can be more or less conducive to constituency service and unearths important alternative mechanisms in this regard, but it still falls short of providing a causal nexus between legislative behaviour and effective aid allocation beyond anecdotal evidence.

Despite these shortcomings, the case study helped solve issues of measurement error (by employing the policy network approach as an alternative to manifesto promises), added to the goal of discovery (by showing the importance of the state in international political economy), and uncovered omitted variable bias (by looking at how legislators make use of the electoral institutions). Hence, in going forward, this case study can add to the literature in several ways. It can set out an agenda of state-business relations that explores divergence rather than convergence, and possibly the loosening of the linkage between public and private actors in a sector. It can further provide insights on how macro- and micro-analyses of electoral politics could be integrated, even beyond the idea of allocation responsiveness. Finally, future research may suggest ways to bridge electoral politics and the policy network approach. It might not be far-fetched to suggest that a conditional effect exists between the personal vote and the typology of policy network. To be sure, issues in operationalisation remain an important obstacle, as is the causal direction between the two. Nevertheless, this chapter suggests that fertile ground remains to be cultivated in the field and even more implications could be explored, as the next chapter shows.

Table 6.5.1: Aid to the Italian automotive industry, 1960s-2010s

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1969-1979	Fiat	Turin, Piedmont		LIT 700mn	No. 1089/68	R&D	
1971-1980	Fiat	Turin, Piedmont		LIT 535mn	No. 1089/68	R&D	
1971-1979	Fiat	Turin, Piedmont		LIT 180mn	No. 1089/68	R&D	
1972-1979	Fiat	Turin, Piedmont		LIT 215mn	No. 1089/68	R&D	
26/04/1974	Fiat	Cassino, Lazio	LIT 70bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project
27/04/1974	Fiat	Termoli, Molise	LIT 38.5bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
28/04/1974	Fiat	Termini Imerese, Sicily	LIT 16bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project
03/05/1974	Fiat	Avellino, Cam-pania	LIT 65bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project; buses
07/06/1974	Alfa Romeo	Foggia, Apulia	LIT 114bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project
1975-1987	Fiat	Northern Italy		LIT 495mn	No. 1089/68 and 652/74	R&D	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
22/11/1975	Fiat	Modugno, Apulia	LIT 5.93bn	9% of fixed investment and 40% of total investment	No. 853/71	Mezzogiorno	Approval of project; car components
22/11/1975	Fiat	Modugno, Apulia	LIT 26bn	9% of fixed investment and 40% of total investment	No. 853/71	Mezzogiorno	Approval of project; elevator carts
27/2/1976	De Tomaso		LIT 100bn	40% of total investment over LIT 10bn	No. 464/72	Restructuring of Innocenti	
30/03/1976	Fiat	Avellino, Cam-pania	LIT 17bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project; buses

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
05/05/1976	Alfa Romeo	Southern Italy		LIT 10.28bn (80% of investment) and LIT 1.29bn (10% investment)	No. 652/74	R&D	
06/05/1976	Fiat	Turin, Piedmont			No. 652/74	R&D	Not allowed
29/10/1976	Fiat and Alfa Sud	Southern Italy	LIT 8bn	12% of fixed investment and 50% of total investment	No. 853/71	Mezzogiorno	Approval of project; car components
09/12/1976	Fiat	Northern Italy		LIT 484mn	No. 1089/68 and 652/74	R&D	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1976-1986	Fiat	Northern Italy		LIT 642mn	No. 1089/68 and 652/74	R&D	
1983	Alfa Romeo	Southern Italy		LIT 88bn	No. 675/77 and 46/82	Mezzogiorno	Allowed
1984	Alfa Romeo	Southern Italy		LIT 363bn	No. 675/77 and 46/82	Mezzogiorno	Allowed
1984	Alfa Romeo			LIT 81.6bn and LIT 39.6bn	No. 675/77 and 46/82	R&D	Allowed
1985	Alfa Romeo			LIT 206.2bn		Ad hoc capital injection	Illegal
1986	Alfa Romeo			LIT 408.9bn		Ad hoc capital injection	Illegal

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1988-1998	Fiat		LIT 3,340bn	LIT 1,854.78bn		R&D, training and project management	Contratto di programma (negotiated programme)
1991-1998	Fiat		LIT 6,352.74bn	LIT 2,462.84bn		R&D, training and project management	Contratto di programma (negotiated programme)
1989-1995	Fiat	Val di Sangro, Abruzzi	LIT 1,617.8bn	LIT 452bn	No. 218/78 and 64/86	Project management and building refurbishment, Mezzogiorno	
1990-1995	Fiat		LIT 242.5bn	LIT 134bn	No. 46/82	R&D	Allowed; trucks

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1991-1995	Fiat	Melfi, Basilicata; Avellino, Campania	LIT 21,000bn	LIT 4,884bn	No. 46/82	Mezzogiorno	
1993-1997	Fiat	Cassino, Lazio	LIT 677.8bn	LIT 56.4bn	No. 64/86 and 488/92	Mezzogiorno	Allowed
1994 -1997	Isotta Fraschini	Calabria	LIT 56.77bn	LIT 19.87bn	No. 488/92	Mezzogiorno	Allowed
1994-1998	Fiat	Turin, Piedmont	LIT 468.4bn	LIT 30.3bn	No. 488/92	Development of economic activities and areas	Not allowed
1994-1999	Fiat	Turin, Piedmont	LIT 643bn	LIT 6.9bn authorised; LIT 5.63bn not authorised	No. 488/92	Project management and building refurbishment	Regional aid not allowed; R&D aid allowed

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1994-1999	Fiat	Turin, Piedmont	LIT 214.5bn	LIT 31.25bn	No. 46/82	R&D	Not allowed; Iveco
1994-2000	Fiat	Turin, Piedmont	LIT 689bn	LIT 46bn	No. 488/92	Project management and building refurbishment	Not allowed
1995-1999	Fiat	Termoli, Molise	€212mn	€28mn	No. 488/92	Mezzogiorno	Allowed
1995-2000	Fiat	Naples, Cam-pania	LIT 659bn	LIT 39.6bn	No. 64/86 and 488/92	Project management and building refurbishment	Partly allowed
1997-2000	Fiat	Melfi, Basilicata	LIT 436bn	LIT 78bn	No. 488/92	Project management and building refurbishment	Allowed

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2000-2003	Fiat	Foggia, Apulia	€323.3mn	€121.7mn	No. 488/92 and 662/96	Project management and building refurbishment	Allowed; Iveco
2003-2005	Fiat	Turin, Piedmont		€38.24mn to Fiat auto and €5.54mn to Comau	No. 236/93	Training	Allowed
2004-2006	Fiat	Naples, Campania; Cassino, Lazio; Melfi, Basilicata	€1,251.25mn	€155.37mn		R&D and tech investment	Contratto di programma (negotiated programme)
2004-2006	Fiat	Turin, Piedmont		€5.13mn	No. 236/93	Training	Allowed

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2004-2008	De Tomaso	Calabria	€218.76mn	€81mn	No. 488/92 and 662/96	Project management and greenfield investment	Partly allowed
2005-2006	Fiat	Naples, Campania; Avellino, Campania; Termoli, Molise; Turin, Piedmont	€647.6mn	€81.89mn		R&D and tech investment	Fiat Powertrain; Contratto di programma (negotiated programme)

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2005-2006	Fiat	Termini Imerese, Siciliy; Naples, Campania	€43.45mn	€10.37mn		R&D and tech investment	Contratto di programma (negotiated programme)
2005-2007	Sevel/Fiat	Chieti, Abruzzi	€455.63mn	€40.51mn		Mezzogiorno	Light commercial vehicles
2007-2009	Fiat			€23.88mn		Training	Allowed
2010-2013	Fiat	Biella, Piedmont		€16.17mn	No. 127/07	Employment	Allowed
2010	Fiat	Termini Imerese, Sicily	€319mn	€46.3mn	No. 127/07	Employment	Allowed

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2011-2013	Fiat	Turin, Piedmont	€412mn	€22.51mn		R&D and tech investment	Fiat Powertrain; Contratto di programma (negotiated programme)
2011-2013	Sevel/Fiat	Chieti, Abruzzi	€143.86mn	€11.22mn		Mezzogiorno, machinery and plant furnishing	Light commercial vehicles; Contratto di programma (negotiated programme)
2011-2013	Fiat	Foggia, Apulia	€75mn	€18.74mn		Mezzogiorno, machinery and plant furnishing	Trucks; Contratto di programma (negotiated programme)

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2011-2013	De Tomaso	Piedmont and Tuscany		€19.2mn	No. 236/93	Training	

Sources: Germano (2009), *Comitati Interministeriali per la Programmazione Economica* (CIPE) website, State aid register, and various Annual Reports on Competition Policy.

Chapter 7

State aid politics in the British automotive industry: in search of a national champion

7.1 Introduction

When compared to other European countries of similar size, the United Kingdom (UK) has always fallen behind in its attempts to create a national champion, but this has not necessarily impinged on the level of aid domestic producers were given. A striking feature of this industry is its markedly internationalised character. For a long time, the British MVI has hinged on two pillars: non-discrimination in negotiations between government and business in the sector, and bias towards attracting inward FDI rather than supporting and sustaining existing production sites (Coffey & Thornley, 2020). These two characteristics, then, partially help to explain both how successive British government have had to balance the – often radically different – requests coming from domestic and foreign firms alike and why there have been no national champions.

Britain's MVI has been marked by several contradictions that have delayed, if not prevented, its own success. As will be seen, the desire by the government to rationalise the fragmented British industry devolved into a quest for a national champion, with the British Leyland Motor Corporation being created in 1968 with this goal in mind. Yet, the liberal nature of its market economy and of its entrepreneurs made it so that the typical symbiotic relationship between the state and the firm could not properly develop. Even in times of crisis for the industry, the government did not want to show the semblance that it was favouring the national manufacturer, and embarked on a lengthy and difficult mission to also appease foreign producers.

Members of the Parliament (MPs), too, did not often exploit the privileged and direct relationship they had with their constituents to cultivate a personal vote and rarely acted as constituency lobbyists on behalf of local producers. Functional, rather than territorial representation was the preferred course of action. In other words, rather than pursue a 'localised industrial policy', the MP's interest in the industry stemmed from the belief that policy should reflect 'the viewpoints and desires of the great interests in a society,' who should then play a major role in shaping economic policy (Cain et al., 1987: 19; Wood, 1987). This, as will also be seen, had a twofold cause. On the one hand, the contradictions present at the governmental level were reflected at the level of the MPs. A good deal of the parliamentary questions (PQs) analysed here show that British MPs were mostly concerned with domestic producers, regardless of the proximity of the assembly plants to the MP's constituency. This distinction waned as internationalisation increased, though a certain focus on subsidiary brands that were once British (i.e. Jaguar) was retained. On the other hand, the particular re-selection mechanisms for parliamentary candidates showed how MPs gained little, electorally speaking, from engaging in constituency-focused activities.

The chapter is structured as follows. Section 2 provides an overview of the automotive industry in Britain. Section 3 analyses government responsiveness to the industry. A historical narrative lays out the contradictory approach of the British government to the automotive industry, which was marked by few successes and far too many failures. Section 4, finally, concerns the accountability side of the story. The analysis shows how, in line with past research on constituency service in Britain, the British electoral system was not particularly conducive to engendering a personal reputation for MPs. Section 5 concludes by tying together the two sides of the account. The findings provide three insights. First, the contradictory policies of the British government and its strongly liberal market leaning have created shifts, even sudden ones, in state-business relations in the MVI. Secondly, since the 2008 crisis, the Italian and British automotive sectors have taken radically different paths that could see the UK motor industry steer towards a concertation of interests and long-term planning. Finally, unlike the Italian case, legislators have not particularly engaged in personal vote-gathering in order to be re-elected, as they did not see the British electoral system as fit to provide electoral gains through constituency service.

7.2 The motor vehicle industry in Britain

The first British-built vehicle appeared on the isle in the late 1800s thanks to imported German engines and to a French design that had already been superseded on the continent (Adeney, 1988). Yet, as it came, the car swept the nation into a frenzy, with a huge number of companies springing up between 1901 and 1905. Many historic brands such as Austin, Morris, Rolls Royce, and Rover were established at the dawn of the last century. A few years later, in 1909, Ford established the first plant near London, inaugurating a long history of foreign investment in the automotive industry, followed by General Motors (GM) acquiring Vauxhall in 1925, Chrysler taking over the Rootes Group in 1967, and then the wave of Japanese investment in the 1980s. According to Adeney (1988) it was estimated that as many as 221 companies dove into the new business in the early 1900s, but by the beginning of the Great World, almost 200 of them had gone to the wall. Still, between 1932 and 1955 the British automotive industry was the biggest in the world and second only to the United States in terms of output (Wood, 2010). Church (1995: 21), using data from the SMMT (Society of Motor Manufacturers and Traders), calculates that by 1936 car production in Britain hovered around 375,000 units, while its most direct competitor, Germany, did not even reach 300,000, with France and Italy lagging far behind with 175,000 and less than 50,000 respectively.

Like in many other countries, the industry output was boosted by the Second World War, during which government involvement 'seeped through almost every one of [the industry's] arteries' (Adeney, 1988: 179). However, like in many other countries, industrial reconversion meant that heavy-handed rationalisation was needed. In the post-war period, the high degree of fragmentation of the industry indicated that it was difficult for the government to consolidate and rationalise an independent British industry, which could be then nurtured to achieve broader policy objectives (Church, 1995: 90). The main tool of rationalisation in Britain was mergers and acquisitions (M&A). Unlike in Italy, where Fiat took over most other manufacturers, in 1950s-1960s Britain, equal-footing mergers were far more common. Table 7.2.1 shows M&A activity between 1952 and 1968, where the number of manufacturers decreased from nine in 1947 to seven in 1960 to four in 1968, with just one being a domestic producer, British Leyland Motor Corporation, BLMC (see Dunnett, 1980: 20).[1] BLMC was the British response to the likes of Fiat, Volkswagen and Renault. Yet, this experiment of a British national champion failed spectacularly.

[1] The others being the American 'big three': Ford, GM and Chrysler.

Table 7.2.1: M&A in the British automotive industry, 1952-1968

Year	**Brands**	**New company**
1952	Austin $\leftrightarrow$ Morris	British Motor Corporation (BMC)
1960	Jaguar $\rightarrow$ Daimler	
1961	Leyland $\rightarrow$ Standard-Triumph	
	Jaguar $\rightarrow$ Guy	
1962	Leyland $\rightarrow$ Associated Commercial Vehicles	
1966	BMC $\leftrightarrow$ Jaguar	British Motor Holdings (BMH)
	Leyland $\rightarrow$ Rover	
1967	Chrysler $\rightarrow$ Rootes Group	
1968	Leyland $\leftrightarrow$ BMH	British Leyland Motor Corporation (BLMC)

Note: $\leftrightarrow$ is merger; $\rightarrow$ is acquisition. Source: Church (1995); Dunnett (1980).

Geographically, very much like Italy, assembly plants were originally founded not far from a manufacturing hub, in this case London, and then expanded to less developed areas, particularly the West Midlands, to exploit government regional development assistance (see Table 7.5.1 at the end of the chapter). Indeed, Figure 7.2.1 shows that the British industry was strongly concentrated along a North-West/South-East axis going from Manchester to London, with a peak density in the West Midlands. In the early 1970s, this region, birthplace of historic marques such as Jaguar, Rootes and Austin, accounted for around 60% of total car production; by 2008 this share had plummeted to 18% (Donnelly et al., 2017). One reason for this is partially the entrance of Japanese manufacturers in the 1980s, which chose alternative locations for their investments, such as Sunderland (for Nissan) and Swindown, in South Wales (for Honda). Today, Japanese brands amount to around 17% of the market share in the United Kingdom, compared to 11% of Ford (CCFA, 2017). Indeed, as Donnelly et al. (2017) show, while UK output increased almost twofold between 1984 and 2000, the production tally in the West Midlands stagnated. By 2005, with the demise of MG Rover, sold to the Chinese SAIC, the death of a national British industry had come.

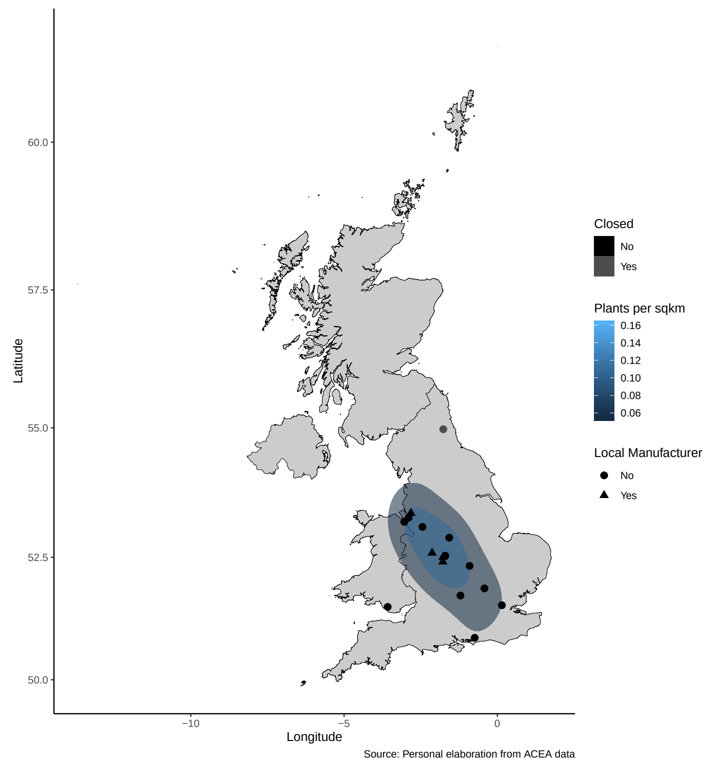

Figure 7.2.1: Density of automotive assembly plants in UK, 1992-2016

Thus today, and contrary to the wish of the post-war British governments, the industry is once again fragmented, with no single manufacturer reaching even 15% of the domestic market share. This strongly contrasts to not only Italy, where Fiat still retains around 30% of the share, but also France, where both Renault and PSA hover around 25%, and Germany, where Volkswagen topped 40% in 2014 (CCFA, 2017; see also Figure 4.2.2). Hence, while in Italy talking about the automotive industry very much equates talking about its main manufacturer, this is not the case for Britain. It is then worthwhile to explore the relationship that car manufacturers have with the main British interest group associations and their relationship with the government.

7.3 Responsiveness: reactive policy and the vain search for a national champion

7.3.1 The automotive industry and interest groups in Britain

Moran (2006) contends that British business power has three features: a long established symbiosis between the financial sector and the state; political subordination of key interests created by the industrial revolution; and a business culture that puts a premium on the autonomy of the individual enterprise. According to Dyson (1983: 36), in Britain the emphasis has been on the self-sufficiency of the firm, the independence of its management, and the presence of resolute action from 'heroic' industrial leaders. Likewise, Wilks (1983: 138-9) talks of Britain as a 'liberal state', which was 'external, irrelevant, most usually encountered as a regulator and to be fended off,' whereas businessmen operated independently and had a 'moralistic antagonism to state help or "subsidy".' Finally, as Church (1995: 125) notes, government-industry relations were based on mutual suspicion and often reciprocal incomprehension.

The institutionalisation of the CBI (Confederation of British Industry) in 1965 did not help in steering the system towards a more institutionalised collective corporatist arrangement, as was hoped after the so-called Brighton revolution in 1960, which marked a shift in policy towards a more interventionist approach and led to a renewed enthusiasm for the possibility of economic planning (Grant, 1995b: 40). Although the CBI's membership was expanding, with a rising share of large firms joining, this peak association suffered from several weaknesses. From the very beginning, the CBI had a role as a collective voice of business that however excluded the role of the City (Moran, 2006, 2009). As a consequence, many commentators felt that the CBI was not particularly representative of industry as a whole, and particularly of large firms (e.g. Grant, 1984, 1993; Grant & Marsh, 1977; Moran, 2006, 2009). For instance, Mitchell (1990) finds that in the 1980s, the practice among large firms was to deal directly with the government. One firm representative noted that 'the CBI [was] to some extent irrelevant' to them and their preferred course of action was to 'work through [their own] trade association' (quoted in Grant, 1993: 110).

Thus, if on the one hand, some large firms, including British Leyland, found it important to contribute to the commercial, trade and economic politics of the CBI, multinational corporations were hard-pressed to fit within the Confederation, which they deemed as unrepresentative of their own interests in Britain. It is no wonder then, that the system of interest representation has become 'disembedded', as Moran (2006) describes it. This process came under two different headings: a shift away from the collective representation of business interests; and a shift to more formal organisation in the representation of business interests – that is, more individual lobbying, but also more professionally organised lobbying (Moran, 2009: 44).[2] The motor vehicle industry was no stranger to this trend. In 1986, Rover left the CBI suggesting that the SMMT could better represent it (Financial Times, 1986), whereas former automotive supplier giant Lucas, opted for their own route one year later on the grounds that they believed that the company 'could represent itself to the Government more effectively than through the CBI' (Financial Times, 1987).

The sectoral umbrella organisation, the SMMT, constitutes an attempt to provide a network of contacts between manufacturers and sub-sectoral interests, such as suppliers. The SMMT represents more than 800 companies in the automotive industry and is active in 'supporting and promoting its members' interests, at home and abroad, to government, stakeholders and the media' (SMMT, 2020). It has historically dealt with issues affecting the sector, for both manufacturers and suppliers, and it has helped them build closer relationships with the government and regulatory authorities. However, the way manufacturers and suppliers have been integrated in this trade associations generated a series of interests that were not always necessarily complementary (Maloney & McLaughlin, 1999: 90).

For instance, arguments existed between indigenous producers and importers, or between the former and multinational interests – what was good for one category, was not always so for the latter. Grant and Marsh (1977: 57-8), through a series of interviews, recount how motor manufacturers joined the SMMT 'because otherwise you can't participate in the annual motor show,' and that the SMMT was a useful forum for meeting suppliers and to discuss ideas and policies, but that this view was not universally shared among members of the SMMT. Rather, 'the way in which the strengths and weaknesses of a particular firm match with the strengths and weaknesses of its trade association is an important factor in determining the usefulness of the one to the other' (Grant & Marsh, 1977: 58). As John Barber, former Ford and BL director, recollects,

> SMMT wasn't a particularly effective body until the late 1960s [...] it steered clear of most of the big policy issues and *most lobbying was undertaken by the companies on their own behalf* [...] it wasn't collective at all (cited in Maloney & McLaughlin, 1999: 18, my emphasis)

As a result, the SMMT has never truly been *the* voice of the sector because 'no single automotive interests can be delivered in the policy process' (Maloney & McLaughlin, 1999: 91), and firms have

[2]For a similar conclusion, see Grant (1993).

often engaged individually with the government when negotiating rescue packages, or other types of aid. In sum, the motor vehicle industry displays a fragmented system characterised by low levels of institutionalisation, and where interest representation is only partly mediated by group associations.

The next sub-section builds on this background to provide a diachronical account of state-business relations in the automotive industry. Like the previous chapter, the account is based both on primary and secondary sources. The former include the likes of House of Commons (HC) documents from Hansard, position papers from government agencies, and other files that have been made public by the National Archives service. Secondary sources are scientific articles, monographies and journalistic accounts, mostly from British reputable business-focused sources such as *The Financial Times* and *The Economist.*

7.3.2 State-business relations in Britain: a diachronical sectoral approach to the automotive industry

The British government did not directly intervene in the automotive industry until the late 1960s, as Table 7.5.1 at the end of the chapter attests. Like Table 6.5.1 for Italy, it represents a one-of-a-kind aggregation of data of subsidies to the British MVI. Although it is unlikely to be complete, due to the elusive nature of subsidies, it offers an insightful overview of aid to the sector by measure and manufacturer. Two main features jump out from Table 7.5.1. First, although a good part of the measures were targeted at domestic producers such as Leyland and Rover, the government has not balked at providing assistance to a wide range of manufacturers. Alongside these two, subsidies were given to Ford, Chrysler, DeLorean, Nissan, Toyota, PSA and Vauxhall – as well as Jaguar, which is an originally domestic brand, but which has been owned by foreign makers for the past thirty years.

The second feature is that the intensity of aid has starkly differed between decades. The period from the early 1970s to the early 1980s represented the peak of government assistance, due to the crisis that hit two major manufacturers: BLMC and Chrysler UK. After that, only in a few instances did the government heavily support car manufacturers, and even then it was seldom to safeguard the industry. For instance, under Margaret Thatcher, the government undertook two important commitments. First, a £112mn measure to Nissan in 1984 as part of the greenfield investment the company was making in Britain; secondly, a £440mn capital injection to Rover in 1988 as part of its divestment of the company and sale to British Aerospace. After that, the government took a step back, while supporting a very small percentage, rarely exceeding the 10%, of the total investment to which companies committed.

In light of Britain's liberal, capitalist tradition, not only were entrepreneurs diffident of government intervention, but the government itself chose to remain at a relative arm's length of the industry until the 1957 crisis, after which the government began to promote extensive use of industrial subsidies (Wren, 1996b: 49). In the early years since, industrial assistance mostly took the form of regional policy thanks to the 1960 Local Employment Act, which aimed to promote spatially-based policy in under-developed regions. The motor industry was to play an important role in light of its fast growth and centrality to the British economy. According to the government,

> [t]he coming into force of the Local Employment Act, coincided with decisions by most of the major firms in the motor industry to expand their production. The opportunity was taken to steer these firms to development districts. In consequence, a high proportion of the new employment in these districts will be provided by the motor industry and its ancillary industries (HC 291, 1961: 8)

Indeed, thanks to the 1960 Local Employment Act, a total of £35.82mn was disbursed to the five major manufacturers in the automotive industry (Ford, Vauxhall, Standard-Triumph, BMC and Rootes) in a first round (HC 291, 1961: 15), with £5.9mn granted the following year (HC 300, 1963: 13). This regional policy continued well into the 1970s and early 1980s when, according to Church (1995: 117), Ford and Vauxhall alone received £177mn in the 1976-1983 period (about £152mn for Ford and £25mn for Vauxhall). It should be noted, however, that the actual amount of subsidies disbursed under the regional development programme was far lower – around half the total for Ford and around 70% of Vauxhall. In Ford's case, the sum of government grants between 1973 and 1989, before the firm changed its accounting methodology, tallies up to £193mn. Vauxhall, instead, received £33.5mn in regional development grants and £10mn in investment grants between 1976 and 1989 .[3]

However, the main concern for the government was the fragmentation of the industry. To redress this issue, there was an intense push for rationalisation and integration of the motor firms through M&A between the many companies (see Table 7.2.1), adducing two reasons of public interest. First, the necessity to gain economies of scale to lower production costs; and secondly to strengthen the British industry's position *vis-à-vis* its international competitors, particularly Vauxhall and Ford (Dunnett, 1980: 57).

Such aspirations transpired with the first salient merger, between Austin and Morris in 1952, and became even more apparent with the last, most important one in 1968, which created BLMC. The merger, in particular, had two consequences on state-business relations for the sector. First, it concentrated the industry in the hands of just four main manufacturers (Ford, Vauxhall, Chrysler and

[3] Own calculations from data available from the firms' annual accounts on the Companies House website: `https://beta.companieshouse.gov.uk/`.

BLMC). Secondly, the new British company, which regrouped most marques under one umbrella that could go head-to-head with the American makers, generated the opportunity for the British government to nurture a national champion as in other European states. However, the BLMC experience proved an unmitigated disaster. Below I provide brief accounts of state intervention during the 1970s and 1980s in three landmark cases involving BLMC, Chrysler and DeLorean respectively that show the difficulties that successive British governments faced in their attempts to change industrial policy styles.

British Leyland Motor Corporation

Despite the 1968 merger to improve the company's economies of scale, BLMC's profits were not satisfactory for a company with a turnover of over £1bn, and by the early 1970s it was becoming clear that it would not survive without government intervention (Carver et al., 2015: 30-1). Luckily for the company, the Labour government of 1974 had few reservations about intervention, thanks to its policy programme, which was based on the extension of public ownerships, nationalisations in key sectors of the economy and planning agreements regarding investment decisions between government and key firms (The National Archives, 1975b). Thus, a first £50mn were granted conditional on a report that would ascertain the health and prospect of the company. The so-called Ryder Report (see HC 342, 1975 for an abridged version) forecast £900mn of funds from external sources for the immediate future, with £500mn more between 1978 and 1982:

> In inflated price terms, the funds to be provided from external sources are forecast to be of the order of £1,300 million to £1,400 million, of which some £900 million is likely to be required before end September 1978 (HC 342, 1975: 64)

The £900mn figure includes a £200mn capital injection which made the government the new dominant shareholder. The conclusions from the cabinet meeting of 22nd April 1975 show the reasoning of the government for taking on such a commitment. First, they recognise that 'although acceptance of the Ryder recommendations involved a significant risk' due to its optimistic outlook, they saw 'no practical alternative to this course.' Indeed, to abandon BLMC to its course 'would place in jeopardy the jobs of 800,000 people directly or indirectly employed' by the company. Further, its collapse 'would have severe repercussions on exports and imports of cars.' Secondly, acquisition of a shareholding majority in the company would need to be emphasised to defend an otherwise unjustifiable decision to 'invest £1,400 million in a company with an equity value of less than £60 million.' Finally, the government recognised that it was 'unrealistic' to assume that it could stop its commitment to the initial injection of £50mn, and that therefore government control was the only remaining course of action (The National

Archives, 1975a).

The government did not take direct control of the company, but rather vested a newly formed body, the National Enterprise Board (NEB), with management functions. The NEB's goal was to develop British industry generally, but it was given two 'lame ducks', BLMC and Rolls Royce, to supervise on behalf of the government (Carver et al., 2015: 37). However, unlike what happened in Italy, NEB ownership did not translate to a parentela relationship, particularly due to the resistance by BLMC in retaining a high degree of autonomy in corporate strategy, something which its Italian counterpart, Alfa Romeo, did not have (see Maloney & McLaughlin, 1999: 34-5).

Many commentators acknowledged that the Ryder Report presented an overly optimistic version of the prospects of BLMC (Bhaskar & Rhys, 1979; Church, 1995; Wilks, 1988). Two 1975 reports, by the Trade and Industry Sub-committee of the Expenditure committee (HC 617, 1975) and the independent Central Policy Review Staff (CPRS, 1975), were quick to point out the many shortcomings of the Ryder Report, and offered a bleaker image of the future of the industry. As a result, in 1977 the plans were revised with the entrance of Sir Michael Edwardes on the BLMC board. Edwardes gave the company an imprint of modesty, starting from changing the name to 'BL', which he thought to be less conspicuous. Secondly, he diminished the power of the unions. Like in Italy, trade unions in Britain contributed to difficult and poor industrial relations, with several million working days calculated to have been lost (Dunnett, 1980: 108-9). Finally, he engaged in a collaboration with Honda, which hailed the era of Japanisation of the industry in the 1980s (Carver et al., 2015; Pardi, 2017).

Nonetheless, even with Edwardes's entrance, the government's approach to the future of BLMC was rather pessimistic. In December 1979, the first Secretary of State for Industry in the Thatcher government, Sir Keith Joseph, recommended extra funding for £130mn, despite his admission that the chances of success were 'less than 50/50' and that a break-up of the company was inevitable. In the long run, he conceded, the best hope to keep the plants alive was to dispose of BLMC to other manufacturers and that 'the sooner it is done, the better.' John Hoskyns, policy advisor to Margaret Thatcher, had an even bleaker view. On the chances of survival of BLMC, he wrote that 'we [the Prime Minister office] regard them as nearly zero,' echoing private conversations with Michael Edwards. The CPRS was on the same page, questioning the 'wisdom of putting much more Government money into BL,' since they predicted that, even if the Edwardes plan were to be a complete success, the company would not be large enough to survive *vis-à-vis* other competitors in the market. Despite this extremely sombre outlook, the government proceeded to back the corporate plan proposed by Edwardes because the public support he enjoyed 'would make it extremely difficult for Government to refuse to back him.' In other words, while the government's economic assessment remained unchanged and wished to dispose of this lame duck, it was recognised that it would be 'politically and psychologically extremely difficult to close [BLMC] now' (The National Archives, 1979).[4]

The predicament in which the government found itself with regard to BLMC is shown in a letter by Sir Keith Joseph to Margaret Thatcher, dated 15 April 1980. He writes:

> the fundamental issue is whether we still agree that BL should be given every chance to succeed – always subject to the agreed financial limits; or whether we now take the view that the chances are so slight that policy should be based on the assumption that it will fail. If we take the latter view, I shall have to tell the BL Board that the Government, without waiting for the Board to reach the conclusion that the Plan must be withdrawn, had taken the view that it could not succeed, and that priority was now to be given to running down and breaking up BL. This would lead to the resignation of the Board; the Government's abandonment of hope for BL would become apparent; there would be an immediate crisis of confidence; rapid and disorderly rundown would follow, with major consequences for the economy and public expenditure. [...] If we *either* press the BL Board not to seek purchasers, *or* try to do so ourselves, this would certainly precipitate a crisis (The National Archives, 1980b, emphasis in original)

Indeed, rather than hoping for a reversal of fortunes for the company, the government was supporting the 1980 Plan merely to improve the prospects of disposal. It was widely recognised among civil servants and cabinet ministers that few, if any firms were in a position to pursue a strategy of total takeover given the current state of BLMC (The National Archives, 1980a, 1980b).

In sum, three were the reasons why the government's financial support of BLMC continued well into Thatcher's first term, despite the Conservative's negative economic assessment of the situation. First, it is not economically advantageous to cut out subsidies to a state-owned lame duck if the objective is to sell or privatise it: no acquirer would be interested in taking on a struggling firm. Thatcher learned her lesson when a few years later, it provided generous subsidies to Rover in the process of privatisation of the company. A similar situation happened in Italy with Alfa Romeo in 1986, as we saw in the previous chapter, with the government injecting copious amount of capital to improve the financial conditions of Alfa Romeo and attract investors.

Secondly, it was not politically expedient, either, especially in light of the severe strikes and the clash between BL management and trade unions. Further, Edwardes's own assessment and objectives and

[4] Perhaps unsurprisingly, Edwardes was unwilling to take initiative in finding a new buyer, though he was not averse to the disposal of the company. However, Edwardes further noted that a foreign purchase must not be seen as a 'rescue', meaning that the government was not to subsidise the divestment of the company to incentivise the foreign purchaser. Interestingly, the two companies that were touted to be most likely to take over BLMC – Ford and Nissan – had important hindrances that show why things did not go as Sir Keith Joseph had hoped. Ford was constrained by anti-trust US legislation: taking over the totality of BLMC meant having around 45% of the British market, which could potentially also preoccupy the government in terms of domestic competition. For its part, Nissan held Edwardes in little regard – and perhaps antipathy – as he had initiated talks with Honda first. (The National Archives, 1980a).

the government's were not always aligned: while the former was still trying to save the company, the latter had lost all hope. However, going directly against the NEB, as Joseph writes in his letter, would create a crisis of confidence the newly elected Conservative government could not afford.

Finally, and in more general terms, it shows the difficulty in policy reversal due to the stickiness of decisions taken by previous administrations, which are inherited and dealt with by the subsequent governments (Rose, 1990). Hence, although BLMC was born with the intention of becoming a national champion, it never achieved the aim. By the mid-1980s and several attempts by the government to divest its shares of the company, more than £2bn were spent on BL, without the company being any better off (Bhaskar, 1984; Wilks, 1988; Wren, 1996a).[5]

Two more cases show the reactive nature of industrial policy in 1970s Britain. First, the rescue of Chrysler (UK), in 1976;[6] and the failed attempt to develop a DeLorean plant in Belfast between 1978 and 1982, which cost the government £163mn and about £80mn respectively.

Chrsyler UK

The origins of the Chrysler predicament in the UK can be ascribed to the 1973 oil crisis, which forced the parent company to re-assess its UK operations. It was Mr. Riccardo, then chairman of Chrysler Corporation, that commenced discussions with the Labour government, suggesting that the government either nationalise Chrysler UK or take a majority holding (Lockyer & Baddon, 1987: 121). The Callaghan government discussed four different schemes to rescue the firm: (a) a takeover of the company; (b) support for streamlining Chrysler; (c) transferring activities to the Linwood factory only, while closing up other operations; (d) to continue the Iranian contract supplied at the Stoke factory only.[7] The fifth option, of course, would be to do nothing. Each scheme would cost the government less in money, but more in redundancies, thus creating a similar political predicament as what happened with BLMC (The National Archives, 1975c).

In the end, the government went with scheme (b). BLMC was already experiencing a crisis and could not manage to take over Chrysler; further, this would be a hard sell to the NEB, and the other schemes created far too many redundancies than was politically accepted (The National Archives, 1975d; Wilks, 1988). Further, as Wilks (1988: 163) notes, it was important that the eventual policy solution include help for the Linwood factor near Glasgow, as Labour was also concerned about the rise of the National

[5] There are divergences in the total sum. Bhaskar (1984) reports £2.1bn between 1978 and 1983; Wilks (1988) tallies it up to £2.41bn; and Wren (1996a) writes that it amounts to £2.23bn between 1975 and 1984.

[6] Wilks (1988) provides a long and detailed account of the behind the scenes of the rescue.

[7] The Iran deal entailed the supply of Hunter car parts, including engines to Iran for local assembly. The terms and scale of the contract, some 160,000 car kits in 1975, rising to 250,000 kits by 1980 (Lockyer & Baddon, 1987: 122).

Scottish Party. Thus, there were fears that a different option would have severe political repercussions and that a new general election would be called (Donnelly et al., 2017: 66).

Interestingly, the Chrysler rescue was unexpected in particular because it went directly against the recommendations of the CPRS report to cut capacity by 400,000 units (Bhaskar & Rhys, 1979; CPRS, 1975). Further, if in the BLMC case the Labour government was forthcoming about its willingness to help the company, with the prospect of maintaining a national champion, in the Chrysler case, Labour was more divided than ever, partly because of the multinational nature of the company. For instance, Mr Patrick Duffy, a Labour MP, lamented the easier threshold for government support for Chrysler, which he called 'a privately-owned overseas corporation amongst whose longer-term beneficiaries American shareholders are more likely to figure than any British employees' compared to that for BLMC workers; Ms Renée Short, also a Labour MP, asked how the Secretary of State for Trade and Industry could equate his 'largesse to this American multinational firm with his refusal to help Norton Villiers Triumph [...] and the crisis facing the railways' (Hansard, 1975a: Cols. 1171, 1175). As *The Times* commented following the parliamentary debates,

> On no single occasion in recent years has the Parliamentary Labour Party been so clearly demoralised and divided as it was yesterday over the government's agreement with Chrysler [...] It is difficult to think of an example in which the case for not advancing government money was stronger (as cited in Wilks, 1988: 148-9)

The Chrysler rescue had two important implications that the BLMC case did not. First, it diverted attention from the ability of the government to focus on a national champion strategy, as the 1975 White Paper on the regeneartion of British industry had hoped to achieve. In 1975 the prospect of failure for BLMC were not yet so near and the NEB was still committed to the success of Leyland (Hansard, 1975b: 1196). Yet, the unexpected crisis of Chrysler UK, which – as we saw – the government did not want to leave unattended due to the high amount of redundancies it would create, forced it to divide its attention in the sector between the two companies. As noted by Lockyer and Baddon (1987: 122), there was also a degree of opportunism from Chrysler: the company noted the degree of support given to British Leyland and sought to link its UK operations to the general rebuilding of the British car industry, thus forcing the hand of the government.

Secondly, the government's insistence to treat the BLMC and Chrysler cases (as well as DeLorean, as we will see) as separate stymied any attempt to develop a coherent industrial policy in the sector. In the 1975 White Paper, Secretary of State for Trade and Industry Eric Varley wrote that 'the objective we seek is a coherent framework for the operation of the Government's new industrial policy,' and lamented the past lack of coordinate strategy to ‘provide a consistent basis for Government and industry to consider the likely prospects of the most important industrial sectors over a period of five or more years.’ The new strategy would place a great deal of power in the hands of individual Economic Development Committees (EDC) and would be based on tripartite committees formed by government official, unions, and business interests. Perhaps most importantly, the strategic framework was meant to provide a basis for determining priorities of action for allocations of resources to specific areas that were of particular importance to the economy, which would be chosen based on statistical indicators such as size, growth rate, trading performance and competitiveness, among many others (The National Archives, 1975b). However, and against this background, the government acted (or was forced to act) in a particularistic and targeted manner, reversing its recently espoused industrial strategy.

Thus, the government failed to tackle the issue in a coherent manner because of two elements in particular. First was the structure of the policy network, which included interests of both local and foreign producers, which necessarily clashed with each other, rendering the subsystem more adversarial. Secondly, the government itself had different priorities to address, which did not go hand in hand with the Labour programme: on the one hand was the issue of Linwood for Chrysler, while on the other were the seeds of the privatisation programme that were being planted due to the economic difficulties of BLMC and which would be fully realised under the Tories.

DeLorean Motor Corporation

The DeLorean case, finally, provides an example of short-sightedness of the British government due to the lack of coherent industrial policy. DeLoreans are most famous for being represented as the time-travelling car in the cult film *Back to the Future.* They were sportscars that were not meant for the mass public, and only a few thousand models were ever produced. Analysing this case in addition to the other two is significant for two reasons. First, like Chrysler, but unlike BLMC, DeLorean was not a British company, which shows once again how British government were no longer pursuing a protectionist strategy of defence of national producers once it became clear that the national champion project had failed. Secondly, and unlike the former two cases, subsidisation was originally not borne out of a need to rescue a company, but rather to drive FDI and development in Northern Ireland, and only later did it become a rescue attempt.

In the DeLorean affair, more than £52mn were spent for the establishment of a plant near Belfast, despite the criticism of several parties towards the project (The Economist, 1978a). A McKinsey report in July 1978 concluded that the Department of Commerce was being asked to fund ‘an extraordinary risky venture’ and that the chances of success of the project as planned were ‘remote’ (cited in Hansard, 1985b: Col. 265). In August of that year, *The Economist* advanced a scathing review of the project, a month before the agreement was signed:

> Entrepreneur Mr John DeLorean must be a brave man even to consider raising one quarter of the money for such a project. But until and unless more details are made available, the Northern Ireland government would be daft to think of raising a penny (The Economist, 1978b)

The rationale behind such a risky venture must be found in the acute unemployment rates that at the time plagued West Belfast, where 'successive governments had attempted every conventional remedy for job creation, without success.' Therefore, it was under such circumstances that 'the De Lorean project provided the Government of the day with an opportunity to try a new approach to this intractable problem of unemployment. The Government's part of the bargain was to provide the bulk of the funds and the promoter's was to provide and to manage the project' (cited in Hansard, 1985a: Col. 1001).

As the Secretary of State for Northern Ireland James Prior remarked in a cabinet meeting in January 1982, 'the Government had been prepared to support the project so long as there appeared a reasonable chance of its becoming profitable: as recently as December [1981] the Government had extended its guarantees on de Lorean's [*sic*] bank loans' (The National Archives, 1982b). At a later cabinet meeting in October, he added that the Receivers [of the loan grants] 'had been allowed maximum flexibility in order that every chance of saving the De Lorean car factory could be explored' (The National Archives, 1982a).

However, this is not to say that the conservative administration were eager to ensure a successful rescue of the company. In the aforementioned January cabinet meeting, Prior noted that he 'intended to make it clear to Mr John De Lorean later that day that the Government could not add to the £70mn which the company had already received' (The National Archives, 1982b). However, and even though Mrs Thatcher was averse to the public support DeLorean had received, she still understood the importance to provide subsidies to protect creditors:

> T[he Prime Minister] [...] said that it was clear that the previous Administration's decision to support the De Lorean Company's Belfast operation from public funds had been a serious mistake. [...] [I]t would be presentationally unfortunate if the Government were seen to accept assets whose market value was well below the level of the debts they were intended to cover. The need to protect the interests of the other creditors as far as possible should also be borne in mind (The National Archives, 1982c)

As Lord Bruce-Gardyne recounted in a public debate, despite the 1978 agreement not mentioning the possibility of additional funds, the conservative government continued to provide financial assistance to the company, thus showing the lack of proper industrial planning:

> In August 1980, the then Northern Ireland Secretary told us [Lords] that the Government's last financial obligations to De Lorean had been discharged. In November, my honourable friend Mr. Shaw confirmed that there were "no proposals for further assistance". Yet less than three months later another £10 million "time-limited guarantee" was unveiled. Once again we are assured that the Government had "no further financial obligation" to Mr. De Lorean. Yet three months later there was yet another £7 million time-limited guarantee. [...] Finally—and this is much the most serious question in the whole matter—there is the agreement of 5th August 1980 between Mr. De Lorean and my right honourable friend the then Secretary of State for Northern Ireland, at which the taxpayer was put in for another £14 million. [...] In July he had actually blocked the transfer of funds to New York. Just weeks after that, almost days after that, my right honourable friend the then Secretary of State for Northern Ireland received Mr. De Lorean—alone, it would appear—and handed over another £14 million of the taxpayers' money for which he had been asking (Hansard, 1985a: 995-6)

By the end of the affair, a report from the Committee of Public Accounts in the last Session of Parliament on Financial Assistance to De Lorean Motor Cars Limited called it 'one of the gravest cases of the misuse of public resources to come before us for many years,' 'a shocking misappropriation of public and private money,' and concluded that 'Mr. De Lorean's automobile companies received about £77 million of United Kingdom taxpayers' money and lost most of it within four years,' and that '[t]here was misplaced optimism by Government and its advisers when the original investment decision was taken and when additional investments were made, and there was ineffective supervision of the project as it proceeded' (Hansard, 1985b: Col. 264).[8]

In sum, it would be difficult to attribute expenditure of public funds in the automotive sector in this period to a particular political ideology or leaning of the government of the day. In two out of three cases explored above, subsidisation covered administrations of different colours. Regardless of the broader policy goals, governments continued to pursue a parochial industrial strategy, lacking in coherence and vision and driven by political expediency more than economic assessment. This is not to say that ideology does not matter – rather, it shows the importance of particular external constraints (e.g. the unemployment situation in West Belfast) and the particular policy network configuration in sectoral state-business relations when attempting to understand interdependence and resource exchange between public and private actors.

Since the second half of the 1980s, the key words shifted from 'rescue' and 'national champion' to 'privatisation' and 'internationalisation'. Though subsidisation continued throughout this period, often

[8]See HC 127 (1983) for the minutes of the committee investigation.

with significant sums, like the £112mn given to Nissan in 1984 (Bhaskar, 1984: 78), and the £469mn in capital injection to Rover in 1988 (Maloney & McLaughlin, 1999: 57-61), the rationale changed. The attempt to build a national champion had clearly failed, and the Americans had a well-established presence in the territory. Further, the DeLorean fiasco pushed the government to change its policy to support only projects 'in which a substantial part of the financial resources is provided by the private sector' (Hansard, 1985a: Col. 999). During this period, some firms continued to receive important contributions in the order of £30-40mn. This includes aid to Ford in 1986 for £33mn, to Jaguar in 1996 and 1998 for £45mn and £43mn respectively, and to Rover/BMW for £38mn. Yet, these measures did not go against government policy: in all cases, aid intensity levels hovered around 10%, meaning that the bulk of the investment came from the private sector. What was left to do was to attract further foreign investment and to divest shares from the nationalised marques.

Foreign investment chiefly came from the Japanese, who knew well the American market, but who were strangers to Europe, and needed a gateway entrance to the strongly protectionist European market (Dancet & Rosenstock, 1995). As Maloney and McLaughlin (1999: 80) put it, the British transplants were 'bridgehead investments intended to provide a location to expand sales in the wider region [the Community],' and the British were the 'best disposed to "free markets"' of the member states. The likes of Italy, Germany and France, instead, preferred to continue to nurture their own national champions.

Alongside Japanisation, a serious privatisation programme was undertaken. The first target was Jaguar, which publicly floated in 1984, only to be bought by Ford in 1989, and then by the Indian company Tata in 2008. The Rover group was sold off to British Aerospace in 1988 as an attempt to maintain a British majority of the shareholders, but the company soon failed and BMW bought Rover in 1994, only to sell it to the Phoenix Consortium in 2000, with the Land Rover brand going first to Ford and then Tata in 2008. The experiment lasted until 2005, when, what was now known as MG Rover went into administration and was sold to the Chinese company SAIC (see Carver et al., 2015).

Between the mid-1990s, when the privatisation programme was completed, and the 2008 economic crisis, state-business relationships in the automotive industry reverted back to the pre-1970s situation. State aid politics followed again an arm's length approach and, as seen in Table 7.5.1, only in two cases, and for a mere £11.5mn, did the government intervene to rescue companies. One case concerned MG Rover; the other LDV, the trucks and vans affiliate of Leyland. Thus, not only was the industry more fragmented as a result of privatisation of ex-BL brands and of Japanisation, but the old entrepreneurial spirit that glorified the self-sufficiency of the firm seemed to had resurfaced. State aid intensity since the 1990s, not unlike in Italy, plummeted thanks to the European rules.

Furthermore, with the sale of MG Rover in 2005, there no longer was a distinction between domestic and foreign producers which hampered so much of the SMMT organisational work in the past. Carmakers were also less beholden to the components industry as they were in the Thatcher years (see Pardi, 2017). This was due to in particular to the demise of Lucas industries, the component automotive giant, which merged with the Varity group (US) in 1996 in a £3.2bn deal (Financial Times, 1996). Rather than becoming stronger, as feared by some commentators (for instance, see The Economist, 1996), the new company crumbled, shifting the balance of power in the industry and giving carmakers more power. Together with Lucas, other supplier giants like GKN, Girling, and Turner & Newall, followed into irrelevance, with the industry opting for an internationalising strategy that relies on suppliers from the continent.[9] Things started to change with the 2008 economic crisis.

Differently from Italy, the British government intervened more eagerly in the industry in the 2008 economic crisis. As Germano (2012) reports, the UK spent £2.3bn in loan guarantees through the Automotive Assistance Programme (AAP) for a two-year period;[10] £1bn to JLR (Jaguar Land Rover) in support of R&D and product innovation; and car-scrapping incentives totalling £300mn. Yet, even after forty years of unsuccessful industrial policy in the sector, the economic crisis showed again the reactive nature of the government.

Speaking in the House of Lords in January 2009, the Secretary of State for Business, Enterprise and Regulatory Reform (BERR) Lord Mandelson noted how the measures that the government was to undertake would lay 'the foundations of its reinvention for a low carbon future,' and would 'help companies speed their way to becoming greener, more innovative and more productive' (Hansard, 2009: 178). This, it was claimed, was the route for securing jobs in the long term. In order to achieve this goal, the BERR White Paper on the Low Carbon Strategy set out that the government would 'work with leading employers and key strategic partners' (HMG, 2009: 10).

Indeed, according to the SMMT,

> there needs to be a more joined up approach when thinking about the impact other government measures are having on the industry and the need to better balance environmental objectives with support for British built cars during the downturn (HC 550, 2009: 21)

The House of Commons concluded that,

[9] See https://www.just-auto.com/analysis/uk-automotive-supplier-industry-perks-up_id157021.aspx.

[10] £1.3bn from the European Investment Bank (EIB) and £1bn from other lenders, which, according to the Commission, does not constitute state aid, and which explains why it is not included in Table 7.5.1. The AAP allows government loans only in exceptional circumstances (HC 550, 2009).

> [i]t is important that the entire Government shares a strategic approach to the UK automotive industry. This means that matters such as taxation, environmental targets and support measures should be considered together to ensure they do not inadvertently conflict

that,

> [t]he danger is that without a clear government strategy, and sufficient support, valuable skills and capacity will be lost to countries which more clearly demonstrate their readiness to support the industry

and that,

> [w]orse still, there are perceptions that the Government does not have a coherent and supportive policy for the industry. This is not just a problem during the current economic difficulties; government support for the industry will determine its long term success. The Government must not only support individual companies, but be seen to support the industry as a whole, and act with more urgency and consistency than it has done so far (HC 550, 2009: 22-4)

Thus, as Wilks (1988: 62) writes, the lack of industrial leadership at the governmental level and the emphasis on the liberal tradition of the autonomy of the firm meant that intervention was either invited by industry (as was the case of Chrysler), or come as a reaction to some crisis (as for BL and the recent economic downturn). Not unlike Italy, therefore, Britain failed to promote a coherent industrial policy in the automotive sector. Although the reasons may vary from period to period, the roots of the matter lie in the state-business relations that, since the post-war period, have characterised the automotive industry.

A first attempt to a clearer industrial policy in the automotive industry came in 2009 with the creation of the Automotive Council, jointly chaired by a British government cabinet minister and a representative from the industry side, while also benefiting from from the organisational capabilities of the SMMT. Its focus is on 'identifying commercial opportunities for developing and exploiting sustainable vehicle technologies while seeking ways to attract inward investment' (Coffey & Thornley, 2020: 148).[11]

The Automotive Council bore two documents for long-term strategies. The first one, published in 2013, was the 'Strategy for growth and sustainability in the UK automotive sector,' which aimed at developing a 'long-term approach in partnership with business,' and prompted governments to stick 'to long-term plans.' It provided for the creation of an 'advisory group to help align research funding with industry challenges' with 'a look at identifying future technologies such as intelligent networking

[11] See `https://www.automotivecouncil.co.uk/what-is-the-automotive-council/`.

of cars,' while also 'supporting inward investment [and] access to finance' for the supply chain firms (Automotive Council UK, 2013).

The second document, the Automotive Sector Deal (HMG, 2017a), was the result of two important developments in British industrial policy. The first one was the 2016 merger between the Department of Business, Innovation and Skills (BIS) and the Department of of Energy and Climate Change (ECC) into what is now known as the Department of Business, Energy and Industrial Strategy (BEIS). It was only following the creation of the BEIS that the idea of 'industrial policy' has been pushed again to the forefront of the public policy debate (Coffey & Thornley, 2020).

The second development was the 2017 White Paper on Industrial Strategy (HMG, 2017b), which provides a first look at how industrial policy in the automotive sector has changed in Britain, based on two new pillars. The first one is based on the idea of concertation, in which the new industrial strategy should not be confined to individual sectors, but that each should work in synergy towards the achievement of a new industrial policy. Thus, individual sectoral deals, such as the Automotive Sector Deal (HMG, 2017a), have been struck for sector-specific issues to create significant opportunities to boost productivity, employment, innovation and skills.[12] Each deal is supposed to work towards overcoming four common great challenges: artificial intelligence (AI) and big data; clean growth; mobility; and ageing society. Thus, alongside the Automotive Sector Deal, the government has established partnerships in sectors such as aerospace, rail, tourism, nuclear, life sciences, offshore wind, construction, creative industries and AI. In the automotive industry in particular, the government is committed to £2.3bn between 2017 and 2026 to develop the necessary infrastructure and create an ideal business environment (HMG, 2017a).

The second pillar is the direct result of merging the BIS and the ECC, and shifts the focus from its previous goals of national championship and privatisation, to a low-carbon, environmentally conscious strategy. For this, the government committed to overhauling the current infrastructure to allow the transition to zero-emission vehicles. As the White Paper reads,

> For zero emission vehicles to become universal the right framework is needed. Building on the work of the Faraday Battery Institute and the Office for Low Emission Vehicles programme, we have announced a package to support the transition to zero emission vehicles. This includes a new £400m Charging Infrastructure Investment Fund (£200m from the government to be matched by private investors); £100m new funding for the plug-in car grant; £40m R&D funding (matched by industry) for new charging technologies including on-street and wireless projects; and a commitment that the government will lead the way,

[12] See `https://www.gov.uk/government/publications/industrial-strategy-sector-deals/introduction-to-sector-deals`.

> making 25 per cent of all cars in the central government department fleet ultra-low emission by 2022 (HMG, 2017b: 50)

Thus, in a radical shift of pace, the British automotive industry has become one in the process of a 'state-assisted transition' in terms of its policy, positioning and prospects for the industry (Coffey & Thornley, 2020: 157). It is still too early for an assessment of this strategy, and whether this will bring about a more coherent industrial policy in the sector, but what is certain so far is that the early postwar picture of the UK's car industry as detached from government policy no longer holds. The 50% share of state investment in the Charging Infrastructure Investment Fund is unlike any other such measures that the UK has seen in the past thirty years. Hence, as (Coffey & Thornley, 2020: 152) put it, 'it would clearly be far from accurate to suggest that Britain's car industry lacks government interest or support' today. The next section will take stock of state-business relations to explain government intervention through time, using the lens of policy network analysis.

7.3.3 Taking stock of state-business relations in the British automotive industry

The British automotive industry is one of few temporary successes and many failures. Government involvement in industry was messy and 'often the product of political pressures for support rather than the outcome of long-range economic planning' (Coen et al., 2010: 23). As Church (1995: 64) suggests, on the one hand government policies reinforced the growth of exports; on the other, macroeconomic policies intended to achieve economy-wide objectives included specific measures which intensified demand instability, with adverse effects on industrial investment. In the words of George Turnbull, managing director of BL and later chief executive of Peugeot-Talbot in Britain,

> [T]he government was totally oblivious and if I was ever going to apportion blame for the parlous state the British motor industry got into, you have got to put it at the door of the government. I don't care which complexion or which colour. The reality is that they didn't handle the industry in a sensitive way (cited in Adeney, 1988: 210)

Though Turnbull used decidedly colourful language, he was not alone in claiming that the industry and the government moved at different speeds. Dunnett (1980: 101) argues that without the government to act as a catalyst, British motor firms would have tended to remain independent as long as possible. This position was confirmed a few years later by a former BLMC official, according to whom, the 1968 BMH/Leyland merger 'wouldn't have happened if government hadn't pushed so hard' (cited in Maloney & McLaughlin, 1999: 31). State aid politics, too, therefore, need to be understood within the context of the tug-of-war between liberal entrepreneurship on the one hand, and the government's desire to achieve policy objectives on the other – be it employment, trade balance, regional and industrial development, rationalisation, privatisation, or the failed attempt at creating a national champion.

There is widespread agreement among scholars that the period 1960-1974 is one of low state intervention in the automotive industry in term of subsidy spending (Church, 1995; Maloney & McLaughlin, 1999; Wilks, 1988; Wren, 1996b). During this time, state-business relations approximated an environment of pressure pluralism, summarised in Figure 7.3.1. The state had a high level of autonomy due to what Wilks (1988: 38) calls 'élite insularity': macro-economic policy makers within the Treasury decided policy that was at odds with what industry groups, departments and what the National Economic Development Office (NEDO) suggested. State agencies regarded matters about exports rationalisation and firm location as important for the country's macro-economic goals (e.g. trade balance, economic growth). However, not only were these policies often out of kilter with industry requests, but state officials also concerned themselves little with industrial policy for industry's sake, and mostly eschewed subsidy spending as inducement.[13]

Instead, the non-regulatory approach to influence the micro-level of decision making took the form of trade, merger or other regional policy, which were ultimately subservient to wider macro-economic policy goals. This approach went through several intermediate organisations such as the Automobile Manufacturing Economic Development Committee (EDC) and the SMMT, thus dispersing state concentration. However, as was shown before, the SMMT could not act with a single voice for the sector due to high fragmentation and the contrasting interests between indigenous and foreign manufacturers. Thus, low levels of mobilisation ensued and direct contacts between firms and government, though possible, were scarce. Self-regulation was, for the most part, the preferred solution.

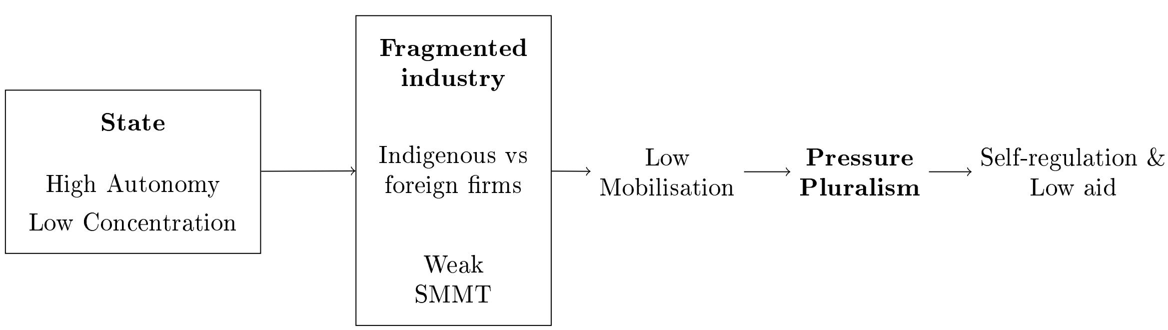

Figure 7.3.1: State-business relations in the British automotive industry (1960-1974)

[13] As Table 7.5.1 shows, in some cases aid finalised at engineering mergers was provided. However, not only was the use of subsidies for industry rationalisation sparse despite the numerous M&A deals in this period, but also compared to other similar situations, such as aid provided to Rover in 1988, to Alfa Romeo in 1986 (see Chapter 6) and Citroën in 1974 (see Chapter 8), it was a rather small amount.

With the creation of BLMC and its subsequent crisis, the Labour government saw an opportunity to further its interventionist agenda and promote a national champion, following the economic planning strategy detailed by Labour Secretary of State for Trade and Industry Eric Varley, in 1975 (see The National Archives, 1975b). This attempt to move economic policy towards a state-led model, however, was stymied by three elements.

First, although the state apparatus maintained a certain level of autonomy, policy-making continued to be dispersed among a plethora of departments, committees and sub-committees. The Labour administration provided an extensive blueprint for industrial planning in 1973, but the approach was never properly implemented due to backlash from business and the more moderate Labour MPs. By 1975, the government's White Paper was watered down to promote a more moderate approach to industrial strategy, with up to 39 different EDCs involved for the motor industry (Wilks, 1988: 50, 55). Secondly, the British motor industry was not really British. Three of the four main manufacturers were American companies. It would therefore be far more difficult for the government to impose its economic planning on multinational firms who could more easily relocate and were less concerned with political linkages. Finally, the crises of Chrysler and DeLorean prevented the government from targeting all (or at least most) aid to one single government-backed company, like Fiat in Italy, and to properly follow a national champion policy (Wilks, 1988: 115).

The configuration of state-business relations continued to reflect a pressure pluralist environment where the government committed neither to particular firms, nor was able to provide direction. However, unlike the previous period, the outcome was no longer self-regulation, but a series of reactive policies. This was the consequence of the choice of the British government to treat the BL and Chrysler (and DeLorean) case as separate and distinct. Had they had a unified approach to the rescue of the sector, they would probably have been able to have a semblance of coherent and cost-effective industrial policy. Unlike Italy, reactive policy was not a consequence of fragmented and particularistic legislation, but a conscious decision by policy-makers, which reflected political expediency more than economic assessment. An important implication of these elements is that these commitments were inherited by the successive Tory administration, who could not make an immediate U-turn, despite its strong free-market emphasis. In the words of Richard Rose (1990), inheritance took the precedence over choice in public policy. It should not therefore surprise that this second period lasted throughout most of the first Thatcher government.

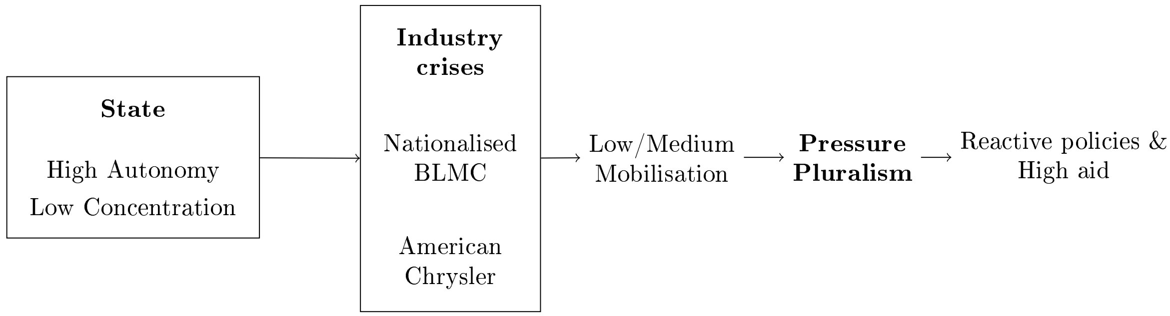

Figure 7.3.2: State-business relations in the British automotive industry (1974-1984)

After 1984, when the privatisation planning was in full swing, things reverted back to the pre-1974 situation, with the government remaining at arm's length, as summarised in Figure 7.3.3. Privatisation was accompanied by the Japanisation of the industry, with a wealth of inward investment coming into Britain as part of the Thatcher's administration free-market strategy. Thatcherism, as Andrew Gamble characterises it, involved marrying the free economy and a strong state (cited in Moran, 2009: 135). The state was strong in the sense that it became more aggressive and activist in the way it dealt with business interests, but where the ultimate goal was the abdication of responsibility on the part of the state to to create a society where business values were hegemonic (Moran, 2009: 135-7). 'The business of government,' ran the Thatcherite mantra, 'is not the government of business.' Industrial policy was substituted by 'enterprise policy' (Wilks, 1988: 301) and policy-makers became once again insulated. This strong state, thus, kept a high level of autonomy, but did not centralise policy-making. As Mark Hughes, Executive Director of the NorthWest Development Agency said in a Parliamentary audit,

> [t]here is a wealth of resources, a wealth of money available across Government in those areas, it is just not coordinated enough and delivered at the right level enough. [...] I guess one hope I have is that the New Industry, New Jobs approach will actually lead to a greater industry focus for the channelling of the delivery of resources to businesses. That is the one big change that I would make (HC 550, 2009: Ev44)

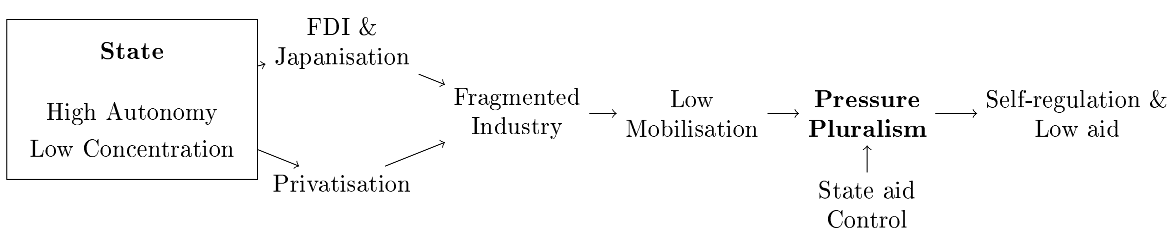

Figure 7.3.3: State-business relations in the British automotive industry between 1984 and the 2008 financial crisis

More importantly, none of the Thatcherite reforms were reversed neither by her conservative successor, John Major, nor by the New Labour in the late 1990s: Clause 4 of the 1995 Party constitution commended 'the enterprise of the market and the rigour of competition' (Moran, 2009: 110, 134). Thus, an uninterrupted situation of pressure pluralism ensued where the outcome was self-regulation and reactive policy-making in face of crisis. In particular, the continued lack of a coherent policy in the sector meant the degree to which Britain was able to help its own industry was far lower than France and Germany, where aid to the sector was in the order of dozens of billion euros (see Germano, 2012). Britain, then, returned to a path where the first solution in face of crisis is to wait for the market to stabilise, and where the government acts neither quickly nor decisively.

One thing that should be noted is that the *dynamics* of pressure pluralism were not the same across the three periods. In other words, what effectively were different *processes* of state-business relations are all regrouped under the banner of the *structure* of pressure pluralism. In the first period, the structure of pressure pluralism resembled processes of self-regulation and of a state intervention aimed at exploiting the benefits of a growing industry, fuelled by foreign investment. In the second period, the industry reached a mature stage, meaning that the structure of pressure pluralism that had been created forced the government to avoid creating overt privileged relationships with national producers in fear of losing out on foreign investment. By the third period, the structure of pressure pluralism that had been retained following the government action in the 1970s and early 1980s allowed the government to embrace further foreign investment and a serious process of privatisation and de-rationalisation of the industry. In none of the three cases were there exogenous shocks that had the necessary impact to change the structure of state-business relations, although their effective dynamics were actually ever-changing.

It is only with the New Industrial Strategy initiated in the mid-2010s that state-business relations seem likely to reshuffle in a way that allows for a coherent industrial policy. As it was suggested, much of what is being done might lead to a situation of concertation in the industry. A significant difference with Italy lies in the degree of mobilisation of private actors. Whereas in Italy Fiat clashed with the peak business association Confindustria and left the trade association ANFIA, today the SMMT regroups basically all car makers and suppliers in the industry and is at the forefront of policy-making. This, it should be remembered, is also in stark contrast with the situation of the 1980s, where firms in the sector privileged direct contact with state agencies. Thus, although it is certainly true, as Moran (2006) noted, that there has been a trend towards individualisation of representation in Britain, this has not eliminated the usefulness of trade associations. For instance, in light of the 2008 crisis, it was the SMMT that lobbied the government for an industry-wide bailout of the sector, rather than individual companies (Financial Times, 2008a).

Although the White Paper was well-received by the SMMT, according to whom the Automotive Sector Deal will ‘help this vital UK industry meet some of the many global challenges it faces’ (SMMT, 2018), other recent challenges such as Brexit and the economic fallout due to Covid-19, are going to be important tests as to the successful strategy of the government. It is still early for an assessment of these most recent developments. Nonetheless, there is a clear difference with the Italian case that need to be underlined. Whereas in Britain the state came to the forefront and actively engaged with the industry to create a new approach to industrial strategy, the Italian state took a step back to become, paradoxically, a ‘spectator’ of its own play.[14]

Thus, a more direct comparison of state-business relations in the two countries can help us highlight two different aspects. First, as was mentioned and argued throughout these chapters, the typology of policy network influenced the type of policy that the state was either willing or capable of taking in the sector. As Atkinson and Coleman (1989) noted, pressure pluralist networks cannot lead to anticipatory policies. Eric Varley’s attempt to set up a coherent industrial strategy in the 1970s was bound to fail in the sector because there lacked the pre-conditions to engender such a change. In the end, both Labour and Tory governments took on the more politically expedient solutions. This assessment is shared by Donnelly et al.’s (2017: 70) account of the decline of the West Midland industry. As they write, neither political party ‘fully embraced a positive policy towards manufacturing industry,’ and instead preferred to intervene ‘only when absolutely necessary in times of crisis.’ This, as was shown in this chapter, was a consequence of the peculiarity of the policy network that had been developed in the British automotive industry.

Secondly, and perhaps most interestingly, the comparison of the Italian and British cases shows why the automotive industries of each country have been taking different trajectories since the turn of the century. In Italy, the situation of clientelism, characterised by the low autonomy of the state agencies and the presence of one single main manufacturer, has weakened the standing of the government *vis-à-vis* Fiat, with the company seeking instead to establish new networks on foreign shores when its conditions could not be met in the country of origin. Where the Italian government failed has been in its low capacity to attract foreign investment. As was shown, the government attempted to do so in multiple situations (e.g. Renault in the 1960s, and Nissan and Ford in the 1980s), but eventually the interdependence between the existing firms and state agencies made such attempts fall through. As a result, the state failed to create a safety net for the event that policy network ties came loose.[15]

[14] I say paradoxically because, as the reader might recollect, Grant (1995a) called Britain a ‘spectator state’.

[15] To be sure, the fault cannot be solely put on the shoulders of the state. Location investment decisions also depend

In Britain, by contrast, the strong focus on FDI meant that a plurality of actors were present in the sector and the state had multiple options in its choice of development of strategies of state-business relations. Further, unlike their Italian counterparts, British state agencies have remained relatively insulated from sectoral interest penetration. Thus, despite a long-standing tradition of decrying the 'fall of the British automotive industry' (Church, 1995; Donnelly et al., 2017; Dunnett, 1980), this case study shows why the British automotive industry could potentially move from a situation of pressure pluralism to one of concertation where both Varley and the Italian governments failed. Varley failed because the concentration of power was far too dispersed. His strategy of economic planning involved the devolution of authority to a plethora of EDCs, which prevented proper coordination and planning. Italy fell short of concertation after the CDPs both because of the lack of state autonomy *vis-à-vis* sectoral interests and the lack of engagement from the main firm in the industry. Today, in Britain, all these conditions are instead present, and could potentially lead to a new type of policy network and a series of anticipatory policies in the sector.

Unfortunately, a shortcoming that remains glaring in this account is that the policy network approach is unsuitable to properly explain policy change. The structure of the policy network alone remains insufficient for a comprehensive explanation. Understanding the process of the policy network (i.e. the strategies that each actor takes, which can only be revealed empirically *ex post*) is fundamental in determining how change comes about. As Rhodes and Marsh (1992: 193) remind us, changes in the network environment must be found mainly in exogenous ideological, economic and institutional factors. Thus, focusing on the policy network alone cannot provide an adequate account of policy change, since networks are but one component of such explanations (Rhodes & Marsh, 1992: 196). Despite this shortcoming, the policy network approach has proven useful to address several puzzles that were left unexplained by macro-comparative analyses, such as why ideology alone does not and cannot influence subsidy spending, thus shedding light on why the effect of partisanship on state aid allocation remains controversial in the literature. In the next section, instead, I address the second mechanism adduced to explain aid allocations – electoral competition.

on a firm's internal strategies, which is an element that is necessarily out of control for politicians.

7.4 Accountability: a system not fit for clientelism?

7.4.1 The British electoral system

Unlike Italy, the British electoral system has displayed remarkable stability since the post-war period, despite several attempts of reform (see Dunleavy & Margetts, 2004; Farrell, 2011). Further, whereas Italy has attempted to balance the need of representativeness typical of PR systems with that of stable government (and how could they not, given that the average government duration in Italy is amongst the lowest in the West), the United Kingdom has favoured a Schumpeterian notion of democracy in its choice of electoral system. This notion requires that it is the role of the people (i.e. the voters) to produce a government rather than the role of the assembly. Hence, British election results aim to provide one party winning the majority of the seats in the assembly (Curtice & Steed, 1982: 250).

The best system to achieve this goal is the Single-Member-Plurality (SMP, also called First-Past-The-Post', FPTP), adopted, aside from Britain, most famously in the United States, India and Canada. This system is characterised by thee features: simplicity, stability, and constituency representation (Farrell, 2011: 14). The system is simple because it only requires the candidate to achieve a plurality of the votes. Thus, *simply*, whoever gets the most votes, wins the seat. The system is also stable because, due to a combination of mechanical and psychological factors, tends to produce a two-party system – the so-called Duverger's law (Duverger, 1954). The implication is that the two parties alternate their time in power, and each government is ensured a clear majority, and therefore stability throughout the tenure. Finally, the system encourages constituency representation because it entails a minimum district magnitude of one: for any district in the country, one and only one representative is elected, thus increasing the strength of the bond of the representative with his or her constituents.[16]

Of these three characteristics, the most relevant to this work is the third one, constituency representation. As Mitchell (2005: 170) writes, the 'election of MPs in single-member districts is likely to encourage the belief [...] that there must be some effort that they can personally make to secure their position' by delivering 'particularised benefits' to their constituents. In other words, MPs may have incentives to cultivate a personal vote, especially by means of assiduous constituency service, some-

[16] For its several benefits, there are as many, if not more, shortcomings to the SMP, not least the huge waste of votes it entails, with a candidate able to win a seat even when a large majority of the voters are opposed. A further shortcoming is that SMP does not exclude the possibility of a hung Parliament, has it happened in Britain in 1974, nor of coalition governments, such as the one between the Tories and the Liberal Democrats in 2010. These two shortcomings concern the ability of the electoral system to discourage third-party voting, which in the UK has not been particularly successful, with the share of votes going to Labour + Conservatives declining from 96.8% in 1951 to 65.1% in 2010. A third shortcoming involves bias, or effective votes, whereby a party is able to receive a better 'return on votes' when it is geographically concentrated, such as the SNP in Scotland. For these and more, see Blackburn (1995); Curtice (2010; 2015); Curtice and Steed (1982); Farrell (2011); Mitchell (2005).

thing that was lacking in Italy's post-2005 system. Typically, in SMP systems, there is a distinction between the fortunes and interests of individual MPs and those of the collectivity (i.e. the party to which they belong), since they may have more incentives to curry favours to their constituents, rather than the party leadership (Cain et al., 1987; 1984; Rickard, 2018).

The United Kingdom is divided in 650 constituencies, averaging around 66,000 voters, each of which returns one single MP for the House of Commons. Of these, 632 are situated in Great Britain (533 in England, 59 in Scotland, 40 in Wales), with the remaining 18 in Northern Ireland, which however uses a PR-STV (Single Transferable Vote), like the Republic of Ireland.[17] While this, in theory, encourages constituency representation and cultivation of a personal vote thanks to the tighter link between MP and voters, there are significant limitations to the degree British MPs are able to do so. Indeed, for a long time, they have not engaged in constituency service at all, which they regarded as a trivial activity. As one Eighteenth-century MP colourfully replied to his constituents, who asked him to vote against the Budget,

> Gentlemen, I have received your letter about the excise and I am surprised at your insolence in writing to me at all. You know, and I know, that I bought this constituency. You know, and I know, that I am now determined to sell it, and you know what you think I don't know, that you are now looking out for another buyer, and I know what you certainly don't know, that I have now found another constituency to buy. About what you say about the excise. May God's curse light upon you all and may it make your homes as open and free to the excise officer as your wives and daughters have always been to me while I have represented your rascally constituency (King & Sloman, 1973: 1)

Although some MPs may still occasionally feel this way, they mostly have recognised the importance of constituency service, particularly in electoral terms. However, what American scholars call 'pork-barrel politics', the targeted distributive benefits to constituents, may only mildly translate to the British experience. First, while in the US the decentralised structure of congressional committees can allow congresspeople to introduce legislation, alter the agenda, and distribute money and projects to their own districts, in the UK, MPs by and large do not initiate legislation (Cain et al., 1987). Secondly, whereas candidates for US Congress enjoy significant individual freedom in choosing if and when to run for election, British candidates to the House are selected by party committees at the constituency level, and then approved by the central headquarters. The person concerned must have the support of the political party of choice, meaning non-party candidates have almost no chance of election; they must also persuade the selection committee that he or she is not only a good representative, but also a

[17] It should be noted, however, that STV is one of the few PR systems that also incentivises building a personal reputation, due to the ranked choice order. See Martin (2010).

vote winner (Blackburn, 1995: 157). William Elliott, former Vice-Chairman of the Conservative Party, describes how a prospective candidate goes about becoming one thusly:

> The short answer to that is that he writes to me as the Vice-Chairman of the Party, and he receives from me a form which he fills in. This requires him to give certain particulars about himself, and requires him also to name sponsors to whom we can write asking about him. The longer answer, of course, is that before he gets to the stage of writing to ask me for a form he should become known to the Conservative Party in the area in which he lives. [...] We need to know, before we start on the procedure of interviewing and so on, that the person concerned is a sound, decent person, who has some knowledge of politics and public life, and who is, above all else, a good Conservative (King & Sloman, 1973: 41-2)

Only then is a round of interviews initiated, managed by the parties' selection committees, which decide on criteria that they deem relevant to the values and prospects of their party. Although with some small differences in methods, selection of prospective candidates runs along similar lines for the major parties: the local association within the constituency handles the actual selection, and then central headquarters of the concerned political party are to endorse the local party's selection, thereby reserving power of veto over the candidate (Blackburn, 1995: 215). After becoming MPs, the successful candidates facing re-election are not guaranteed their position as official party candidates at the next round. It is always possible for the local associations to remove the official party candidature from a sitting MP (Blackburn, 1995: 219). In the case of the Labour Party, re-selection became mandatory after 1981, and then the procedure even more centralised after 2001 (Margetts, 2011; Norton, 1994). It is important, therefore, for them to be 'good constituency MPs' to ensure re-selection. Thus, they are in the awkward position of currying favours to *both* their constituents *and* the party leadership. The natural question to ask then is, to what degree does the British electoral system promote personal representation?

As Helen Margetts (2011: 44) writes, despite its reputation, the UK electoral system actually does a poor job in terms of engendering personal reputation. One reason for this is the candidate selection procedure described above, which has become over the years more centralised than ever. There is a good degree of overlap between the personal and the party effect on voters. As was mentioned, and contrary to other systems that can gratify individual candidates, such as Ireland's STV, British MP candidates have almost no chance of winning as independent candidates. Thus, the party machinery is essential to their success, and voters recognise this. There is evidence that ratings for the sitting Prime Minister (and by extension the governing party) have significant effects on the voters' ballot for the MP (Cain et al., 1984). Hence, being a 'good constituency MP' may satisfy party leadership, but not necessarily voters.

Yet this does not mean that MPs do not engage in constituency service or are as rowdy as the aforementioned Eighteenth-century MP. In a series of personal interviews, Norris (1997) reports that many MPs find constituency service gratifying, with only a minority still regarding it as a nuisance. As Norton and Wood (1990) note, avoidance of constituency casework can be dangerous, especially for new MPs, who want to prove to both the party leadership and their constituents that they are worth of re-selection and re-election. Norton (1994) further highlights how modern MPs face increased demand from voters and enhanced competition from other careerist colleagues.

This affects especially backbenchers, who have few opportunities in Parliament to demonstrate their value, as they are not part of the government nor selected committees. It is no wonder, then, that Searing (1994: 121) describes the backbencher's role as that of 'constituency member', who 'focuses on constituents' personal cases and collective problems and on seeking some redress from the government' (see also Gaines, 1998: 171). Wood (1987), in particular, examines the extent to which Conservative backbenchers pursue their own localised industrial policy strategies as part of an effort to maintain constituency electoral support, which involves lobbying efforts towards ministers in support of local industries. He clearly distinguishes between 'welfare officers' who serve the need of individual constituents (for instance through casework) and 'local promoters' who instead engage in lobbying activities on behalf of local interests, particularly – though not exclusively – business. He finds that the more secure the constituency, the less likely the backbencher is to lobby ministers on behalf of local industries. Finally, in her analysis of the 1992 elections, Norris (1997) finds backbenchers to be those that are most active in offering constituency service, measured as the number of hours devoted to constituents, as opposed to Westminster work. She concludes,

> Backbench life at Westminster offers few other rewards, with modest pay and facilities, long anti-social hours, strictly limited powers of autonomy, and declining public status. In this context helping constituents may prove richly satisfying in, and for, itself, at least until frontbench promotion becomes available (Norris, 1997: 47)

Thus, incumbents in British parliamentary elections, like their American counterparts, do enjoy a personal vote, acquired through constituency service, though not to the extent of members of Congress (Cain et al., 1987; 1984). Yet, these findings do not go uncontested. Gaines (1998), in particular, in his study of British elections between the 1950s and the 1990s finds the incumbency advantage to be not just smaller than in the US, but altogether negligible. In her review of personal representation in the UK, Margetts (2011) therefore concludes that the British electoral system and the strong constituency link *prioritise* the idea of MP's responsiveness to constituents, but that they do not *reward* MPs for their constituency work.

The next section tests these expectations with regard of allocation responsiveness when MPs attempt to promote constituency interests, by analysing parliamentary questions, a long-standing British tradition (Franklin & Norton, 1993). Once again, it should also be highlighted that, while it remains impossible to strictly identify a causal mechanism between MPs' activity through constituency service and eventual government policy (in this case state aid), it is worth citing at length the words by Norton (1994: 713, my emphasis):

> Promoting constituency interests is not a new role for MPs. Members, as we have noted, have variously helped promote industries heavily concentrated in their constituencies. In 1936, for example, Aneurin Bevan—Labour MP for Ebbw Vale—played some part in getting the local steel works reopened. We have no data that allows us to demonstrate a clear increase in such promotional work undertaken by MPs. What is known is that *such work—lobbying ministers on behalf of local firms or industries, leading delegations to see ministers—now constitutes an important part of constituency activity by some, though not all, Members of Parliament*

7.4.2 State aid and electoral politics in Britain

With the rise of the careerist MP with political and ministerial ambitions, MPs realised that some attention has to be devoted to constituency service in order to ensure re-election. Indeed, without securing a seat first, such ambitions could not be attained at all. This entails, among things, and especially for backbenchers, a need to call attention to their parliamentary activity. However, with the increasing number of careerist MPs, and with limited resources and opportunities to achieve attention in the chamber, so increases competition among them. One way to get noticed is to pursue issues on behalf of constituents, particularly by tabling parliamentary questions (PQs) targeted to the MP's constituency (Norton, 1994).

King and Sloman (1973: 119) recount an exchange with an MP from Sunderland, Frederick Willey, to show the multifaceted importance to table PQs. So goes their exchange:

> WILLEY: This was a constituency Question. I am concerned about unemployment in Sunderland. I asked the same Question twelve months ago, so I was concerned about how the position had improved or got worse. In fact, I found it had got worse.
>
> KING: Are you going to use that information for getting some publicity for the problem?
>
> WILLEY: Yes. My supplementary question wasn't about this, because another matter had arisen meanwhile. But certainly I will use this. What I do about Questions like this is to build up a case.
>
> KING: And when you've built up the case, the idea is that, with any luck, the Department of Trade and Industry will actually do something?
>
> WILLEY: Oh yes. I'm not as depressed as all that about the Department. I think one of the important things about a running dialogue like this is that it very much affects the Department.

Willey clearly states that his intention was to build up a case so as to to lobby (or better, to spur) ministers to take action in favour of his constituents. There were two stages to this: first, generate publicity by raising the issue in the chamber so that Ministers of the relevant Department could become aware to it. Secondly, use a supplementary question, which MPs are given as an opportunity to rebut the government response, to build a dialogue with the Department so that the issue is not merely publicised, but also acted on.

In another exchange with the MP from Nuneaton, Leslie Huckfield, a similar pattern arises (King & Sloman, 1973: 119-20):

> KING: And you wanted the Minister's answer to get publicity in the constituency, did you?
>
> HUCKFIELD: Well, I want to drive home to the Minister the fact that my constituents are concerned about this and that I am concerned about this, and I don't want the Minister to get the impression that nobody cares about it, because not only the manufacturers but my constituents do

Again, the intention is not merely to get publicity for his constituency, but to show the Minister that MPs and constituents alike care about it, and so should the Department.[18] In what follows, I analyse 168 PQs tabled between 1974 and 1988 in which British MPs explicitly asked about assistance to one or more of the car manufacturers on the territory.[19] The period is chosen because, following the analysis in Section 3 of this chapter, it is the period with the most intensive activity in terms of state intervention for the automotive industry. This should also translate to increased MP activity. To avoid bias in period selection, the analysis of this sample is confronted with PQs asked during the 1990s, a period of relative quiet in terms of state intervention in the sector (but before state aid rules were tightened, thus excluding external influence from unobserved variables).

Two shortcomings should be noted from the outset. First, these PQs concern *car manufacturers*, not suppliers. Thus, even though some important firms such as Lucas Industries were part and parcel of the British automotive industry (see Pardi, 2017 for their importance), these are excluded from the sample. This also allows for a more direct cross-country comparison, since the networking system

[18] Nevertheless, it should be noted that not all MPs use PQs for constituency service. As Russo and Wiberg (2010) show, some MPs mainly table PQs in order to acquire information and are not necessarily related to one's own constituency. Indeed, according to Sydney Chapman, MP for Birmingham, no more than 60% of all the PQs are used as a conduit for constituency service (King & Sloman, 1973: 120).

[19] PQs can be found at `https://hansard.parliament.uk/`. The sample only includes PQs with written answers. PQs were web-scraped with RStudio's rvest and RSelenium packages (Harrison, 2020; Wickham, 2016). The target questions included all PQs asked relating to car manufacturers who had received aid, following Table 7.5.1. The text was subsequently cleaned and analysed using the quanteda package (Benoit et al., 2018). Answers by Ministers were discarded, so that only the text of the PQ remained. Only questions that included two characteristics were retained. First there had to be an explicit reference to a car manufacturer (e.g. Leyland, Ford, Chrysler). Secondly, there had to be an explicit reference to financial assistance for these firms, which included words such as 'aid', 'subsidy', 'assistance' or 'support', for instance. In a final step, manual cleaning of unrelated PQs that still respected the criteria was carried out. This allowed the total number of PQs to go from over 4,000 from those that were originally scraped to just 168.

and the relation between manufacturers and suppliers may be radically different.[20] Secondly, as some scholars remind us, PQs are only one tool available to MPs to engage in constituency service, so it necessarily only offers a partial picture (e.g. King & Sloman, 1973; Martin, 2011b; Rickard, 2018).

Table 7.4.1: Words used by British parliamentarians in PQs (1974-1988)

State (171)	Secretary (168)	industry (164)	British (103)	Leyland (98)
investment (46)	government (46)	company (42)	assistance (40)	make (40)
made (39)	National (38)	Board (37)	Northern (37)	financial (36)
Enterprise (35)	Ireland (34)	statement (33)	De (32)	million (31)
Lorean (31)	funds (30)	public (28)	Grylls (28)	motor (28)
Chrysler (25)	United (23)	available (21)	loan (21)	total (20)
Trade (20)	Kingdom (19)	car (18)	given (18)	act (17)
Department (17)	plans (16)	Cryer (16)	Majesty's (15)	support (15)

Source: author's own elaboration from Hansard data

Table 7.4.1 shows the 40 most used words in the PQs. Five features are noteworthy. First, it is immediately clear that the lower frequency with which words appear suggests that British PQs are, on average, much shorter than Italian PQs. While the word 'Fiat' was used 400 times by Italian MPs, 'Leyland', the most important maker at the time, was named merely 98 times. The top five words used by Italian MPs appeared on average 261 times throughout 148 PQs, whereas this number is just 141 times across 168 PQs for their British counterparts.

Secondly, national manufacturers were a bigger concern for British MPs. Leyland was recalled 98 times, whereas DeLorean a mere 31, and Chrysler just 25, with the other makers (Ford, Vauxhall, Nissan) not even making the list. It is also interesting to note that these are the three manufacturers

[20] Indeed, in Italy Fiat had a hegemonic role *vis-à-vis* its suppliers in the so-called *indotto*. As we will see in Chapter 8, a similar situation was present in France with Renault and PSA. In Britain, instead, car manufacturers were rather beholden to the power of suppliers.

which were most in dire need of financial assistance, so there seems to be an inverse correlation between the financial health of the car maker and the number of times PQs mention them.

Thirdly, unlike their Italian counterparts, British MPs do not seem to emphasise words that evoke the need to maintain employment levels.[21] Rather, they highlight the 'investment' and 'financial' component of subsidisation, which suggests, in line with Norton (1994), how this constituency work may be carried out on behalf of local firms or industries.

In the fourth instance, the repeated use of words such as 'make' and 'made' seems to suggest two different uses of PQs. 'Make' is often accompanied by 'a statement' (as in, 'make a statement'). This has the dual function of gathering information through ministerial statements, and of spurring ministers to take action (whether symbolic or concrete). 'Made', instead, while retaining the information-acquiring function, also has a check-and-balances function that MPs may want to use in order to understand what the government has done and whether their action needs be check by the Parliament.

Finally, the table seems to suggest that several of these words are often used together. Table 7.4.2 gives an overview of their collocation.[22] This table includes the number of times that the multi-word collocation appears in the text (count), and the length of the compound words. The λ statistics represents the n-way interaction term in saturated log-linear models for the count data (Blaheta & Johnson, 2001). In n-grams of two words, λ is just the odds ratio, and the longer the n-gram, the lower the λ score (Blaheta & Johnson, 2001). The z-statistic, instead, is simply the Wald-z statistic for the λ parameter, which shows that the multi-word allocations are always statistically significant. Thus, the repeated use of the word 'Leyland' is often associated with 'British', as 'British Leyland' was at the time the full name of the company. Likewise, the words 'Enterprise' and 'Board' often refer to 'National Enterprise Board', the government agency that nationalised and managed British Leyland. Other words that may have seem misleading, such as 'Act' (which might suggest action, as in for instance the exhortation, 'I urge the government to act on...') is instead most commonly associated with 'Industry Act', usually Section 8 of the Industry Act of 1972, which forms the legal basis for government intervention via subsidies.

After considering how MPs speak in their PQs and which topics they touch, it is important to answer the question: from which MPs do these questions come? Table 7.4.3 below differentiates PQs by

[21] This may be an artifact due to the cleaning of the PQs performed by the software, which excludes words such as 'employment', 'employees' or 'jobs'. However, even after accounting for these and other related words, they do not feature in the top 40.

[22] I exclude compound words that form the names of MPs, such as for instance Robert Cryer.

Table 7.4.2: Collocation analysis of compound words used in British PQs (1974-1988)

Collocation	**Count**	**Length**	λ	z
British Leyland	94	2	9.77	16.81
Northern Ireland	34	2	11.97	7.86
National Enterprise Board	33	3	-5.46	-2.20
De Lorean	31	2	12.72	7.74
United Kingdom	19	2	11.15	7.39
Industry Act	15	2	6.37	7.41

Source: author's elaboration from Hansard data

questioner (government or opposition), jurisdiction (whether the PQ deals with constituency matters), party membership, incumbency status,[23] decade and car manufacturer. The results very much seem to confirm Helen Margett's (2011) conclusion that the British electoral system does a poor job at engendering personal reputation and that MPs do not necessarily table PQs for constituency service. Only in 12.5% of the cases did MPs ask questions about assembly plants that were located in their constituency. This figure, however, rises to 28.6% if we also consider nearby constituencies. To see why this is the case, Leslie Huckfield, MP for Nuneaton, provides some insights. In his interview with Anthony King, he recognised that, even though there is no assembly plant in Nuneaton, he still represented a 'car-manufacturing constituency,' since most of the people who live in Nuneaton work in nearby Coventry, particularly in car factories (King & Sloman, 1973: 119).

Still, over 70% of PQs did not concern the MP's constituency. There are two possible causes. One, of course, is that PQs about a very narrow and concentrated industry such as automotive are not representative of constituency service as a whole. This, however, would seem to be in stark contradiction with the results from the previous chapter on Italy, and is therefore not particularly suggestive *prima facie*.

[23]Three notes on incumbency. First, those MPs that first won a seat in the February 1974 elections, and then again in October 1974 were not coded as incumbents in the legislature following the October 1974 elections. Secondly, if an MP was re-elected after boundaries changed in a new district that emerged from the old one, they were coded as incumbent. Finally, if an MP was elected at time t_0 in district A, and then at time t_1 in district B (where A and B are already existing districts), they were not coded as incumbent at time t_1.

Table 7.4.3: Parliamentary questions about the British automotive industry (1974-1988)

Questioner	Government	68 (*40.5%*)
	Opposition	100 (*59.5%*)
Jurisdiction	PQ about plant in own constituency	21 (*12.5%*)
	PQ about plant nearby own constituency	48 (*28.6%*)
	PQ not about plant in nor nearby own constituency	120 (*71.4%*)
Party Membership	Labour	71 (*42.2%*)
	Conservative	91 (*54.2%*)
Incumbency status	Incumbent	105 (*62.5%*)
	New MP	63 (*37.5%*)
Decade	1970s	113 (*67.3%*)
	1980s	55 (*32.7%*)
Car manufacturer	British Leyland	83 (*49.4%*)
	De Lorean	30 (*17.9%*)
	Chrysler	15 (*8.9%*)
	Others	40 (*23.8%*)

Source: author's own elaboration from Hansard data; House of Commons Library (2019).

The second reason, instead, is that times of industry crisis can also push MPs to use parliamentary questions more as a check on government activity than as a means to deliver benefits to their constituents. There are several elements that suggest this latter trend. Firstly, although PQs do come more often from opposition members, as expected, the frequency is much lower than in Italy (59.5% vs. 74.3%). Further, unlike what literature suggests, new MPs, who are more likely to be backbenchers, only tabled 37.5% of the questions. Thus, more senior parliamentarians were using PQs more frequently. There is little we can directly infer from this, but it seems to suggest that in times of crisis, the use of PQs is widespread, non-discriminatory among MPs, and less aimed at constituency service.[24] Thirdly, two thirds of the questions were asked during the 1970s, even though the timespan in this decade is only six years, as compared to the eight years of the 1980s. Finally, the three manufacturers who were most in financial difficulty in this period – Leyland, De Lorean and Chrysler – constituted more than 75% of the overall PQs.

Figure 7.4.1 plots the allocation of PQs over time for each car manufacturer (or the object of the PQ, if no manufacturer is specified). It is easy to see how the frequency of PQs follows the historical account described in Section 7.3. British Leyland (BL) and the National Enterprise Board (NEB) were the 'hot topics' of the Seventies, from the moment of the first bailout package in 1974 until more or less the time Sir Michael Edwardes came in charge in 1977, after which the questions on BL and the NEB became rarer. The same pattern was expressed for De Lorean (DLMC), and lasted between 1978 and 1982, and for Chrysler (CUK), which were concentrated in 1976-77. Likewise, Nissan and Rover, which came to the scene in the 1980s, dominate PQs in this decade, while the other makers (Ford, General Motors) have a less defined pattern. Thus, the plot helps explain the unusual concentration of PQs in the 1970s and relates them to the increased urgency due to the crisis of the industry.

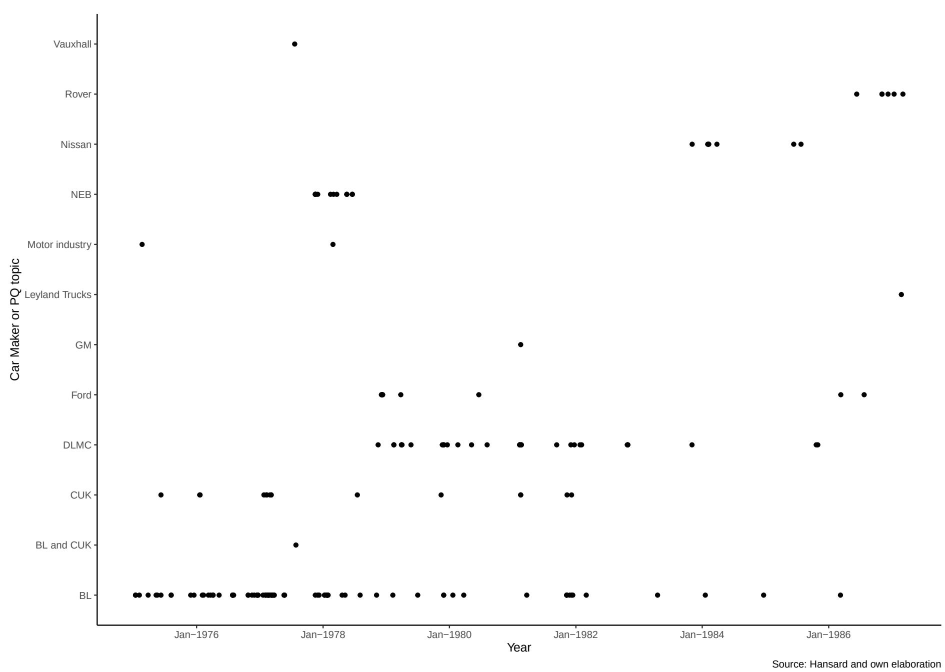

Figure 7.4.1: Plot of British PQs by car manufacturer over time (1974-1988)

[24]The alternative option, that it instead increases the use of PQs by more senior members for constituency-service goals, is highly unlikely, given the very low amount of constituency-targeted PQs.

There are two shortcomings in the analysis so far, which seemingly engender some paradoxical results. One, less evident, is that many MPs asked multiple questions. The 168 PQs were asked by 73 individually distinct MPs. This can skew the distribution of frequency, by over-emphasising the activity and characteristics of the more assiduous MPs, such as Robert Cryer and Michael Grylls, both of whom appear in Table 7.4.1. The second shortcoming, more evident, is that these PQs were asked during a time of crisis, which can also skew the distribution of PQs by under-emphasising constituency service (since it is a national emergency that concerns most actors involved). For this reason, I re-run the data in Table 7.4.3 in two ways: first by only considering individually distinct MPs;[25] and secondly by analysing a decade of relative 'quiet' for the industry (1990-2000), which returns 33 different PQs.

The results are presented in Table 7.4.4, where the first column of results reproduces those in Table 7.4.1 for easier comparison. Most of the results hold, and are even reinforced. In both cases opposition MPs table questions more frequently than those belonging to the governing party. This is much more frequent during the 1990s (81.8%), which suggests that in times of crisis MPs tend to table questions more as a check on the government, regardless of party affiliation. Likewise, there is not a huge difference in the three different analyses over whether MPs ask questions about plants sited in their own or in nearby constituencies. The majority of MPs, indeed, still do not table constituency-related PQs, nor are they more likely to be new MPs that can use PQs on constituency service to bolster their position within Westminster. Both findings in particular seem to point to Margett's (2011) own results about the rather poor ability of the British electoral system to be conducive to the cultivation of a personal vote.

Three other findings, however, hint at a very different picture. First, in all three cases Tory MPs are found to be tabling PQs more frequently, despite the Conservatives being in government for a much longer time during these periods. Secondly, as the first two result columns show, MPs ask questions more frequently when there is a crisis. Finally, historic brands like British Leyland and Jaguar are often the subject of PQs. While it may seem normal that many MPs would ask about British Leyland during the 1970s crisis and subsequent nationalisation, as the biggest car manufacturer in the country, it is puzzling that almost one in five questions in the 1990s concerned Jaguar, a historic yet rather

[25] This strategy, of course, also has clear pitfalls, such as the possibility for MPs to (a) change constituency; (b) table PQs on several different matters relating, for example, to different car makers; (c) to switch parties; and (d) to be either in government or at the opposition at different times in the sample timeframe considered here. Luckily, most of these issues do not arise, with the government/opposition change seemingly the only relevant one, thus increasing the confidence in this approach.

Table 7.4.4: Parliamentary questions about the British automotive industry by MP and by time period

		Questions in 1974-1988	*Questions by MP (1974-1988)*	*Questions in 1990-2000*
Questioner	Government	68 (*40.5%*)	35 (*47.9%*)	6 (*18.2%*)
	Opposition	100 (*59.5%*)	38 (*52.1%*)	27 (*81.8%*)
Jurisdiction	PQ about plant in own constituency	21 (*12.5%*)	13 (*17.8%*)	7 (*21.2%*)
	PQ about plant nearby own constituency	48 (*28.6%*)	29 (*39.7%*)	10 (*30.3%*)
	PQ not about plant in nor nearby own constituency	120 (*71.4%*)	44 (*60.3%*)	23 (*69.7%*)
Party Membership	Labour	71 (*42.2%*)	33 (*45.2%*)	9 (*27.3%*)
	Conservative	91 (*54.2%*)	35 (*47.9%*)	22 (*66.7%*)
Incumbency status	Incumbent	105 (*62.5%*)	38 (*52.1%*)	28 (*84.8%*)
	New MP	63 (*37.5%*)	35 (47.9%)	5 (*15.2%*)
Decade	1970s	113 (*67.3%*)	44 (*60.3%*)	
	1980s	55 (*32.7%*)	29 (*39.7%*)	
Car manufacturer	British Leyland	83 (*49.4%*)	36 (*49.3%*)	17 as Rover or BMW/Rover (*51.5%*)
				6 as Jaguar (*18.2%*)
	De Lorean	30 (*17.9%*)	8 (*11%*)	
	Chrysler	15 (*8.9%*)	6 (*8.2%*)	
	Others	40 (*23.8%*)	23 (*31.5%*)	10 (*30.3%*)

Source: author's own elaboration from Hansard data; House of Commons Library (2019).

minor brand.[26] Since 1984, when Jaguar was publicly floated, and as Table 7.5.1 shows, the company received some £124.6m in state aid, more than any other manufacturer with the exception of Rover. What prompts governments and MPs to take such a keen interest in this brand?

Of the six cases where the subject of PQs was Jaguar, five were asked by MPs from the West Midlands, where much of the Jaguar production takes place, so one would be inclined to suggest that some constituency service is at play. Yet, this does not help by itself explain the large amount of aid Jaguar received. One possibility is the never-ending quest for a national champion Britain set out for itself. The attempts by British governments between the 1960s and the 1970s to make of Leyland a deign competitor on the European stage that could measure up to the likes of Fiat, Volkswagen and Renault, seems to have been passed onto Jaguar. Although at the time a subsidiary of the American giant Ford, Jaguar still represented quintessential Britishness on the world stage, which spurred a symbiotic relationship between the state and the firm. This goes to show that in today's globalised world, economic performance is not the be-all and end-all in state-business relations. Jaguar, in virtue of its very limited market share, could not become a national champion able to compete on the world stage. Yet, the possibility to support and showcase this brilliant piece of engineering to the world was a source of pride for Britain, which both government representatives and MPs took to heart.

This is reflected in the House debates that took place after Jaguar was privatised in 1984, and particularly as it began to enter financial straits as an independent company, which would require government assistance. For instance, in an October 1989 debate, just a month before Ford finalised the Jaguar purchase, Dudley Smith, MP for Warwick and Leamington asked the Secretary of State for Trade and Industry, Mr Ridley,

> Sir Dudley Smith (Warwick and Leamington): As one who has a fair number of Jaguar workers in his constituency, may I welcome my right hon. Friend's statement? However, although the company needs extra finance—and this is a realistic approach—will my right hon. Friend always bear in mind the need to *maintain the integrity of a major name in the British car industry*?
>
> Mr. Ridley: I very much agree with what my hon. Friend says. The statement will clear the way for the management to advise its shareholders on the *best long-term future for the continued expansion and prosperity of this excellent company* (Hansard, 1989: Col. 179, my emphasis)

Likewise, Anthony Beaumont-Dark, MP for Birmingam Selly Oak emphasised the importance of the name, once again in agreement with Secretary Ridley,

[26] By 2018, the Jaguar-Land Rover group only had a market share of 1.5% in Europe, and 1.25% in the United Kingdom by 2020. See `https://ccfa.fr/wp-content/uploads/2019/09/ccfa-2019-en-web-v2.pdf` and `https://www.am-online.com/data/manufacturer-insight`.

> Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend accept that most of us realise that Jaguar need many hundreds of millions of pounds for the next generation of cars? *Does he accept also that Jaguar is one of those names that is tremendously important to the United Kingdom, as Rolls-Royce was, which had to be helped at one time?* Will he assure the House that, when a bid is made, which seems highly likely, by one of three people, he will consider when he calls it in what is for the long-term benefit of manufacturing capacity and not only investment in this country?
>
> Mr. Ridley: I am grateful for what my hon. Friend says, but I do not think that I am in a position to call in any bid, let alone all the bids. It will be for the majority of shareholders—75 per cent.—to make any final decision. However, I assure my hon. Friend that *I agree entirely with what he said about the importance of the Jaguar badge.* Anybody who seeks to buy or to make a partnership with that company will want to preserve that unique asset and to make the most of it and its reputation as a major [M]idlands engineering company (Hansard, 1989: Col. 182, my emphasis)

An alternative reading, based on the power of capital mobility, is provided by Thomas (1997). He contends that the reason why Jaguar was able to extract so many concessions from the British government came down to its ownership by the American giant Ford. Ford, he recounts, had strong leverage in its intercontinental capital mobility. It thus credibly threatened the British government to move production for the Jaguar X200 to the United States unless Britain allocated a substantial amount of aid to the project. Although certainly a powerful explanation, two addenda need be mentioned. First, and as Thomas (1997) also recognises, the explanatory leverage of capital mobility is strongly restricted as state aid control has become more institutionalised. Secondly, this mechanism based on threats does not exclude that a parallel one, based on MPs' efforts also takes place. The following section explores this possibility more in depth.[27]

7.4.3 Taking stock of electoral politics in the British automotive industry

Many Members of the Parliament spend a large portion of their time performing services for their constituents (King & Sloman, 1973). Previous studies showed that the incumbency advantage for MPs was small or even insignificant (Cain et al., 1987; 1984; Gaines, 1998). Likewise, the analysis in this chapter echoes more recent findings by Margetts (2011) and Martin (2011b) that constituency service as a personal vote-earning strategy is possibly over-stated and that the British electoral system does a poor job at promoting personal reputation. Interestingly, this seemed to be already recognised by MPs some fifty years ago. MPs from both sides of the aisle said that constituency work – in their case holding surgeries[28] rather than table PQs – helped them win 'at most, hundreds' if any votes (King &

[27] Further, Thomas's argument implies that the leverage comes not from Jaguar itself, but from Ford. It remains to be seen whether current Jaguar owners, the Indian company Tata, hold the same leverage in terms of capital mobility as Ford did.

[28] Surgeries are meetings between the MP and constituents where the latter have the opportunity to raise problems and issue complaints in person (Norton, 1994).

Sloman, 1973: 13-4). Cain et al. (1987: 82), instead, paint a slightly more optimist picture. In a series of interviews conducted at the end of the 1970s, they find that many MPs did believe that their efforts produce a personal vote that could help them in their re-election efforts, usually in the high-hundreds or sometimes low-thousands. These amounts could be crucial in marginal districts, where such figures could represent as much as 5% of the total constituency votes.

Thus, although scholars and MPs alike recognised the importance of PQs and constituency service to get governments to act, the analysis reveals a situation that is less crispy than theory would expect. Two points are noteworthy. Firstly, it is difficult to discern, from the way PQs are posed, which function exactly they are absolving. In many cases more than one function is present, and in order to ascertain whether MPs table a question to bolster their personal vote, it is important to also have information about the MP herself and the context of the PQ. Consider the following two PQs about Jaguar and Rover, respectively. The first was asked in July 1995 by Iain Mills, a Conservative MP for Meriden, in the West Midlands. It runs as follows:

> To ask the President of the Board of Trade what progress has been made in establishing support for the location of Jaguar's new model investment in the [West M]idlands; and [if] he will make a statement

The other was asked in May 2000 by John Redwood, a Conservative MP for Wokingham, in Berkshire, South-East England. It runs as follows:

> To ask the Secretary of State for Trade and Industry whether the Regional Selective Assistance originally proposed for BMW/Rover will be available for new projects in the West Midlands to replace Longbridge employment

In both cases, the two MPs are tabling their questions with the clear goal of acquiring information. Mills wanted to know more about the progress that had been made in supporting Jaguar's investment in the West Midlands. Redwood, instead whether regional assistance in the same area would be available to manufacturers other than BMW/Rover. However, while Meriden is situated between Birmingham and Coventry, two major car manufacturing centres, Wokingham is far detached from this industrial reality.[29] Mills, thus, had reason to use the PQ to show concern for the interests of his constituents, many of whom were likely to work at nearby assembly plants.[30] Yet, this concern was extraneous to Redwood. However, things become clear when one looks at Redwood's political career. Not long before the question was asked, Redwood was Shadow Secretary of State for Trade and Industry. Thus, a more

[29] Curiously, one of the main industries in Wokingham is brick-making.
[30] Meriden itself has for a long time been associated with the production of Triumph motorcycles.

likely explanation may point to the use of this PQ as a request of explanation from the government. This may also explain why he was among the most active questioners during this period.

A similar reasoning can be applied to Sir Michael Grylls, MP for North West Surrey, and Robert Cryer, MP for Keighley. In the analysis in Table 7.4.3, 28 of the PQs between 1974 and 1988 came from Grylls and 16 from Cryer. Although neither represented a constituency with a car manufacturing centre, both were somewhat involved in the activity. Grylls, for sixteen years, chaired the Tory MP's Trade and Industry committee, whereas Cryer was Parliamentary Undersecretary at the Department of Industry and was described as 'a minister who cared about issues and the workforces in other members' constituencies' (The Guardian, 2001; The Independent, 1994). Thus, though ideologically opposed (Grylls championed deregulation whereas Cryer was a committed socialist), both MPs found common ground in their PQ activity, which was not aimed necessarily at constituency service, but as a means to acquire information, push for (or prevent) government action and show solidarity with other constituencies in times of crisis. Further, these small bits of evidence seem to point to the 'functional' – as opposed to 'territorial' – concern of MPs: industrial policy is not meant to advance particularistic local interests, but rather should be aimed at involving interest groups to shape economic policy-making.

However, the characteristics of the individual MP must be complemented by the context in which the PQs were tabled. For instance, Mills asked his question relative to the production of the Jaguar's new (at the time) X200 saloon car being built in the West Midlands. Mr Eggar, from the Department of Trade and Industry (DTI), replied by saying that the Department, 'in association with English Partnerships and local agencies [was] ... putting together a substantial package of support, including site improvements and training.' Less than a year later, in March 1996, the government approved a £45.8mn aid measure to Jaguar for an overall investment of £366mn for the production of the X200 saloon car in Castle Bromwich, near Birmingham (see Table 7.5.1).

Redwood's question was tabled in the context of the Rover Task Force set up two months earlier, when BMW announced its plan to sell the Rover Group, then acquired by the Phoenix Consortium in May 2000. Redwood's focus on Longbridge employment, therefore mirrors the situation in the 1970s, when MPs would be concerned about the state of the industry as a whole. Indeed, Redwood had little reason to support employment in a constituency far away, were it not for Rover still being the major remnant of British car manufacturing, and the situation of crisis it was traversing at the time. Stephen Byers, then Secretary of State for Trade and Industry, replied that the £129mn grant originally offered to BMW would remain available, and that the continued 'volume car production at Longbridge was good news for the whole of the West Midlands' (BBC, 2000).

These examples thus show the difficulty of properly capturing the logic of constituency service through PQs and that several different mechanisms may be at play, even if the question seems to target a firm located in a particular constituency. Still, the context in which PQs were tabled can provide useful clues as to the presence of parallel intra-legislative mechanisms. Thus, for example, Thomas (1997) forcefully argues how Ford's capital mobility leverage was the main factor that explains how so much aid was extracted from the British government for the Castle Bromwich plant to produce the Jaguar X200 saloon. However, if we look at Mills's parliamentary activity, this includes support for an October 1994 early day motion (EDM), co-sponsored or co-signed by other 57 MPs, mostly Labour (though Mills, as is remembered, was a Conservative), in which MPs urged the government to

> give every assistance to the company to help ensure that the planned X200 small car is made in the West Midlands to help create up to 10,000 new jobs in the region's vital manufacturing sector; and welcome[d] the boost this would give to hundreds of local component suppliers who have helped Jaguar's success (UK Parliament Early Day Motions, 1994)

EDMs have as main goal that of drawing attention to particular subject of interest. The EDM Mills supported attracted a considerable amount of signatures, given that only a hundred or so EDMs have ever gained more than 80 signatures, with the majority only receiving a couple. Though only in very few selected instances do EDMs spur government action, the constant activity Mills and his colleagues displayed during this time cannot discount the possibility that it played a role in government policy. Hence, while no direct link can be established, and despite the threats coming in from Ford, it could also be argued that, as Willey and Huckfield suggested in their interviews with Anthony King, parliamentary activity could have spurred the government to take action (see King & Sloman, 1973).

In a comparative perspective, constituency-focused PQs in Britain seem much less common than in Italy, especially when considering the PR system Italy adopted after 2006. This can be explained in two ways. First, the aforementioned selection mechanism for British MPs. Candidates have to go through re-selection procedures led by Party committees, meaning that they effectively have two 'masters' to appease: the voters and the party leadership. In the Italian case, Marangoni and Russo (2018) argue that non-legislative activity through PQs as a means to get re-selected is conditional on the effect of 'personalism' of each electoral district. In some district, it is more common for voters to express preferences at the open-list regional elections, and they suggest that this behaviour translates even at the closed-list national election. This explains how even a closed-list PR system can incentivise, under some circumstances, the use of PQs as a means to increase one's own personal reputation. Thus, paradoxically, Italian MPs have more leeway in using PQs for constituency service, so long as party leadership believes that this activity benefits the party itself. This should therefore push future studies to more clearly distinguish between the formal rules of the electoral institutions and the effective ability to deliver personal votes, even under different electoral rules.

Secondly, as will be suggested further below, the linkage between the typology of policy network and electoral politics seems to influence MPs' legislative behaviour with regard to constituency service. The fact that representation was 'functional' more than 'territorial' is also reflected in the set-up of the main sectoral interest group, the SMMT. Unlike ANFIA in Italy – and as we will see, the CCFA in France – the SMMT does not privilege any particular domestic producer, but is instead open to all manufacturers and suppliers in the industry, regardless of their country of origin. Thus, the way the SMMT is involved in industrial policy in the UK is aimed at shaping economic policy-making for its members more than favouring selected territorially localised producers.

In sum, while more systematic research is required to properly assess the effect of electoral institutions on MPs' parliamentary behaviour in their efforts to engage in constituency service, this analysis provides a comparative snapshot of state aid electoral politics in the automotive industry. Combined with the analysis of state-business relations, it offers some useful insight in the different ways and reasons governments and legislators alike may want to push for support for producers in this sector.

7.5 Conclusion

The first part of the chapter showed how state-business relations in the British automotive industry have been rather fraught and characterised by internal contradictions. The liberal spirit of the British entrepreneur clashed with the repeated attempts by the British government to become involved in the industry to steer it in order to achieve economy-wide objectives. Another characteristic of the industry which shaped its state-business relations was the high level of internationalisation, compared to Italy. While Italy had virtually no foreign presence in the industry, Britain's has become one without native makers.

This dramatically impacted subsidy spending in the British automotive industry in three ways. First, no real parentela relationship was possible, particularly in light of the continuous alternation in government between Labour and the Conservatives, which prevented long-lasting privileged links with one of the two main parties. This contrasts with the Italian First Republic (1948-1993), where the DC was by far the most dominant party and participated in all government coalitions. Further, even after BLMC became nationalised, the NEB, which managed the new company, retained a degree of independence that Alfa Romeo managers could not afford in the 'party state' environment of Italian politics.

The second implication of the structure of British state-business relations on subsidy spending was that British governments had to maintain the semblance of impartiality. With the industry strongly relying on FDI, particularly from America and Japan, government officials did not want to show excessive bias towards the originally native manufacturers, particularly Leyland. Thus, even though the 1970s were dominated by the collapse of BLMC, both Labour and Conservative governments have also substantially aided foreign makers in times of crisis, such as Chrysler and DeLorean. This, as was found, was the result of politically expediency and institutional constraints, which did not allow for quick reversals of policy.

Finally, the reactive policy style that ensued from these internal contradictions meant that several other paths of state-business relations were precluded to Britain. Internationalisation of the industry, for instance, did not allow for the typical clientelist network present in Italy. Foreign and native firms had contrasting interests that could not be mediated properly by the SMMT, which lacked in terms of both leverage and enforcement. Only after the crisis, has a path towards concertation begun to arise, with the BEIS White Paper on industrial strategy. Yet, important exogenous challenges facing the British economy at the time may jeopardise the ability of the British state to engender a new, symbiotic and promising partnership with business in the automotive industry.

Still, an important shortcoming that remains in the analysis is the inability of the policy network approach itself to explain change. In all cases, shifts in state-business relations were due to external macro-factors. The rationalisation of the sector and the regional subsidies to car manufacturers that started in the 1960s were subservient to the government's macro-economic policy-making goals. In the 1970s, it was an economic crisis that not only stalled attempts towards a more state-led industry, but also forced the government to engage in reactive policy-making. In the 1980s, subsidisation was subservient to new key words of government policy: privatisation and foreign investment, though policy stickiness meant that it took almost one full term for the Thatcher government to enact the new policy programmes. Finally, the shift towards concertation had the 2008 economic crisis as catalyst. By the advent of the crisis, policy was still very much decentralised and the pre-conditions for such a shift were simply not present: an external shock was necessary to engender them.

Yet, at the same time, the diachronical analysis of state-business relations through the lens of the policy network approach also provided insights that macro-level analyses could not. If one were to assume that the British political economy in the automotive industry was representative of the typical characterisation of the UK as a liberal market economy, such insights would not have been possible. Neither the heavy state intervention in the 1970s nor the path towards concertation are contemplated in a liberal market economy. Hence, the analysis shows why the policy network approach, while possibly limited in its structure, can complement institutional explanations at the macro-level.

The second part of the chapter, instead, provided further evidence in support of the last two decades of scholarship on British electoral politics. In the automotive industry, too, MPs are not particularly attentive to constituency service, possibly because they do not see electoral incentives in the current institutional set-up. The analysis showed that elements typically associated with increased constituency service, such as representing a car-manufacturing district or being at the beginning of their parliamentary career, are not particularly predictive of constituency service. Rather, MPs were more likely to table parliamentary questions about this industry in times of crisis or because they had vested interests in it, such as being part of Trade and Industry committees, either in government or while at the opposition banks.

Further, the analysis of PQs shows a markedly stark contrast with the Italian situation. Regardless of the presence or absence of sectoral crises, Italian MPs were more likely to engage in constituency service despite having an electoral system that, at least on paper, should not be as conducive to the garnering of a personal vote by individual legislators. This, too, suggests an intrinsic linkage between electoral rules and the typology of policy network. Would British MPs be more incentivised to become 'local promoters' if the system of interest intermediation in the industry had been more clientelistic in nature? While it is impossible to answer such a counterfactual given the limited variation in both electoral systems and policy networks in the UK, comparison with the Italian case seems to show that it would not be too far fetched to so suggest.

To be sure, this chapter, too, contains several limitations. One should be wary of generalising the results beyond the automotive industry, which is dominated by few big firms. Yet, the fact that PQs presented patterns about constituency service in line with past studies with a broader scope is certainly a good sign for future research on state aid and electoral politics. Further, some of the evidence presented is certainly circumstantial and establishing a direct causal linkage would be misleading. Nonetheless, such evidence, though strongly descriptive in nature, remains useful to understand the behaviour of legislators in state aid politics. A purely quantitative analysis would not have easily captured the internal contradictions of the British industry or the parliamentary activity of MPs to raise awareness and push the government to action, despite the electoral system's lack of incentives for vote cultivation. Finally, and perhaps most importantly, some of the data presented here is most likely incomplete. Transparency in state aid has for a long time been a minor issue for both business and bureaucrats. Some of the aid measures taken in the 1960s and 1970s are bound to be missing and the way subsidies are calculated can easily generate confusion – take for instance the different amounts to which several scholars have come to when trying to tally the aid given to Leyland between the mid-1970s and the early 1980s.

In our way forward, three lessons can and should be learned from this chapter. First, state-business relations should better implement an element of internationalisation. Thomas's (1997) work on the power of capital mobility is a good direction, though his study focuses more on how multinational firms bargain with domestic governments. Rather, as more recent scholarship (Coen et al., 2010; Crouch, 2010; Woll, 2019) showed, it is also important to understand the domestic governments' point of view. Under which conditions are they willing to subsidise foreign producers on domestic soil? How differently do native and foreign firms lobby national governments for subsidies? And how successful are they? The second lesson from this study is that those factors that, for a long time have been understood as being critical determinants to an MP's constituency work, do not seem to be playing an important role when we analyse PQs. A more sweeping study of PQs, following the recent agenda set by Martin (2011b) could provide further insights that could also better link the presence of big firms on domestic soil and the parliamentary activity of MPs *vis-à-vis* these double-edged swords. Will MPs denounce the privileged relationship they enjoy, or will they be accommodating in order to maintain high employment rates in their constituencies? Finally, and perhaps most importantly, it is worth reminding the reader that the two mechanisms of responsiveness and accountability are two faces of the same coin. Electoral rules and policy networks can reinforce each other and generate new insights about constituency service, allocation responsiveness and distributive politics.

Table 7.5.1: Aid to the British automotive industry, 1960s-2010s

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
March 1967	Rootes Motor		£20mn	£150,000 unsecured loan stock & 7,561,140 7% cumulative preferred ordinary shares of 4s	Industrial Reorganisation Corporation Act of 1966	Reconstruction of the financial structure of Rootes Motor	As of March 1968: Paid £1,662,228 and committed £1,350,000. The government was later released from this commitment in March 1969
01/08/1968	British Leyland Motor Corporation (BLMC)			£15mn subordinated loan capital for a period up to 7 years	Industrial Reorganisation Corporation Act of 1966	Rationalisation programme following the merger between BMH and LMC	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
01/04/1969	BLMC			£10mn subordinated loan capital for a period up to 7 years	Industrial Reorganisation Corporation Act of 1966	Rationalisation programme following the merger between BMH and LMC	
1972	Ford UK	Bridgend	£180mn	£148mn	1972 Industry Act	Construction of plant at Bridgend	£75mn in interest relief grant and £73mn under the regional development programme

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
18/12/1974	British Leyland (BL)			£50mn guarantee	Section 8 of 1972 Industry Act		The guarantee was conditional on allowing the government to conduct a detailed report on the company (Ryder Report)
April 1975	BL			£65mn equity and rights issue of a further £200mn	British Leyland Act of 1975		

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
January 1976	Chrysler UK			Up to £162.5mn between 1976 and 1980			£55mn loan (£28mn guaranteed loan and £27mn secured loan); £35mn guarantee; £72.5mn in grants for losses. This figure is based on pessimistic assumptions, and the effective aid was likely lower (around £82mn)
April 1978	BL			£450mn equity			

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
October 1978	BL			£150mn loans converted into equity			
November 1978	DeLorean	Dunmurry (Belfast)		£53mn	1972 Industry Act	Construction of plant at Dunmurry (Belfast)	£17.58mn equity capital investment from NIDA; £18.72mn grants from NIDOC; £6.72mn factory construction and employment grant; £9.75mn employment grants

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
December 1979	BL			£300mn			
August 1980	DeLorean	Dunmurry (Belfast)		£14mn		To cover for inflation and exchange rate fluctuations	
February 1981	DeLorean	Dunmurry (Belfast)		£10mn guarantee on bank loans			
May 1981	DeLorean	Dunmurry (Belfast)		£7mn		Riot damage	
1981-83	BL			£990mn			£620mn in 1981-82; £270mn in 1982-83; £100mn in 1983-84

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1983	BL			£100mn equity			By the end of 1983, out of £1090mn in state assistance since 1981, BL had used £980mn
1984	Nissan	Tyne and Wear	£350mn	£112mn		Greenfield investment	£35mn selective financial assistance; £45mn in regional aid; about £40mn under other schemes

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1986	Ford UK	Bridgend and Swansea; Belfast	£725mn	£33mn			£26mn in regional aid from the Welsh Office and £7mn for the Belfast component

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
July 1988	Rover Group			£547mn			£469mn in capital injection and £78mn in regional aid. The amount was decreased after a Commission investigation from £801mn. In 1993 the Commission ruled that £44.4mn was illegal and therefore to be refunded.

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1991	Toyota	Burnaston		£4.2mn land purchased at lower market value			Illegal aid. It's calculated as the difference between the appraisal of the land Toyota wanted to buy from Derbyshire County Council (£22.5mn) and how much Toyota paid (£18.3mn).
1993	Leyland-DAF Vans (LDV)	Birmingham	£26.1mn	£6.4mn regional aid		Regional Selective Assistance	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1994-1997	Jaguar	West Midlands (Birmingham, Coventry and Liverpool)	£187mn	£9.4mn grant		Regional Selective Assistance	
March 1996	Jaguar	Birmingham	£366mn	£45.8mn		Regional development, environmental protection, and training	£40mn for regional development; £1.5mn in environmental protection; £4.3mn in training
1996-2000	Ford UK	Bridgend	£278.5mn	£10mn grant		Regional Selective Assistance	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1997-2000	Vauxhall	Ellesmere Port		£12mn		Regional Selective Assistance; employment safeguard	£11mn regional aid and £1mn training aid
December 1997	Rover/BMW	Hams Hall	£422mn	£37.75mn		Regional development	£22.5mn regional aid; £11mn training aid; £4.25mn for site development
July 1998	LDV	Birmingham	£152mn	£25mn		Regional development	
July 1998	Jaguar	Halewood	£400mn	£43mn	Section 7 of 1982 Industrial Act	Regional development and training	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1999-2005	Rover/BMW	Longbridge	£702mn	£11mn training aid		Regional development and training	£141mn in regional development were further subject of investigation by the Commission, but the notification of aid was withdraw, as BMW sold Rover in 2000.

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2000-2002	Nissan	Sunderland	£216mn	£5mn	Section 7 of 1982 Industrial Act	Regional development and production of new Nissan Primera	
2000-2005	MG Rover	Longbridge		£9mn training aid	Sections 3, 4 and 5 of the 2000 Learning and Skills Act	Training aid in the motor vehicle sector	
2001-2005	Nissan	Sunderland	£308.9mn	£40mn	1982 Industrial Act	Regional development and production of new Nissan Micra	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
February 2002	Ford	Bridgend		£17.4mn	Section 7 of 1982 Industrial Act and Section 40 of 1998 Government of Wales Act		The Commission investigated the aid and the notification was eventually withdrawn
September 2002	Vauxhall	Ellesmere Port	£156.2mn	£9.85mn	1982 Industrial Act	Regional development	
March 2005	Ford	Dagenham		£10mn	Section 4 of Regional Development Act of 1998	Regional development	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2005-2010	PSA	Ryton	£187.76mn	£19.1mn	Section 7 of 1982 Industrial Act	Regional development	
June 2005	MG Rover			£6.5mn loan	Section 7 of 1982 Industrial Act	Rescue aid	
July 2005	LDV	Birmingham		£5mn guarantee	Section 7 of 1982 Industrial Act	Rescue aid	
2005-2006	Ex-group Rover	West Midlands		£3.6mn	Section 2 of 1973 Employment Act	Training aid	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
April 2008	Vauxhall	Ellesmere Port		£8.7mn	Article 5 of Training Aid Regulation	Training aid	
2008-2010	Toyota	Derbyshire County (East Midlands)		£0.05mn	Limited Company	Specific training	
2011-2018	Jaguar	Halewood	£208.4m	£26.37mn	Section 7 of 1982 Industrial Act	Regional development	

Sources: Bhaskar (1984), Thomas (1997), Wilks (1988), Wren (1996a, 1996b), British Parliamentary Papers, various Annual Reports on Competition Policy, state aid register.

Chapter 8

State aid politics in the French automotive industry: where the state reigns but does not govern

8.1 Introduction

'The state is everywhere: nothing is possible without the state' (cited in Zysman, 1983: 122). This statement from a ranking Paribas official neatly summarises French state-business relations, including those in the MVI. Even though firms in the automotive industry were allowed a high degree of independence, the state still actively intervened to achieve its goals: protecting domestic producers from foreign interference and nurturing national champions.

The French MVI of the past 45 years has been characterised by the presence of two major firms with similar production capacity and market shares, Renault and PSA (Peugeot and Citroën). Much of the sector, including the suppliers, revolves around the support of these two manufacturers, with the former, particularly smaller ones, being subordinate to the latter. For a long time the state has attempted to preserve the standing of these two producers by limiting entry into the French market of foreign competitors. This approach continued even after the establishment of the Single Market, though in a less drastic manner. As will be remarked further below, recent initiatives in the automotive industry, such as the environmentally innovative 'Vehicles of Tomorrow' project still contain protectionist undertones. Thus, aid in the sector has been strongly skewed towards supporting domestic producers, with foreign makers remaining mostly an after-thought to French policy-makers.

In the same way, French MPs have been characterised by a tension between the local and the national. The set up of the electoral system strongly incentivises the cultivation of a personal reputation. Unlike the similarly majoritarian British system, the French system has some peculiarities that make it far more conducive to constituency service. National concerns, instead, are the consequence of the Gaullist heritage of offensive protectionism and the necessity to nurture national champions. Thus, MPs were pushed on the one hand to promote local interests and on the other to ensure that domestic producers – whether the car manufacturers or the suppliers – were safeguarded against foreign competition.

France makes for an interesting case studies in three respects. First, it provides evidence as to the evolution of the interventionist state and its subsequent retreat in a sector where its role has strongly diminished. Secondly, it highlights the importance of micro-level variables in electoral politics. Finally, this case study shows why controlled comparisons are important for internal validity by unearthing differences and similarities with both the Italian and British cases.

The chapter is structured as follows. Section 2 provides an overview of the MVI in France. Section 3 analyses government responsiveness to the sector. A historical account will show that, due to the weakness of interest groups, the state was able to create interlocking relationships with the firms in the automotive sector. Part of this section will also be dedicated to briefly explore the intricate system of state support tools at the disposal of businesses. Section 4 focuses on the electoral politics side of the story. As in the previous chapters, it will explore parliamentary questions that French MPs tabled to air constituency concerns and provide a check on the government. Finally, Section 5 summarises the findings and provides lessons to be learned from the chapter, both in substantive and methodological terms. The main insights from the chapter will come from the uniqueness of the French system, which makes for a difficult categorisation, though it also shows why this third chapter is necessary to properly compare the results with the previous two case studies and better generalise the findings.

8.2 The motor vehicle industry in France

While France is famous for its two main domestic manufacturers – Renault and PSA – these are not the only ones to be present in the territory. Alongside domestic producers, companies such as Toyota, Volvo, Volkswagen (through its trucks subsidiary Scania) and Mercedes make vehicles in France. Further, joint ventures between PSA and Fiat have been active for decades both in Italy

(Sevel) and France (Sevelnord, near Hordain, in the Northeast). This can be seen in Figure 8.2.1, which shows that domestic and foreign producers coexist, but also that production is far more diffuse than both Italy and Britain, though still most common in the Northern regions.

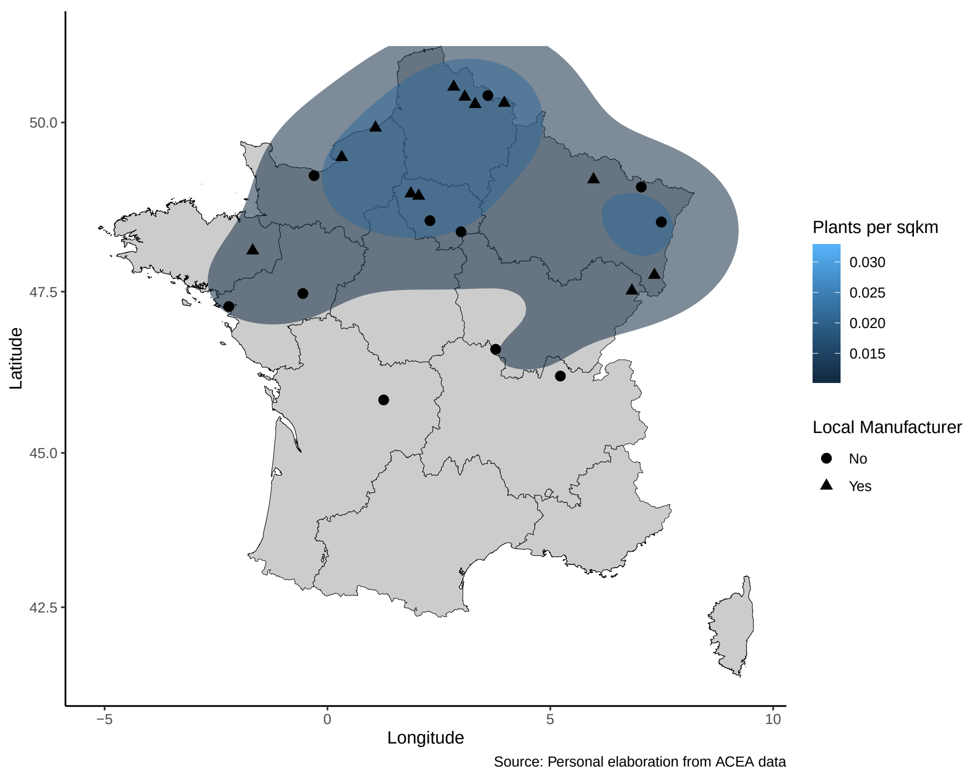

Figure 8.2.1: Density of automotive assembly plants in France, 2016

At least three major poles can be identified. The first, stretching from Paris to Normandy, includes some of the oldest and most iconic plants such as Flins and Poissy. The second and third poles, situated in the Hauts-de-France, near the Belgian border, and in the Grand-Est/France-Comté regions on the German border respectively, host a variety of both domestic and foreign producers, ranging from the historical (and France's biggest) PSA plant in Sochaux to the Mercedes plant in Hambach. Both poles aim to exploit the nearness of other European countries for export purposes. Finally, there also are two minor poles in the South-east region of Rhone-Alpes includes mostly industrial and heavy-load assembly plants, chiefly operated by Volvo, through its subsidiary Renault Trucks; and in the Loire (North-West), where truck companies are located.

The entry of foreign manufacturers in France is also relatively recent, starting in the early 1990s with the Scania plant in Angers (Loire). It was followed in the mid-1990s by the 'Smartville' project near Hambach (Grand Est) spearheaded by Mercedes to build a micro compact car, now known as the successful Smart. In 1998, as the external restrictions against Japanese manufacturers were being loosened, Toyota set up a plant near Valenciennes (Hauts-de-France) to build the Yaris, starting in 2001. Finally, Volvo entered the French production market in a rather fraught way: after a failed merger with Renault between 1990 and 1994, Volvo acquired Renault Industrial Vehicles (promptly renamed Renault Trucks) in 2001 for €1.8bn and is today concentrated in the Rhone-Alpes region, near Lyon.[1]

However, for a long time, the sector was distrustful of foreigners and almost completely in the hands of French families (Peugeot, Citroën, Michelin, Berliet, Panhard, and before 1945, Renault), which were relatively free of government interference before the Second World War.[2] After that, government intervention became a far more concrete reality, following the *dirigiste* tradition of post-war France. However, besides the nationalisation of Renault (see further below), the government did not take over any firms, nor did it allocate generous subsidies to the industry, as in Italy. Rather, not too dissimilar from what happened in post-war Britain, the French government was engaged in an important process of rationalisation of the industry, which at the time counted around 22 car and 28 truck manufacturers, based on the so-called Pons Plan (Loubet, 1990).

The main difference with the British rationalisation is the guiding hand of the French state in the process of aggroupment. Not only did the Pons Plan decide which manufacturers would be associated with which ones, but it also established which different manufacturers would focus on which segments (in terms of tonnage and horsepower) in order to avoid competition between brands (Loubet, 1990). Thus, for instance, Peugeot was associated with truck manufacturers Saurer, Hotchkiss and Latil, whereas

[1] Deal no. 61243 on the Zephyr database.

[2] Michelin became majority shareholder in Citroën in 1935, after the manufacturer almost disappeared following the crack of its main financing bank (see Loubet, 1990, 2015).

Berliet was associated with Rochet, Schneider and Isobloc.[3] Likewise, Peugeot had an important place among the 6/8CV vehicles, while the 11/15CV segment was reserved to Citroën.

Such state interference has continued throughout the following decades up to this day, although to a lesser degree. For what concerns M&A, Citroën, Peugeot and Renault were mostly free to pursue their own strategies, which involved a strong internationalisation during the 1970s and 1980s. Few of them ended well. Citroën took over Panhard and Berliet in 1967, but had to sell the latter to Renault when Peugeot acquired Citroën between 1974 and 1976, creating Peugeot Société Anonyme (PSA). Citroën also had a brief co-operation agreement with Fiat between the late 1960s and early 1970s, which was however redimensioned to a mere joint venture for vans, known as Sevel in Italy and Sevelnord in France (Financial Times, 1973a). Peugeot and Renault embarked in an impossible expansion in the American market. The former bought the ailing Chrysler Europe in 1978, whereas the latter took over the fourth US manufacturer, American Motor Corporation (AMC), in the same year (Loubet, 2001). Both French makers, however, had to divest their shares in the American firms by the early 1980s, not before sinking hundreds of million of dollars in helping in their restructuring (115 million dollars for Renault and 100 million for Peugeot, see Loubet, 2009), followed by restructuring problems of their own in the 1980s (see Hancké, 2002; Marklew, 1995; Smith, 1998).

More recent M&A deals have found better success for both PSA and Renault. The former acquired Opel in 2017 and is now committed to a merger with FCA, whereas the latter engaged in a series of deals with Eastern countries, that saw the ex-Régie becoming minority shareholder in Nissan to the tune of 44%, and majority shareholder in Samsung Motors, Dacia and AvtoVaz (see Chapter 4). Still, the state did not always stand back to watch. For instance, in 1968 it vetoed a merger between Fiat and Citroën, fearing that the deal would condemn Citroën to an inferior position, before green-lighting a simpler co-operation agreement (Financial Times, 1968).[4] A similar situation arose, coincidentally again with Fiat, in 2019, when FCA was forced to back out of the merger with Renault following a statement from the French government over the lack of ideal 'political conditions' (Le Monde, 2019). Table 8.2.1 below summarises the deals involving the French MVI.

[3] I use 'associated' rather than 'merged' because each manufacturer maintained a degree of independence and the groupings did not imply any cross-shareholding between the firms.

[4] Ironically, Swedish manufacturer Volvo adduced a similar reason when they backed out of the merger with Renault in 1993, since they feared government interference in future affairs (Schmidt, 1996: 192).

Table 8.2.1: Main deals involving the French MVI

Year	Type of Deal	Acquirer	Target	Notes
1935	Acquisition	Michelin	Citroën	Following liquidation of Citroën
1945	Nationalisation	French state	Renault	
1946	State-directed association	Peugeot	Saurer + Hotchkiss + Latil	
1946	State-directed association	Berliet	Rochet + Schneider + Isobloc	
1946	State-directed association	Simca	Delahaye + Unic + Bernard + Laffly	
1946	State-directed association	Panhard	Somua + Willème	
1958/1963/1971	Acquisition	Chrysler	Simca	15%/64%/71%
1967	Acquisition	Citroën	Panhard	
1967	Acquisition	Citroën	Berliet	
1968	Merger	Fiat	Citroën	Vetoed by the French government
1974-1976	Merger	Peugeot	Citroën	
1974	Acquisition	Renault	Berliet	
1978	Acquisition	Peugeot	Chrysler Europe	
1978	Acquisition	Renault	AMC	
1990	Merger	Renault	Volvo	Volvo backed out in 1993
1999	Cross-shareholding	Renault	Nissan	Renault 44% of Nissan; Nissan 15% of Renault
1999	Acquisition	Renault	Dacia	
2000	Acquisition	Renault	Samsung Motors	70% stake
2001	Acquisition	Volvo	RVI	Renault also acquired 20% stake in Volvo by 2001, later divested by 2012
2004	Acquisition	Renault	Revoz	
2008/2012/2016	Acquisition	Renault	AvtoVaz	25%/51%/100%
2013	Acquisition	French State and Dongfeng	PSA	Following rescue of PSA: 14% France, 14% Dongfeng, 14% Peugeot family
2017	Acquisition	PSA	Opel + Vauxhall	
2019	Merger	FCA	Renault	Vetoed by the French government
2021	Merger	FCA	PSA	

Note: excluded are joint ventures and other co-operation agreements. Source: Chari (2015); Financial Times (various issues); Loubet (1990, 2009).

Perhaps, the best known state intervention in the French automotive industry is the nationalisation of Renault in 1945, followed by its privatisation between 1990 and 1996, which made the state a minority shareholder, with a 15.01% stake today.[5] Neither the nationalisation of Renault nor its privatisation followed a path common to most other French companies. As Pierre Dreyfus, Renault CEO between 1955 and 1975, said in his memoires, Renault's nationalisation was unique, almost 'accidental' (quoted in Loubet, 1999: 427). While it is well known that the nationalisation of the firm was a way to punish its founder, Louis Renault, accused of collaboration with the Vichy regime, other car manufacturers at the time that were investigated for the same thing – namely Berliet and Simca – were excluded from this governmental takeover. As Loubet (1999: 427) writes, there are multiple reasons for this: personnel changes within key ministries, ownership issues which made nationalisations more difficult (such as foreign ownership for Simca), but most of it all, the state was unwilling to control a sector that did not provide a public service or where it could not enjoy a monopolistic position.

Further, Renault's nationalisation differed from the other post-war takeovers by the state (which included banks such as Crédit Lyonnais and Société Générale and public utilities like Électricité de France) in that De Gaulle's *ordonnance* no. 45-68 of 16 January 1945 dissolving the *Société Anonyme des usines Renault* and establishing the *Régie Nationale des usines Renault* (RNUR or simply Renault for short) provides Renault with an incredible level of autonomy compared to other public enterprises. Pierre Lefaucheux, head of Renault until 1955 said to the newspaper Le Monde that, while the state did indeed create Renault, 'it does not nourish [them] and [they] do not seek to live in its shadow. [They] consider state control to be the worst evil which could befall Renault' (cited in Schmidt, 1996: 258). In other words, though public, Renault was a free enterprise and its CEO was no more constrained by its statute than the CEO of a private firm – *l'État régnera chez Renault mais ne gouvernera pas* (Tacet & Zénoni, 1986: 19). Still, politicians were not completely absent *chez Renault* and used the company as a 'working laboratory' (*vitrine sociale*) for the government's social policies, such as extension of paid vacations, profit-sharing and other labour policy innovations which the rest of the industry then followed (Hancké, 2002: 90; Schmidt, 1996: 80).

Likewise, despite the wave of privatisations of 1986-1988 that helped France recoup almost FRF 71bn thanks to the sale of giant firms such as Société Générale, Saint-Gobain, Paribas and Suez among many others, Renault was not on the list (Schmidt, 1996: 157, 191).[6] Its privatisation occurred a few years later – less driven by the need to raise capital and more with complying with the Commission's guidelines on competition policy.[7] Thus, a common theme for Renault throughout its postwar life has

[5]The state participates through the *Agence des Participations de l'État* (APE), which is a special agency under the *tutelle* of the Ministry of Economy and Finance, which manages the state's holding in several firms, including Air France, Électricité de France, and the telecommunication giant Orange, among others. See `https://www.economie.gouv.fr/agence-participations-etat/notre-mission-statement`.

[6]As in the Italian case, it would be burdensome to correctly convert all the amounts expressed in Francs into euros. The reader, however, would do well to keep in mind that the fixed exchange rate was €1 = FRF 6.56.

[7]A clarification about this assertion is necessary. DG COMP does not concern itself with issues of privatisations and

been that of being an outlier – not only compared to its rivals in the industry, but also with firms (whether private or public) in other sectors. As it was for Fiat in Italy and General Motors in the US, in France, too, the dictum went, perhaps more colourfully, 'when Renault coughs, all of France catches a cold.'[8]

While the rationalisation process in Britain eventually faltered due to inward investment and the dismantling of BLMC, creating a fragmented sector anew, the French state managed to retain two major national champions in the industry. This was, for all intents and purposes the realisation of De Gaulle's economic policy of the protection of national interests (Schmidt, 1996: 53; Smith, 1998: 31). Yet, one should not think of this outcome as one single continuous thread. As we will see, state-business relations in France have had ebbs and flows, and the state has not always been consistent in its policy in the sector, and has instead suffered from short-sightedness.

Thus, in order to understand the development of the sector and state aid politics in the French MVI, it is paramount to address state-business relations and explicate the role of the state. The next section will start by showing how the bureaucracy, rather than interest groups, was the most important linkage between the government and the car manufacturers, especially thanks to the tradition of *pantouflage*.

8.3 Responsiveness: between statism and clientelism

8.3.1 The automotive industry, interest groups and the bureaucracy in France

According to Wilson (1987: 13-4), the emergence of interest groups in France has roots in two, almost diametrically opposed cultural traditions. First there is a Rousseauvian tradition that sees interest groups as hostile, narrow selfish forces that go against the general will and the national interest. The second philosophy stems from Alexis de Toqueville's observation of the defiant individualism of the French people, who refuse to be involved in policy determination in order to remain free from pressure, and would rather defer decisions to an 'aloof figure'. Yet, both, together, create a situation whereby the relationship between state and interest groups has always been ambiguous.

This ambiguity was perhaps best captured by Ezra Suleiman (1974) in his study of the French bureau-

is neutral on state ownership. The reason why the Commission pushed for a change in the legal status of the company, as we will see, is due to the huge capital grants that the French government was wasting to keep a dead-end company alive, thus distorting competition in the sector.

[8] *Quand Renault tousse, la France s'enrhume.* All verbatim quotes from French sources (i.e. official documents, French journalistic accounts, French articles and books) are automatically translated.

cracy. In interviews, civil servants distinguished between 'bad' interest groups, or 'lobbies' on the one hand, and 'good' professional organisations on the other (Suleiman, 1974: 338). The former is one that defends specific interests, such as the organisation of SMEs; the latter, instead, is one that defends 'not private interests, but a group interest,' such as the Chamber of Commerce or the Union of Textile Industries. This rather subjective distinction reveals however an important bias that the state has had in favour of strong, representative organisations. This bias seems to stem from the Gaullist preference for few, concentrated enterprises that can advance the national interest. Thus, the representativeness of interest groups is not an empirical reality as much as it is what *the state believes* to be representative of national interests. For instance, another Director told Suleiman that they privileged contacts with 'dynamic' groups' – that is, those whose economic strength cannot be ignored and whose legitimacy stems from the accord between their demands and government policy (Suleiman, 1974: 338-9).

Business is certainly a category of interest groups whose economic strength politicians cannot ignore. However, in France the relation between state and business, including the automotive industry, has been rather inconsistent for a variety of reasons. First, and at least until the early 1970s, the relationship between De Gaulle and employers' associations was rather cold. On the one hand, De Gaulle resented the fact that entrepreneurs did not help his quest to liberate France from the Nazis (the case of Louis Renault certainly comes to mind); on the other hand, employers were mistrustful of De Gaulle's *dirigisme*, and the state's overreach in economic affairs.

Secondly, even after De Gaulle quit the political scene, such mistrust continued to loom – though to a far lesser degree. One such example in the automotive industry comes from PSA. Citroën's *patron* Michelin asserted that 'one should never go intro a ministry nor let a ministry official cross the threshold of your factory' (cited in Wilson, 1987: 91). Likewise, Jacques Calvet, CEO of PSA in the 1980s and 1990s, said in an interview to Le Monde, that it would be 'dramatic for France to subordinate the industrial calendar to the political calendar' (Le Monde, 1985).

Thirdly, and most important, the structure of the employers' association in France is not particularly conducive to a coherent strategy from business. Both the old peak business association, the *Conseil National du Patronat Français* (CNPF) and its successor since 1998, the *Mouvement des Entreprises de France* (Medef) have been and still are relatively weak policy actors (Culpepper, 2006; Stevens, 2003; Wilson, 1987; Woll, 2009). Unlike the Italian Confindustria and the British Confederation of Industrials, the French peak association does not allow membership of individual firms, but only of trade associations, whether regional, intra-sectoral or inter-sectoral. Thus, Renault and PSA belong to the *Comité des Constructerus Français d'Automobiles* (CCFA),[9] but foreign producers and sellers belong to the *Chambre Syndicale Internationelle de l'Automobile et du Motocycle* (CSIAM). Each firm therefore often adheres first to a primary sectoral trade association, an inter-professional regional union and a local chamber of commerce, all of which are in turn members of professional syndicates or of chambers of larger inter-professional unions (Woll, 2006: 264). Hence, the CNPF/Medef has a federal structure which makes co-existence between big and small-medium enterprises and different regional and sectoral interests a difficult balancing exercise. Further, the legacy of statism, with its traditionally strong executive and autonomous bureaucracy, made it so that the influence of social partners (both trade unions and employers' associations) was diminished in that the state was still seen as the main actor responsible for pacing the agenda and directing reforms (Levy, 1999; Woll, 2009).

Fourthly, and as a consequence of this structural weakness, many firms – as in Italy and Britain – bypassed peak business associations and dealt directly with the civil servants, thus creating an 'old boys' network' (Wilson, 1983). This was particularly common in industrial matters, where trade associations were reluctant to concede negotiating power to the CNPF and the state itself found it more useful to deal directly with the firms (Hall, 1990a: 85). As Stephen Cohen and Charles Goldfinder wrote already in 1975, 'when you restructure an industry, you need only the managers of that industry, the state [...] and then you need merely the passive acquiescence of the trade unions. Nothing else, and crucially, no one else, is needed' (cited in Zysman, 1977: 198). Stephen (2000: 79) reiterates this point for the MVI, by noting that, while the CCFA indeed represented producers, both Renault and PSA dealt directly with the French government, which often tended to their interests.

Thus, what seems to matter the most in state-business relations is not so much the strength of a given business association, but rather inter-personal relations, which were mostly developed during the educational years.[10] High-level posts in ministries are often achieved based on the network that bureaucrats or businesspeople constructed since their formational years. Most of them pass through what are known as the *grandes écoles*, prestigious universities among which the most famous are the *École Nationale d'Administration* (ENA, founded in 1945) and the *Polytechnique* (also known as 'X', *dixième*).

Civil servants-to-be are then organised into small categories based on their educational qualifications,

[9] Previously known as the *Chambre syndicale du commerce de l'automobile* (CSCA). Loubet (2017) notes that the CSCA was also fraught with internal rivalries (notably Renault and Simca on one side and Citroën, Panhard and Peugeot on the other) that prevented the organisation from forming a unified front against the government. The CCFA's goal is to defend the economic and industrial interests of French car manufacturers both at the national and international level, except for social questions, which are dealt with by a different union.

[10] In her interviews with French political and business leaders, Vivien Schmidt noted that one of the first things leaders mentioned either about themselves or about other colleagues was their educational background (Schmidt, 1996).

called *corps*, which are a requirement for entry in the civil service. The most prestigious *corps*, called *grands corps*, are small, cohesive and influential groups, and entry into them is centralised through the ENA and other *grandes écoles*. These constitute the foundations of the French administrative system and belonging to a *grand corps* is considered as a springboard to reach the highest administrative positions (Schmidt, 1996; Stevens, 2003; Suleiman, 1974). As a report by Le Monde put it, the *grands corps* system shows the weirdness of the traditional élite recruiting mechanisms in the big firms in France. One does not need to prove anything within a firm to head it. It is 'as if one were to select generals to lead an army to war in a backwards manner, far from the front lines' (Le Monde, 1988). The desirability of a post as a high-level bureaucrat is also exemplified by the words of Renault CEO Pierre Dreyfus, who said that already at age eighteen, 'I didn't have that one thing in mind: being a bureaucrat, that is, at the service of the state. I considered that this was the only profession that had any relevance' (Le Monde, 1994).

This system creates an interlocked élite in the French political-economic realm. Much as in ministries, appointments to top posts in industries were also based on educational credentials and *grands corps* membership (Schmidt, 1996: 296). According to a 1998 study, 66% of the chairmen in the top 40 French companies (CAC40) had attended either the ENA or the *Polytechnique* (Stevens, 2003: 138). However, unlike what happened in Italy, appointments to nationalised enterprises were not based on political kinship, but on the candidate's administrative expertise and/or business experience (Schmidt, 1996: 296). Yet, despite this apparently objective method of selection, the state did little to disincentivise the practice of *pantouflage*, the shuttling of members of the civil service or politics into the highest posts of business (Schmidt, 1996: 297). This interlocking, in particular, served a nurturing function. Bureaucrats would make sure that future civil servants coming from business (or, more commonly, vice-versa), with whom they had cultivated strong inter-personal relationships, would be well prepared to deal with the intricacies of politics and state-business dealings.

Table 8.3.1: Renault & PSA CEOs: work experience and education

Renault			**PSA**		
CEO	*Educational background*	*Political post jobs*	*CEO*	*Educational background*	*Political post jobs*
Pierre Lefaucheux (1945-1955)	École centrale des arts et manufactures		François Gautier (Peugeot 1949-1972; PSA 1973-1978)	École des mines	Director of PM cabinet under Georges Pompidou (1962-1968)
Pierre Dreyfus (1955-1975)	Université de Paris	Minister of Industry (1981-1982)	Pierre-Jules Boulanger (Citroën 1937-1950)	Diplômé des beux-arts	

Bernard Vernier-Palliez (1975-1981)	Sciences Po; HEC	Ambassador to the US (1982-1984)	Robert Puiseux (Citroën 1950-1958)	École Polytechnique (does not graduate because of the war)	
Bernard Hanon (1981-1985)	HEC; Columbia University (US)		Pierre Bercot (Citroën 1958-1970)	Université de Paris; École nationale des langues orientales	
Georges Besse (1985-1986)	École Polytechnique; École des mines	Cogema (state-owned enterprise [SOE], 1978-1982); Pechiney (SOE, 1982-1985)	François Rollier (Citroën 1970-1974)	Université de Paris	
Raymond Levy (1986-1992)	École Polytechnique; MIT; École des mines	Usinor (SOE, 1982-1984)	Jean-Paul Parayre (PSA 1978-1983)	École Polytechnique; École des ponts	Several ministerial posts between 1967 and 1974

Louis Schwartzer (1992-2005)	Sciences Po; ENA	Director of PM cabinet under Laurent Fabius (1981-1986); General commissioner to investment (2014-2017)	Jacques Calvet (PSA 1983-1997)	Université de Paris; Sciences Po; ENA	Director of PM cabinet under Valery Giscard d'Estaing (1970-1974); CEO BNP (SOE, 1976-1982)
Carlos Ghosn (2005-2019)	École Polytechnique; École des mines		Jean-Martin Folz (PSA 1997-2007)	École Polytechnique; École des mines	Several ministerial posts, including director of cabinet for secretary of state to industry, Antoine Rufenacht (1976-1978)
Jean-Dominique Senard (2019-)	HEC	Several posts at Saint-Gobain when it was a SOE	Christian Streiff (PSA 2007-2009)	École des mines	Several posts at Saint-Gobain when it was a SOE

Philippe Varin (PSA 2009-2014)	École Polytechnique; École des mines	Several posts at Pechiney when it was a SOE
Carlos Tavares (PSA 2014-)	École centrale des arts et manufactures	

Source: Le Monde (various issues); Schmidt (1996); personal elaboration.

Table 8.3.1 shows the CEOs of Renault and PSA, as well as their education background and other political posts they held. Of the twenty CEOs listed in the table, only three (Dreyfus, Boulanger and Rollier) did not attend a *grande école*, and one – Bercot – could not graduate from X because of the war. Further, while only one – Dreyfus – was appointed as Minister (of Industry), five have worked in different capacities at several ministries, usually in administrative posts, and before switching over to business. Five more have worked at SOEs, though only Besse and Levy attained the rank of P-DG (*Président-Directeur Général*, CEO). This pattern of interlocking relations was less important for Citroën, whose entrepreneurial culture was mistrustful of the state. People who climbed the ranks in Citroën had usually been within the company for several years, had familial or friendly ties with the owners, and did not seek out a post within the state apparatus by the end of their tenure, which was often followed by retirement. Likewise, state-business *pantouflage* is less recurrent today, as companies follow the trend of internationalisation rather than looking inwards among the French élite. This can be seen with the appointments of the Franco-Lebanese-Brasilian Carlos Ghosn at Renault and of the Portuguese Carlos Tavares at PSA, neither of whom has ever held an administrative or political post within the French state apparatus, though both have attended a *grande école*.

Hence, being part of an 'old boys' network' and having a relevant educational background seems to be important for the automotive industry, too. Although the CEOs' careers did not always pass through the state, it shows why 'who you know' was a key characteristic of state-business relations in France – far more than Britain, and even Italy.[11] In the case of public enterprises, however, the CEOs' influence on the firm's direction was diminished by the instrument of the *tutelle*, which is an oversight function that ministries had over SOEs, including their ability to nominate and revoke CEOs, and the state-industry planning contracts, not dissimilar to the CDPs (programme contracts) that the Italian state had with firms (see Anastassopoulos, 1985; Schmidt, 1996: 220). Nevertheless, membership to the *grands corps* and the CEOs' political clout made it so that this oversight function was severely limited, making it so that business usually 'had their way' (Schmidt, 1996).

In sum, like Britain and Italy, peak business associations and trade associations have not proven to be particularly coherent in their structure and strategy. Big firms, including car manufacturers, have preferred to negotiate directly with the government. Nonetheless, unlike Britain and Italy, French politicians and businessmen have been able to construct a clear 'old boys' network' to improve access

[11] According to Wilson (1987), other idiosyncratic factors such as the personalities of the people involved also mattered a great deal. For instance, two subsequent CEOs of Renault, Bernard Hanon and Georges Besse had a very different relationship with the government, the former being far less assertive in which policies he wanted to pursue, and the latter taking instead a no-nonsense approach free of government interference (Smith, 1998: 194-5). Though Wilson seems to emphasise this point, it is rather difficult to assess to what degree individual characteristics played a role in the pattern of state-business relations. Thus, while not ignoring this factor, I relegate it to the background, favouring instead the importance of educational background and 'old boys' networks'.

of interest groups to policy-making. According to Schmidt (1996) and Goyer (2001), such a system served to promote in particular the interests and priorities of the main innovating actor – the state until the 1980s and the firms subsequently.

The following sub-sections build on this background to provide an account of state-business relations in the automotive industry to understand state support to the sector. Before doing so, however, it is necessary to provide a clearer schematisation of developments in French industrial policy. Statism meant not only more ingerence in economic affairs from the state, but also a multiplicity of tools for state support. The goal of the next sub-section is to analyse these tools and relate them to subventions to the automotive industry.

8.3.2 Developments in French industrial policy: tools for state support

Buigues and Sekkat (2009: 156) claim that there are at least 6,000 mechanisms of public aid to companies in France, which fall under the responsibility of different ministries. Indeed, according to Table 8.5.1, and excluding state aid due to extraordinary circumstances in 2008 and 2020, and the capital grants to Renault that the state employed as majority shareholder, France shows much more variety in the tools used for state support compared to Britain.[12] Like for the Italian case, then, it is worthwhile to delve a bit more in developments of French industrial policy and the tools of state support.

Much of the immediate post-war interventionist came in the form of centralised planning, where a pivotal role was played by the Planning Commission (*Commisariat Général au Plan*, which took over the mantle from the Ministry of National Economy). This Commission had to present detailed quinquennial strategies for the allocation of resources to the major industrial sectors of the country. The role of the Planning Commission, however, waned in the 1960s, when its responsibilities were confined to the identification of issues of interests and forecasting trends of the economy and planning passed on to the so-called *grand projets* (Hall, 1990b: 171-2; Levy, 1999: 18; Zysman, 1977: 75-85). *Grands projets* were ambitious plans in the high-tech industry where the state exploited the absence of firm competition to take the reins of the sector by 'choosing winners' and become the main innovating

[12] It should be noted that the table excludes instances of aid given to the suppliers industry and other activities related to the car manufacturers. Thus, for instance, one of the major components manufacturers in the country, Valeo, received €24.2mn in 2013 for the development of new hybrid engines. Likewise, in 1979 PSA subsidiary SMAN (*Société Mécanique Automobile du Nord*) was also accorded FRF 980mn through the *Fonds Special d'Adaptation Industrielle* (FSAI) for a plant in Valenciennes that produces transmission mechanisms. Again, in 2013 PSA Banque, the financial institution of the car manufacturer was accorded €1.2bn for restructuring purposes (this case, however, will be explored more in depth in the next sub-section). Another final case is Ford in Charleville, which was accorded FRF 28mn in 1991 to develop radiators and ventilator systems for cars.

force, such as the Concorde in the aeronautics sector and the '*Plan Calcul*' in electronics – both of which spectacularly failed.

Another particularity that emerged in postwar France – and which sets France apart from the British and Italian cases – is the pre-eminence of the Ministry of Finance, and particularly its Treasury (*Trésor*), in industrial matters, even more so than the Ministry of Industry. Until the 1980s, therefore, the Treasury was the 'sanctuary inside the temple of the the Ministry of Finance,' as Zysman (1983: 114) put it, and at the very centre of the French financial system.[13] Indeed, it was the Treasury that provided the 'muscle and the apparatus needed to manipulate the economy' and nothing could be done on the financial market without the approval of the Treasury (Zysman, 1983: 133).

One of the key tools the Treasury had in the management of the economy was the FDES (*Fonds de Developpement Économique et Sociale*, Economic and Social Development Fund), a special account to help the state in its investments. FDES allocations, unlike other financing tools that were issued on the market, came from the state budget, and aimed at facilitating the modernisation plan of the French state (Quennouëlle-Corre, 2013; Zysman, 1983). The presence of an important financing tool such as the FDES meant that, since long-term financing could be provided by the state, companies had more incentives to go into debt with state-owned financial institutions instead of increasing their own capital (Buigues & Cohen, 2020). Such a situation led to a strong interlinking of state and business. This, on the one hand, was conducive to the creation of national champions in those sectors that the state deemed as relevant for the national interest (e.g. steel, electronics, automotive, aeronautics). On the other hand, however, it stymied innovation: if firms know that they have a 'security net' guaranteed by the state and they are protected from external competition, then all the pressure for market performance is lost and they might not properly identify organisational and production inefficiencies and react accordingly (Zysman, 1977).

In turn, the state enabled this vicious cycle to the point that one prominent French economist arrived to call the role of the state in the 1970s and 1980s *l'État brancadier*, or the 'stretch-bearer state' (Cohen, 1989). By then, the main activity of the state was to ensure that those ailing firms – the lame ducks – survived, and little more. To this aim, it created several tools of state support, the most important of which was the CIASI (*Comité Interministériel de l'Aménagemenet des Structures Industrielles*, Interministerial Committee for the Management of Industrial Structures). The goal of

[13] Zysman (1983) identified three concentric circles of the financing system. At the core sat the Ministry of Finance, the Ministry of Industry, and the Banque de France. Secondly came the semi-public institutions such as the Crédit National. Finally was the world of business and industry, whose financing depended on the nature of the business (e.g. public vs private; small vs big firms). Though certainly a compelling explanation for state intervention at the time, it no longer holds following the wave of privatisations and the Europeanisation of economic policy. Further, financial markets themselves are not fixed, thus also changing the nature and process of credit financing (Wilson, 1990: 139).

the CIASI was to rescue firms there were efficient, but experiencing temporary difficulties, such as the lack of capital. Its *modus operandi* was to promise state funds in order to encourage owners and bankers to develop and implement a rescue or merger plan (Smith, 1998: 239; Zysman, 1983: 153-4). For the first four years of its existence, the CIASI worked as intended, but after that its workload mushroomed – from 90 firms in 1974 to 649 in 1980 – it eventually became an instrument of preservation of the status quo rather than modernisation (Levy, 1990; Smith, 1998: 35). The CIASI was substituted in 1982 by the CIRI (*Comité Interministériel de Restructuration Industrielle*, Interministerial Committee of Industrial Restructuring), which fared little better than its predecessor. Interestingly, and as we will see, while the CIASI was mostly employed in the steel and textile sectors, the automotive industry constituted an exception. Both Renault and PSA were cash-rich and this period was instead marked by important growth and expansion for the car manufacturers (see Loubet, 2001, 2009).

Alongside CIASI there were several other policy instruments that undermined the coherence of the planning strategy. The FSAI (*Fonds Spécial d'Adaptation Industrielle*, Special Fund of Industrial Adaption), created in 1978, aimed to assist the redeployment process in regions severely affected by recession and plant closures (Smith, 1998: 239).[14] The CODIS (*Comité d'Orientation pour le Développement des Industries Stratégiques*, Committee of the Orientation for the Development of Strategic Industries) was created in 1979 to promote large strategic firms. The CODIS was substituted by the short-lived FIM (*Fonds Industriel de Modernisation*, Industrial Modernisation Fund) between 1983 and 1986, when the Chirac government decided to do away with it. The FIM, as Table 8.5.1 shows, was an important tool of loan financing for the automotive industry, too. In total, it lent around FRF 24bn in low-interest loans for machine and equipment purchases, around 10% of which went to the automotive industry (Smith, 1998: 78). The main difference with CODIS was that, while CODIS was funded by the Treasury and was therefore under the control of the Ministry of Finance, the FIM employed a new public savings account and was managed by the Ministry of Industry (Smith, 1998: 254).[15]

Starting from the late 1980s, impending Europeanisation, privatisation of several SOEs, and budget difficulties meant that France shifted its course and abandoned direct management of the economy, developing instead a horizontal approach designed to create an attractive environment for entrepreneurship (OECD, 1998). Since 2005, and at the request of President Chirac, France adopted a 'new

[14] As it might be recollected, a PSA subsidiary benefited from FSAI support.

[15] Other minor tools of state support around this period included: the CIDISE (*Comité Interministériel pour le Développement des Investissements et le Soutien de l'Emploi*, Interministerial Committee for the Development of Investment and Support to Employment), a 1981 instrument meant primarily for small and medium enterprises; the ANVAR (*Agence Nationale de VAlorisation de la Recherche*, National Agency of Valorisation of Research), created in 1967 and financially reinforced in 1979 to encourage applied research and promote innovation; and the 1977 ADI (*Agence de l'Informatique*, Agency of Information Technology), to encourage the diffusion of information technology (for all, see Schmidt, 1996: 255).

industrial policy' based on the so-called Beffa report.[16] The new approach rested on three pillars. First was a call for long-term industrial technology programmes, supported by the newly created AII (*Agence d'Innovation Industrielle*, Agency for Industrial Innovation). The AII was to support large-scale R&D projects up to 50% of the total investment. The second pillar was a new regional industrial policy hinging on the so-called 'competitiveness poles' (or clusters) whose purpose was coordination of the relevant actors (researchers, businessmen, bankers and civil servants) on a local basis 'to facilitate synergy for shared innovative projects and with the critical mass necessary for international visibility.' The final pillar was a push for a more SME-oriented policy (Buigues & Cohen, 2020; Buigues & Sekkat, 2009: 142-3, 150; Cohen, 2007).

Together with the AII, several other agencies and funds were created. The ANR (*Agence Nationale de la Recherche*, National Research Agency) aimed at encouraging interactions between public and private research laboratories; *Oseo* was a fund aimed specifically at SMEs; the FCE (*Fonds de Compétivité des Entreprises*, Enterprises' Competitiveness Fund), under the control of the Ministry of Industry, was in charge of public tenders for the new projects. Finally, a marked break with the past was represented by a newfound primacy of the Ministry of Industry, which was now responsible for all strategic industrial priorities (Buigues & Sekkat, 2009: 146-7).

Since 2008, the French government has launched other new measures based in particular on two tax credit tools: the CIR (*Crédit d'Impôt Recherche*, Research Tax Credit), which was aimed to increase R&D expenditure and innovate French products; and the CICE (*Crédit d'Impôt pour la Compétitivité et l'Emploi*, Competitiveness and Employment Tax Credit), which aimed at reducing production costs (Buigues & Cohen, 2020). Nevertheless, these new tools have done little to address the issue that Buigues and Sekkat (2009) noted, as reported at the beginning of this sub-section. France is still characterised by an overly-complex state aid system with several actors, agencies and funds at play. The next sub-section provides a longitudinal account of state-business relations and state aid politics in the automotive industry, based on journalistic reports, official documents from the Sénat and the Assemblée Nationale, and secondary academic sources.

[16] Jean-Louis Beffa is a prominent businessman, formerly CEO of Saint-Gobain, who sits on the board of several companies, such as BNP Paribas, Siemens, and Le Monde.

8.3.3 State-business relations in France: a diachronical sectoral approach to the automotive industry

All of the above provides a rudimentary picture of the French political economy and its automotive industry that can be summarised as follows: (a) the French *dirigiste* culture pushed for a policy of national champions by means of industrial restructuring, nationalisations and mergers; (b) this policy aimed most of all at promoting the French national interest *vis-à-vis* international pressures rather than nurturing economically competitive businesses; (c) this policy affected the automotive industry, too, with Renault and PSA becoming the two main national manufacturers; (d) in its strategy, the French state, thanks also to a strong bureaucratic tradition that was primed for leadership in the economy, often bypassed business associations and dealt directly with industrialists by cultivating personal relationships based on educational background and the shuttling of personnel between state and industry; (e) this strategy was not necessarily coherent and generated instead a multiplicity of instruments of state support, which undermined the planning exercise; (f) incoherence was compounded by external pressures such as Europeanisation, which forced French politicians and bureaucrats to steer the course towards a more horizontal and limited approach to industrial support. It is now time to delve into state-business relations and state aid politics in the automotive industry.

Despite the status as *Régie Nationale*, whose goal was to promote the national interest, Renault was the only public enterprise that was not completely submitted to state control. As Quennouëlle-Corre (2013) recounts, on two occasions, in 1944 with Pierre Mendès France, then Minister for the National Economy of the provisional government, and in 1949 with Maurice Petsche, Minister of Finance and Economy, did the French government attempt to impose *ex ante* state control on Renault. In both occasions it failed and to state control was preferred by a more relaxed 'family council' with representatives from the Treasury, Finance, and Industry sitting at the table together with the Renault CEO. This was possible also thanks to the *tutelle* exercised by the Treasury whose head, François Bloch-Lainé, attached a strategic importance to the *Régie*, and who managed to develop a strong and fruitful relationship with the future Renault CEO, Pierre Dreyfus. Though Renault obtained an unprecedented level of independence for a SOE, and although it developed a friendly relationship with the Treasury, this did not translate to an ability to extract concessions from the state at will.

Indeed, as Table 8.5.1 shows, the first measure the government took in favour of Renault did not come until 1963 – a FRF 250mn capital increase for a new assembly plant. Recapitalisations ever since have abounded, totalling, between then and 1987 (before a FRF 12bn debt write-off), some FRF 15bn (Sénat, 1988). There are two reasons behind these numerous capital grants. One, as was clearly noted by Pierre Brune, *rapporteur* for the Social Affairs Committee in 1969, was the defensive aim of capital increases. With the common market, the opening up of borders meant that French industry had to improve its levels of competitiveness. Hence, the state increased the firm's capital so that Renault could carry out its investment strategy and compete with its international rivals (Sénat, 1969: 1888).

The second reason stems from Renault's status as *Régie*. Unlike a *Société Anonyme* (joint-stock company) like Peugeot, Renault escaped the obligation imposed by ordinary company law to either recapitalise or go bankrupt (Financial Times, 1988). Instead, as *Régie*, Renault was not obliged to make any profits. Its relationship with the state, however, was not one where Renault could simply go and ask for funds. Rather, as Pierre Dreyfus noted, the better strategy was one where Renault would periodically push the state to provide capital *as a function of the state's goals and expansionary strategy* (Loubet, 2015). Only then did the government have few scruples in providing funds to Renault to ensure that the defensive aim could be attained.[17] Still, as Raymond Levy recollects after his time at the company, 'Renault, being the state, did not have any external constraints to indebtedness [and] the banks were always well-disposed to loan money to the state' (cited in Loubet, 2015).

Perhaps the best example of alignment of goals between state and private firms in the French MVI is that of Citroën. The company, despite being renowned for its frugality and aversion to state interventionism, first made use of the FDES monies in the 1960s to support its expansion, and then received a FRF 1bn loan to facilitate its acquisition by Peugeot in 1974. Citroën's mistrust of the state notwithstanding, the government was not reluctant to provide funds to the manufacturer. In a 1964 interview, then Minister for Industry Bokanowski first reminded the public of the 1935 Citroën crack and the subsequent acquisition by Michelin, and then declared that if one of the national manufacturers were to have a difficult financial situation, the government would not abandon it to the fate that had once been of Citroën (cited in Stoleru, 1969).

On Citroën's part, its need to keep up with its competitors entailed expansionist goals, which could not be achieved without state support. Being confined to the high-level segments, as per the Pons Plan, Citroën lacked a mass market – Renault, instead, already produced 50% more by 1960 (Loubet, 2015). To increase capacity, Citroën built three new factories for a total investment of FRF 4.1bn, and then introduced new models to address its poor model differentiation (Loubet, 1998; Loubet 2001: 406). Finally, after acquiring Panhard and Berliet in 1967, Citroën embarked in an alliance with Fiat in 1968, the loftiness of which was however strongly redimensioned by the government's veto on Fiat's

[17] For the sake of correctness, state support to the *Régie* did not take the form of subventions, but of advances on the endowment fund (*avances sur fonds de dotation*), which were then transformed into endowment funds (*fonds de dotations en capital*).

take-over of a majority of shares.

However, Citroën faced significant hurdles in its expansionist efforts. Its alliance with Fiat came to a break in 1973, when it became clear to Agnelli that his vision of alliance and Citroën's were starkly different, and the marriage was further redimensioned to a mere joint venture on vans (Financial Times, 1973b). Secondly, the technological innovation that was introduced with the new models did not increase the volume of sales to a sufficiently competitive level. Citroën lacked both the coveted diesel motors that characterised Peugeot and cars to sell in the small segments. Thirdly, the 1973 oil crisis, on top of the important investment for the new factories, meant that Citroën did not have the necessary liquidity at the time. In 1973, its majority shareholder, Michelin, announced a deficit of FRF 500mn: Citroën was in a situation of financial failure (Loubet, 2001: 406).

Citroën's financial difficulties seemed to come at the worst time, given Giscard's victory at the 1974 Presidential elections. Giscard wanted to break with the Gaullist vision of *grandeur*. According to him, the state's role was not to choose national champions and shower them with subsidies. Rather, it was a more confined role of promoting the redeployment of capital and labour from low- to high-profit activities by means of a mixture of market exposure and selective and economically motivated financial exposure (Smith, 1998: 34). Luckily for Citroën, Giscard's rhetoric had more bark than bite. His liberal strategy had to face the tough reality of global economic crisis of the 1970s, and by the end of his presidency, the Barre government (Giscard's last Prime Minister) had disbursed far more aid than any of its predecessors, to the tune of FRF 20bn, or 2.7% of the GDP (Hall, 1986; Levy, 1999; Schmidt, 1996).

The solution was to help Citroën by associating it to another firm. The choice fell on Peugeot, with the support of the state, in the form of FRF 1bn loans. There were two main reasons behind the aid for the merger. One of the conditions for the aid was that Citroën sell Berliet to Renault (in preparation for which Renault obtained FRF 450mn from the FDES). This was a long-standing attempt from the French state to unify the commercial vehicles brands, which were at the time divided between Berliet (Citroën subsidiary) and Saviem (Renault subsidiary). By rejoining the two, the government hoped that they could be more competitive internationally. The two, in particular, complemented each other well: Saviem was specialised in small and medium commercial vehicles; Berliet in heavy trucks, military vehicles and buses (Le Monde, 1974b).

The second reason was the counterfactual that the French government had to face at the time: what would have happened had the aid not been granted? Two were the other possibilities, as expressed by Jean-Pierre Fourcade, Giscard's Minister of Economy, before the Sénat (see Sénat, 1974: 3082). One was what he called a 'typical capitalist solution': let Citroën fail. This could have serious consequences that might have been politically difficult to overcome. The first, of course, would have been the lay-offs that financial failures entail. By letting Citroën go bust, no fewer than 50,000 workers would have found themselves without a job, certainly not something that any politician would have risked. The second consequence was the danger of a foreign company picking up Citroën, thus breaching the barrier of protectionism that the industry had enjoyed until then (excluding Sevelnord). As Fourcade also noted, following the December 1974 agreement, the objective was to 'conserve an important industrial enterprise and do it with French capital' and that '[i]t was important not to give in to the temptation of a foreign sale' (Hodge, 1991: 57; Le Monde, 1974a).

The alternative was nationalisation. Yet, nationalisation was anathema to the Right, which governed at the time, whereas it was a long-standing key tenet of the programme of the Left, particularly the Communist Party. For instance, after the Fiat-Citroën agreement of 1968, the Communists were worried about the entrance of foreign manufacturers in the French market, which could have destabilised local producers. Thus, it demanded that the government nationalise not only Citroën, but the entire automotive industry, despite Jacques Limouzy (Secretary of State for the relations with the Parliament) clearly stating that the government had 'absolutely no intention' of doing so (Sénat, 1970: 811-2). This stance continued into the Giscard Presidency. Despite his involuntary lunge into interventionism, the Minister of Industry Michel D'Ornano was still opposed to nationalisations. In a Parliamentary debate at the National Assembly, both he and Fourcade made it clear that they had no plans whatsoever to nationalise Citroën (Le Monde, 1974a). Fourcade adduced the reason that by regrouping Renault and Citroën under one banner, the other manufacturer, Peugeot, would be forced to seek a foreign alliance even though its financials at the time were more than positive.

There was one more actor opposed to the nationalisation of Citroën: Peugeot. When asked why Peugeot took over Citroën, despite the latter's financial predicament, François Gautier, Peugeot's CEO, replied that there were more inconveniences in *not* taking it over than doing so. Interestingly, his argument replicated Fourcade's almost word-for-word. Nationalisation – he said – meant that Peugeot would have become the smallest manufacturer in the country, facing the giant Renault-Citroën-Berliet conglomerate. This would have meant that Peugeot would have been forced to merge with a foreign group, which would have taken the government back to step one (i.e. protecting the French industry from foreign competition), as per Fourcade's words (cited in Loubet, 2017). For all intents and purposes, this intervention represented a watershed in state-business relations in the French automotive industry. Had Citroën been nationalised, for instance, one could not rule out the possibility of a weakened Peugeot, which could have disappeared (thus leaving only one national, *state-owned* champion), or could have been taken over by a foreign competitors (which could have instead led to a situation more reminiscent of the British pressure pluralism).

The aid to favour the merger with Peugeot was therefore the obvious choice if the goal for both policy-makers and the firms involved was ‘defensive’, as Gautier characterised it (Loubet, 2009: 127). That is, to ensure that the automotive industry could continue to have an ‘international dimension’ and ‘serious perspectives of development, as Fourcade put it (see Sénat, 1974: 3082). The defensive character of the affair was also expressed by the fact that PSA repaid the 1975 loan two years later already, since there were fears of a socialist victory at the 1978 Parliamentary elections. It was argued that, if PSA still owed money to the government, the latter – were the Socialists to win – would have used this debt as a bargaining chip to push for nationalisation (Loubet, 2001: 411).

Hence, despite the liberal rhetoric with which Giscard won the Presidency, the French state was ready to intervene and support the automotive industry in order to pursue the Gaullist adage of concentrating firms in the industry to create national champions. The message Giscard was sending was that industrial failures were to be punished by the objectivity of market forces, whereas *spectacular* industrial failures were to receive special consideration (Hodge, 1991: 58). Nevertheless, and despite Bokanowski’s declaration, this series of state interventions *did not necessarily constitute an industrial policy.* Already in 1974 Mitterrand noted that the government had no proper industrial restructuring policy, without which it would not succeed in its efforts (Assemblée Nationale, 1974: 7961).[18] This became apparent most of all as the 1980s approached.

As was already mentioned, the automotive industry passed through the second half of the 1970s relatively unscathed and did not make particular use of the CIASI aid, unlike other sectors such as steel (see Chapter 8 in Smith, 1998). Rather, as was noted earlier, this period reflected an expansionist agenda from both Renault and PSA, which led them to America. Although this expansion was in line with the government agenda, since it helped to stave off foreign competitors’ entry in the French market, it was also a project that both firms, particularly PSA, wanted to undertake (Marklew, 1995: 131). By the early 1980s, however, the American dream was already dead and the restructuring season had begun.

[18]Though, of course, Mitterrand had every incentive to so assert from the opposition benches.

Table 8.3.2: Net Profit (loss) of Renault and PSA in FRF million (1979-1987)

	Renault	**PSA**
1979	1,016	1,148
1980	638	(1,504)
1981	(690)	(1,993)
1982	(1,281)	(2,148)
1983	(1,576)	(2,290)
1984	(12,555)	(341)
1985	(10,925)	314
1986	(5,542)	3,590*
1987	3,689	6,700*

* figure is rounded. Source: European Commission (1990a); Loubet (2009).

As Table 8.3.2 shows, both Renault and PSA suffered deeply from the 1979 economic crisis, which was compounded by declining international markets and the strategic errors of the two firms (especially AMC and Chysler Europe). Most importantly, 1981 marked a huge shift in the French political economy, with the Socialists taking the Presidency for the first time in the Fifth Republic, following the electoral victory of François Mitterrand. With them, the Socialists brought a sweeping tide of nationalisations, which however did not translate to a coherent state aid policy. There were two issues with this new socialist policy. The first was that nationalisation of foreign firms was not feasible. Thus, France remained a mixed economy where a *dirigiste* approach was not completely feasible. Secondly, capital grants provided to nationalised firms followed for the most part a 'lame-duck policy', with declining industries receiving the lion's share (Schmidt, 1996: 125). The automotive industry was a major recipient of government aid during this period.

In the case of PSA, the restructuring was insidious due to intense labour disputes. Although this is not the place to discuss issues of industrial relations (but see Hancké, 2002; Hatzfeld & Loubet, 2004; Marklew, 1995; Smith, 1998), it is worthwhile to discuss how this plays into state intervention and state aid politics. At the time, as per the law, the government had to approve lay-offs even for private firms. The government's refusal to approve Calvet's plan for 2,900 lay-offs in 1983 soured the relationship between PSA and the government. The socialist government was in agreement with Calvet that lay-offs were needed, but it was not politically prepared to concede on this point, as it needed to maintain good relations with its communist allies within trade unions (Smith, 1998: 189). In the end, PSA and the government came to a compromise and a series of lay-offs was green-lit.[19]

[19]It should be noted that most lay-offs were not outright dismissals, but came in the form of early-retirement measures

The other side of lay-offs is automation. The only way to ensure that production rates are kept up even with lay-offs is to increase automation in the assembly plants. To this aim, the government introduced the FIM in September 1983 to help the industry to modernise. As then Minister for Industry Édith Cresson said in a Sénat debate, modernisation of the tools of production was a key objective for French industry,' but also that 'the entry of new high-level technology in the assembly plants will increase the need for highly qualified personnel' (Sénat, 1985: 67). Thus, it is no wonder that many of the loans PSA received during this period went through the FIM. By justifying aid on the grounds that it was part of a broader industrial modernisation efforts, the government managed not only to channel funds to the firm that would help it make it competitive, but also to keep away requests of nationalisation coming from trade unions and the Communist Party (Marklew, 1995: 132). Hence, despite the souring of the relationship two years prior, PSA and the government worked together in the restructuring of the company. By 1986, the firm was back in the black by a significant margin, whereas Renault still had a deficit of over FRF 5bn.

For Renault, at least initially, little changed. The *Régie* continued to receive capital grants averaging FRF 300mn per year throughout the late 1970s (Tacet & Zénoni, 1986: 96). Crisis at Renault came slightly later. Although by 1982 the financial indicators were not exactly promising, commentators still called them 'less catastrophic than what the losses [of the second half of 1982] let transpire,' and there was all-around optimism about the external balance of the firm (Le Monde, 1983). By 1983 things no longer appeared so easy, especially with the 1983 U-turn of the Mitterrand Presidency. If on the one hand Renault was expecting the state to bail it out, the turn to austerity of 1983 made it so that government intervention was far from coherent (Hancké, 2002: 93).

In the first place, the government wanted to use Renault to counter PSA's lay-offs. Although Renault, too, needed to cut the number of employees (to the tune of 15,000, according to management), the government instead, asked the CEO, Hanon, to hire more workers (Hancké, 2002: 93; Smith, 1998: 194). Failing this task, Hanon was dismissed (the first time for a CEO since the nationalisation) and replaced in 1985 by Georges Besse who, like Calvet at PSA, engaged in a hard-line, no-nonsense approach.

Secondly, Renault, like PSA, benefited from FIM loans as part of a larger effort to modernise French industry. Paradoxically, it was exactly this strategy of pursuit of research and production innovation – compounded by the belief that the *Régie* was not supposed to turn a profit – that pushed Renault to maintain a high level of investments despite the poor financial results, and therefore led the firm

(Hancké, 2001: 317).

into debt. Between 1983 and 1984, the total debt nearly doubled, from FRF 35bn to FRF 62bn, with losses tallying up FRF 12bn (Sénat, 1990: 10). Only then did state intervention assume the form of continuous recapitalisations to keep the company afloat, up to FRF 8bn until 1986 – a sum that was obviously insufficient to counter the deep crisis involving the company (Tacet & Zénoni, 1986: 96).

Still, the government continued to display incoherence in its approach to Renault. The new hard-core liberal Minister of Industry, Alain Madelin, virtually dismantled the Ministry, removing the FIM, which he deemed to have gone astray from its initial purpose by taking too much interest in big firms, and cutting down on personnel and the reach of its bureaucrats (Schmidt, 1996: 135). Madelin was no friend to Renault. He pushed for privatisation, claiming that 'the state does not have a vocation to produce cars', and went so far as refusing a FRF 2bn grant to the company (Le Monde, 1987a; Tacet & Zénoni, 1986: 94). Madelin notwithstanding, in December 1987, the government agreed to a FRF 12bn debt write-off, on the condition imposed by the Commission that the statute of the firm be changed from *Régie* to *Société Anonyme* – meaning that the company could now go bankrupt without needing to be bailed out by the state. This would be in line with the Commission's shift in attitude towards state aid in the mid-1980s aimed at stopping the race to the bottom of state subsidies.

The government sought to separate the issue of state aid from that of legal status by claiming that it was doing nothing more than its duty as a shareholder, but the Commission was unwilling to agree (European Commission, 1990a: 18; Smith, 1998: 196). The Commission, in fact, merely reiterated what Calvet had already expressed publicly: while it was important for France to retain two competitive car manufacturers, he regretted that Renault could not be so by means of auto-financing instead of receiving favourable treatment from the government (Le Monde, 1987b).

Following the privatisation of Renault and the liberalisation of the European market, the state aid panorama in France changed drastically – more so than in Italy and Britain – in at least three senses. First, in the case of Renault, with the completion of the privatisation process in 1996, which saw the state reduced to a minority shareholder, it was no longer feasible to create endowment funds. Much of the parliamentary discussion during the 1990s concerned whether or not the state should give up the majority stake in Renault. Both the Socialists and the centre-right were still opposed to privatisation in that it entailed a transfer to the private sector not only of economic power, but also of political power. This way, they claimed, the Gaullist national interest that linked the state with Renault would be completely lost and the firm susceptible to attacks from foreign competitors, whether in terms of corporate governance or workers' protection (Sénat, 1994).

Secondly, foreign manufacturers who came to produce in France could also benefit from state aid –

something that barring the joint venture Sevelnord, had never happened for assembly plants. Toyota and Mercedes both took on this chance for their new assembly plants in the mid-late 1990s. Still, there was the lingering fear of the frailty of the French automotive industry. After the establishment of Toyota's Valenciennes plant, some senators lamented the entrance of the Japanese manufacturer in France (Sénat, 1998). Finally, the new aid was often R&D-oriented, aimed in particular at environmentally friendly (low pollution, electric vehicles) projects. These included the likes of 'Eureka', 'Grands Projets Innovants' and the AII.

But a constant remained. As Bokanowski declared in 1964, the state kept its promise of helping car manufacturers in difficulty, even to the tune of several billions euros. This was most clear with the 2008 economic crisis. France's reaction resembled Britain's much more than Italy's. France was the first member state to devise a solid plan to counter the crisis (see Germano, 2012). First, the state conceded €1bn in credit guarantees to Renault and PSA's financing institutions in December 2008, when most other member states were still discussing on what direction to take (Financial Times, 2008b). These were part of the new *Fonds Strategique d'Investissement* (FSI), a €20bn fund created in November 2008 to support strategic French firms during the crisis. The FSI was to invest in companies that were deemed as critical to the competitiveness of the French economy and that had potential for growth, technological advancements, export and brand value (Clift, 2013; Levy, 2017).[20]

After that, the automotive industry (PSA + Renault + Renault Trucks) received €6.5bn in February 2009. However, unlike most of the subsidies of the 1970s and 1980s, President Sarkozy put some clear conditionalities on the aid: to not close any assembly plant in France; to not lay off any workers or at least avoid compulsory redundancies; and to not delocalise production of cars sold in France abroad. Further, Sarkozy also asked to moderate dividends, though Renault had already announced that since the firm had cash issues, there would be no dividends. Finally, the state would not become shareholder of PSA nor would it increase its 15% stake in Renault (Le Monde, 2009).

In exchange for state support, the government also made carmakers and suppliers sign the so-called 'Pact Automobile', a code of 'performance and best practices' aimed at establishing a form of 'supply chain solidarity' between carmakers and first-tier (global) suppliers on the one hand and (local) second- and third-tier suppliers on the other. The pact, launched at the beginning of February 2009, included, aside from the already mentioned €6.5bn loans: €2bn to the carmakers' financial institutions to ensure availability of consumer lending to credit car purchases; guarantee funds for loans to suppliers through *Oseo*; creation of the *Fonds de Modernisation des Equipementiers Automobiles* (FMEA, Modernisation

[20]The FSI's investment decisions were not made by the state, but by a committee made up mostly of prominent French business figures.

Fund for the Automotive Suppliers) with a budget of €600mn to support the sector; introduction of 'part-time' unemployment measures; extension of the scrappage scheme introduced in 2008 (Pardi, 2020: 121; see also Clift, 2013: 113).

These were most of all social measures aimed at limiting the negative impact on employment rates rather than restructuring the industry, as some car executives asked (Financial Times, 2009). The government did not even seek to accelerate the pace of investment nor the development of new models or the introduction of greener, sustainable cars (Levy, 2017: 615).[21] Thus, in a way, it was reminiscent of the Giscardian bailouts of lame ducks, which failed to innovate and instead reinforced the position of declining big firms.

The Pact also called for the establishment of a permanent platform of consultation and exchange of best practices, and the *Plateforme de la Filière Automobile* (PFA) was created two months later. The PFA is a conjoint initiative of carmakers and suppliers (with the state only playing a marginal role), aimed in particular at avoiding the collapse of the supply chain using the FMEA monies. However, instead of acknowledging their responsibility for the structural weakness of the supply chain, carmakers and first-tier suppliers were unwilling to forego their traditional mechanisms of self-interest and rationalisation, and blamed smaller firms for the lack of competitiveness, undermining the very notion of 'supply chain solidarity' (Pardi, 2020: 124).

Further, as Pardi (2020: 128-9) notes, none of these measures addressed the structural problems of the sector. Already in 2012 PSA posted a €5bn loss (followed by a €2.3bn loss in 2013), announcing a restructuring plan that included 8,000 lay-offs (see Le Monde, 2012, 2013, 2014b). In January 2014, the state decided to help PSA redress the situation by purchasing 14% of its shares, thus becoming a shareholder, something that it did not do even during the 2008 economic crisis. This was part of a €3bn recapitalisation announced by PSA, where the Peugeot family would lose part of their 25.4% total of shares to the French state[22] and Dongfeng, a Chinese manufacturer with which PSA engaged

[21] A first attempt to promote green cars was made in October 2009 with the National Plan for the Development of Clear Vehicles, spearheaded by Renault. The project involved several firms, agencies and research centres and aimed to create a new infrastructure for electric vehicles, promote the technology of new prototypes of batteries, and incentivise consumers to purchase the new cars. The state would finance the project to the tune of over €1bn. However, these efforts notwithstanding, both public and private actors involved in the project, severely over-estimated the maturity of battery technology, the consumers' demand for electric vehicles, the difficulty to install a capillary charging infrastructure, and the opposition of part of the industry, particularly PSA – all these elements led to the rapid demise of the project, which was shelved for the time being (see L'Usine Nouvelle, 2009; Pardi, 2020: 125-7). A second attempt started in 2014 and culminated in May 2018 with the signing of the strategic contract of the *filière automobile*, between the state and the *Comité Strategique de Filière* (CSF), which regroups all the actors in the industry. See `https://pfa-auto.fr/wp-content/uploads/2018/09/DP-SCF-Automobile.pdf`. This contract would then form the basis for the 'Vehicles of Tomorrow' programme of 2019 (see below: Gouvernement.fr, 2019).

[22] Through SOGEPA, the *Societé de Gestion de Participations Aéronautiques*, a French holding company under the supervision of the APE (*Agénce des participations de l'État*). See `https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000028819526&categorieLien=id`. In 2017, when the firm signalled a return to profit, control passed to Bpifrance, a French investment bank that is a joint venture of the CDC and EPIC

in a joint venture. The latter two would apport €800mn each, thus raising their stake in PSA to 14%, level with the Peugeot family (Le Monde, 2014a; PSA, 2015).

Finally, the latest ingerence of the French state in the automotive industry came in 2019-20. First, the state, in its capacity of shareholder of Renault, refused a merger between Renault and FCA, citing political difficulties (Le Monde, 2019).[23] Then, it green-lit the merger between PSA and FCA, which could be completed by 2021; finally, with the 2020 economic crisis, it provided a €5bn loan to Renault through its newest '*Plan Auto*'. The three prongs of this plan are: incentivising purchase of electric and hybrid vehicles; investing in R&D to develop and produce in France the 'Vehicles of Tomorrow', which follows from a homonymous initiative started in February 2019 (see Gouvernement.fr, 2019); supporting those firms facing difficulties to protect workers (for all, see Gouvernement.fr, 2020). PSA, for its part, while still engaged with the merger with FCA, refused any aid from the government, with its finance director, Philippe de Rovira noting how the firm wants to remain free from any government entanglements.[24]

While the most recent attempts of the state to find a new path for its automotive industry have fallen short of expectations, as they relied mostly on the goodwill of the two giants – Renault and PSA – the sector is not necessarily in a bad place to deal with the upcoming challenges of sustainable, green transportation. For instance, the 'Vehicles of Tomorrow' plan of 2019 includes a €700mn commitment from the state to help production of electric batteries (see Gouvernement.fr, 2019). Yet, as Pardi (2020: 133) warns, these attempts may fail again if the state does not succeed in coalescing the different interests under one common industrial strategy. The latest *Plan Auto*, which excludes PSA, might hint towards such a direction if the state continues to be sidelined and enter the fray only during times of industry crisis. As for the previous chapters, the next sub-section will take stock of state-business relations to explain government intervention through time, using the lens of policy network analysis.

BPI-Groupe for €1.92bn, which by then represented a 12.7% share. See `https://www.bpifrance.fr/Espace-Presse/Communiques/L-Agence-des-participations-de-l-Etat-annonce-la-cession-a-Bpifrance-de-la-totalite-des-titres-PSA-detenus-par-l-Etat`. The state still owns 50% of Bpifrance, meaning that the APE – and by extension the French state – could benefit from an appreciation of the company's title on the *Bourse* and through potential future sales of the shares (Le Monde, 2017).

[23] In particular, then Minister of the Economy Bruno Le Maire lamented two issues. First, in the event of the merger, the French state would only own 7.5% of the shares of the new company, against the 14.5% owned by the Agnelli family. Second, and as a consequence of the former, he noted that in such a predicament he would not be able to guarantee the future of the employees stationed in France (Capital, 2019).

[24] See `https://franceracing.fr/automobile/psa-refuse-laide-du-gouvernement-pour-sa-fusion-avec-fca/`.

8.3.4 Taking stock of state-business relations in the French automotive industry

The diachronical analysis above points in particular to the difficult of conceptualising state-business relations in terms of power and resource dependence (see Wilson, 1990: 144). Was it the state that had the upper hand and steered industry in its favoured direction? Or was it the car makers, who often obtained special privileges from the government?

Most scholars of French politics agree that at least three periods of post-war industrial policy could be identified. The first one is the Gaullist period of the *Trente Glorieuses* running up to 1974, where state-led action was the norm and the government would use offensive protectionism to prop up the competitiveness of its firms.[25] The second one is the decade running from 1974 to 1984, or the 'stretch-bearer state' (Cohen, 1989). The Giscardian illusion of a liberal approach to the economy soon faced the harsh reality of the 1970s and did little more than offer an industrial policy of support to lame ducks. The final period began with the U-turn in the Mitterrand Presidency and started running at full steam under the Chirac government, when a massive privatisation programme was undertaken. During this last period the state was quietly sidelined in terms of direct intervention, but resisted in the background and was ready to jump in when needed, as the 2008 and 2020 crises showed.

However, the historical account of the previous sub-section shows that this distinction could not hold for the automotive industry. While much of French industry underwent a crisis after 1974, PSA and Renault were instead cash-rich and expanding their operations abroad. Further, Renault was not part of the privatisation programme under the Chirac government, but its privatisation came later – and for different reasons compared to most other firms. It would also be unfair to characterise the pre-1960s period as different due to the lack of state support to the industry, for at least two reasons. First, as was shown in the previous analysis, the state did take on an interventionist role in the post-war period: it pushed for the association of manufacturers to rationalise the industry; it exercised a *tutelle* over Renault; and it made of the *Régie* a social laboratory for innovations that were then followed by most other firms across economic sectors. Secondly, during this period state intervention had two goals: protectionism against foreign producers, which was a constant up until the very end of the century; and increase of French car exports, which amounted up to two thirds of national production (see Sénat,

[25] The idea of 'offensive protectionism' comes from Cohen (2007: 215-6). The definition he uses is one where the state 'creates the means of accumulation of scientific and financial resources. It provides future national champions with grants, secures markets through public procurement policies, and prevents foreign entry.' The underlying reasons for these have been expounded at length in the analysis so far: defence, national sovereignty and technological autonomy, although the ultimate goal is 'success in the international marketplace.' Here, the state is an *active* participant in industrial policy and attempts to align the interests of business to those of the state, if not even subordinate the former to the latter.

1958: 51).

The end of this period should be identified not with the end of the *Trente Glorieuses*, but with the project of privatisation of Renault. Only then did the differences in the automotive industry begin to wane, and the car makers' relations with the state start to change (Loubet, 2015). Thus, until the late 1980s state-business relations in the automotive industry were characterised by the following features. First, there was a relatively high autonomy of the state bureaucracy, which stems from its long-standing tradition of aloofness (see Suleiman, 1974). Aloofness entailed that often the government of the day could advance its own interests, which during this period coincided with the defence of national industry, without major interference from societal groups (Schmidt, 1996; Suleiman, 1974; Zysman, 1977). However, this should not be seen as absolute, and bureaucrats were not insulated from demands from business. Autonomy was constrained by both the instrument of the *tutelle* and *pantouflage.* These meant that there was a process of socialisation in act whereby business and bureaucrats could 'colonise' each other, promoting the needs and interest of the other. Hence, *tutelle* and *pantouflage* were not necessarily aimed at promoting solely the interests of the state. Rather, as Wilson (1987) shows, it helped create 'old boys' networks' where the interests of state and business aligned, creating and insider/outsider relationship where those firms with the potential of becoming national champions were clear insiders.

Second, concentration of power within the state was far from being as centralised as old accounts of French statism made it believe (for a critique, see Suleiman, 1987). There was a clear tension between the Ministry of Finance, which controlled the power of the purse, the Planning Commission, which was originally in charge of drafting the economic planning, but whose influence waned, and the Ministry of Industry, which was charged with the *tutelle* of state-owned firms to advance national interests. This clash was most clear with the creation of the FIM, which was established under the purview of the Ministry of Industry, unlike other tools of industrial support.

Third, if we understand sectoral mobilisation following Atkinson and Coleman (1989), that is, the ability of sectoral groups to assume a role in the making and implementation of policy, then it becomes clear that the sector was not particularly mobilised. The structure of the CNPF did not allow for trade associations to have much independent power, nor did one single trade association speak for the entire sector. Further, even in oligopolistic sector such as automotive where firms have direct contact with the state, it was not true that Renault and PSA occupied a high-profile activity in the association (see Atkinson & Coleman, 1989: 53). Rather, mobilisation took a different form, based on the interlocking relationships between civil servants and businessmen which have their roots in their common educational background, and which is not easily captured by the policy network framework. More so than in Italy and Britain, then, in France autonomy of state agencies and mobilisation of business interests were two sides of the same coin.

The outcome is summarised in Figure 8.3.1 . The medium/high autonomy and concentration of the state agencies aimed in particular at making of Renault and PSA two national champions.[26] Renault and PSA did not have the organisational capacity to capture state officials, but they could use their interlocking relationships with them to become insiders and align their goals to those of the government. The eventual structure does not properly conform to any of the six typologies, but is rather a mixture of Statism and Clientele pluralism. The statist element, of course, lies in the relative weakness of interest organisations, in the lingering Gaullist policy of *grandeur*, and in the aloofness of the bureaucratic administration. Yet, the state was not able to do in the automotive industry what it did in other sectors such as electronics and aeronautics, due to the presence of well-established private actors, Citroën and Peugeot, as well as its unwillingness to nationalise a sector that did not provide a public service. As Atkinson and Coleman (1989: 59) note, state-direction requires both the *capacity* and the *willingness* of the state to do so, but neither was fully present in the automotive industry. Hence, to borrow from Schmidt (2002), we could talk about a *state-enhanced* policy, rather than a state-led one. The clientelistic element, instead, is exemplified by the insider/outsider system that the French bureaucracy created and by the agreement between business and state of the objectives to pursue (Atkinson & Coleman, 1989: 55-6).

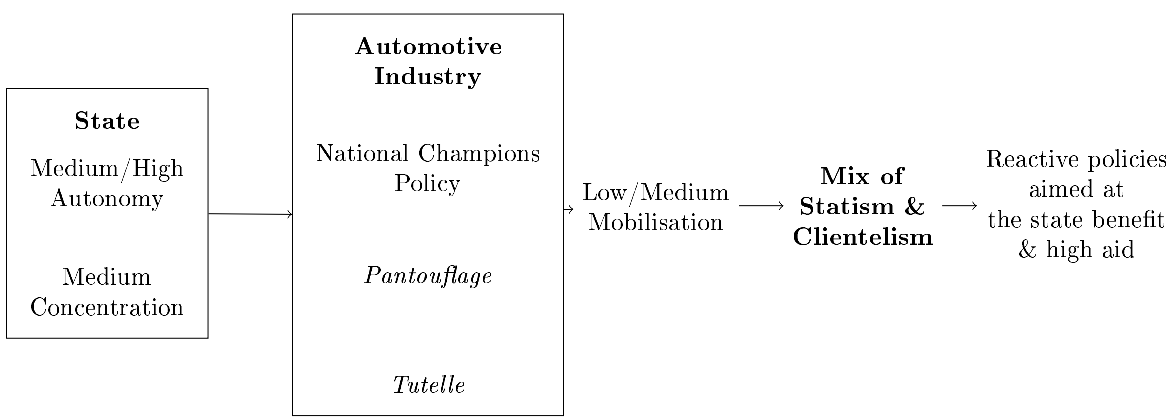

Figure 8.3.1: State-business relations in the French automotive industry until the late 1980s

Some may claim that there could be a difference in the relation between the state on the one hand, and Renault or PSA on the other, with the former being a public enterprise – meaning that the structure

[26] One should not also forget Saviem/Berliet in the trucks department, which then became RVI after 1974.

of relationships could mirror that in Italy with Alfa Romeo and Fiat. But this is not so. Unlike the Italian makers, Renault and PSA were not playing a different game.[27] Certainly, the amount of aid they received cannot be directly compared, especially with the status of Renault as *Régie nationale*. However, excluding Renault's capital grants which the state was able to provided in quality of majority shareholder, in all occasions aid was granted for the same reasons, usually rescuing firms in difficulties and staving off the possibility of foreign take-overs. Both these reasons underlied one single goal, which throughout several Presidencies and even more governments of different ideological orientation, never went away: protecting the national interest by creating national champions.

Hence, state subsidies had both a defensive and an offensive goal. Defensively, it was about ensuring rationalisation in the industry and not leave its car manufacturers behind. This was most apparent in the Citroën-Peugeot affair, where the aid to Citroën ultimately helped PSA the most, as it acquired capacities that helped its expansion. Offensively, protectionism by subsidisation meant that firms could lean on the state to invest in their technological innovations without fear from international competition. Eventually, neither strategy was successful, but this arrangement set in stone some important peculiarities of French state-business relations in the sector, which set them apart from both Italy and Britain.

Even after the privatisation of Renault, some of these characteristics lingered. While in normal economic times there was a clear shift in the objectives of the government, which pushed for low-pollution, high-technology projects, much of the mindset that reigned until the 1980s actually persisted, despite changes to the sector. For one, the Ministry of Industry started to assume more responsibilities regarding industrial priorities, suggesting more centralisation. However, this may be misleading *prima facie*. Many of the programmes were dispersed across a series of agencies such as the AII, and a new actor was becoming more important: the Ministry of Environment. While the Ministry was not particularly successful in its first attempt to influence industrial policy in the automotive industry in 2009, it seems to have found greener pastures in the decade following, and is now a central actor of the 'Vehicles of Tomorrow' project.

Further, state agencies retained much of their autonomy *vis-à-vis* civil society. As we saw, the switch from the CNPF to Medef failed to be effective in terms of how business influences policy. The instrument of the *tutelle* has also been progressively eroded following the wave of privatisations, marking the shift from *État tuteur* to *État actionnaire* (see Delion, 2007). Privatisations were conducted (at least

[27]Further, two elements set Renault and Alfa Romeo apart in particular. First, Alfa Romeo's CEOs were not afforded the same degree of independence as Renault's. Secondly, Renault's CEO were not nominated because of political kinship with the governing party.

initially) so as to create a series of interlocking directorates to shelter French companies from foreign takeovers, with the state rescuing several firms in difficulty when needed (Crédit Lyonnais, Alstom, Air France), meaning that the 'old boys' network' continued to be well and alive for a while (Levy, 2008; Schmidt, 1996). Nevertheless, the newly privatised companies later sold off their holdings, thus relying less on their privileged relationship with the government.

Finally, like before, the other side of the coin was that mobilisation in the industry was not particularly high. There were, however, two clear differences with the past. First, Renault was no longer state-owned, meaning that on a legal basis Renault and PSA were now on a level-playing field, both being *Sociétés Anoynmes.* Second, the industry now included foreign producers, too. Yet, one would be mistaken to think that this has led to a situation of pressure pluralism as in Britain, where no car maker has a special relationship with the government, and each vies for influence. On the contrary, France stayed true to its Gaullist roots, and perpetuated the insider/outsider structure that characterised much of the Fifth Republic.[28] For instance, foreign producers are not part of the PFA, and the state's plan for the 'Vehicles of Tomorrow' contains subtle protectionist undertones, such as Macron's call to choose France – *choisissez la France* – in his introduction to the project (see Gouvernement.fr, 2019).

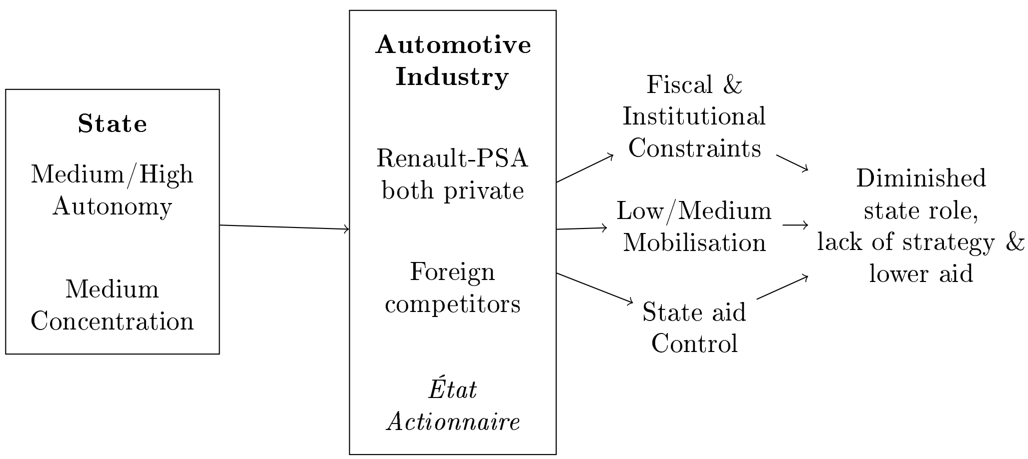

Figure 8.3.2: State-business relations in the French automotive industry since the 1990s

In sum, the structure of state-business relationships retained the same main characteristics as the first period, as Figure 8.3.2 shows. These persisted, and even reinforced during the 2008 economic crisis, with some commentators talking about 'economic patriotism', or even a 'return to statism' (e.g. Clift, 2013). The swiftness of intervention of the French government was proof, it was claimed, that the *dirigiste* tradition had never gone away: the state was there to protect French industry and

[28] Further, as it may be recollected, while the CCFA only includes PSA and Renault (and Renault Trucks), foreign car makers are regrouped within the CSIAM, thus showing the difference in approach at the trade association level. This clearly contrast with the British case, where all manufacturers and suppliers are regrouped within the SMMT.

would continue to do so. However, two further elements show that, in fact, not only there was no 'neo-*dirigisme'*, but also that we can no longer talk of a mix of Statism and Clientelism.

The first element is Europeanisation. Like in Italy and Britain, tightened state aid control strongly stymied the ability of national governments to support domestic industry. Excluding crisis aid, state subsidies fell sharply in terms of monies spent compared to the pre-1990s situation. Europeanisation – and writ-large, globalisation – also had a secondary effect: firms needed to be internationalised. This led companies to seek out managers that could better deal with the new reality. This meant even non-French managers who did not go through the traditional career path of past CEOs. As a result, the interlocking relationships that education and *pantouflage* created have become less strong, thus diluting the 'old boys' networks' that had been created in the post-war.

The second element, fiscal and institutional constraints, explains why even in times of crisis, state support did not herald a return to *dirigisme*. Institutional constraints were due to two factors. The first is that the French state no longer controlled large swathes of the economy, meaning that its ability to properly implement policy was curtailed. Secondly, and as a consequence, the elements that sat at the core of French interventionism back in the 1960-1980s, namely the pre-eminence of the Treasury, with its ability to control spending, were no longer present. As a result, not only did the government lack the necessary vision to enact long-term planning, but also the tools to enforce this vision onto private firms (Levy, 2017). The failure of the 2009 attempts to create a new greener automotive industry through the PFA is testament to this. The government largely relied on the good will of multinational corporations instead of taking the reins to use binding political institutions and commitments (Pardi, 2020).

Fiscal constraints are instead related to what Levy (2008) called 'social anaesthesia'. After the breakdown of *dirigisme*, successive French governments redirected expenditures to social programmes, meaning that there was less money available for industrial restructuring. Thus, even though the sums devolved to the industry in crisis were significant, they were also constrained by other ongoing expenditures. Further, as Levy (2017) notes, this new industrial policy was set up in such a manner that novel government expenditures would be limited and the state would instead use pre-existing funds.

These two elements restricted the ability of the government to resuscitate *dirigisme*. Although Statism was never a true characteristic of the French automotive industry, the state was in the past able to pressure firms to follow its interests. Today, instead, the state abdicated this role and seems to have given up on *formulating* a common long-term industrial policy in the sector, which seems to have been passed on the industry and expert groups. Instead, where the state remains central is the *implementation* of this strategy. As then Minister of the Economy Bruno Le Maire said, a new industry of electric batteries would not have been possible to create from the ground up without state support (Vie Publique, 2019). Indeed, like Britain, there have been advances to provide a clear direction for the sector, with the 2018 plan and numerous other reports, but unlike Britain, the state was not part and parcel of this strategy. Still, in both countries, these programmes have yet to bear the fruit, and it remains to be seen how the 2018 plan could be carried out after the 2020 economic crisis.

Most of all, this analysis once again shows why the *structure* of the policy network, while useful in explaining state-business relations over time, *must* be complemented by macro-level accounts (such as those provided by Levy, 2008, 2017) and cannot determine the policy outcome *a priori*. Similar policy network structures in the French automotive industry brought about two wildly different outcomes. The policy network framework by itself, then, would not be able to unearth changes that have taken place in the *process* of the dynamics of state-business relations, nor in the *macro-structure* of the national and international environments. But this does not mean that the sectoral approach is devoid of explanatory power.

The policy network approach allows us to make at least four conclusions which could not have been possible through macro-level accounts. First, while it is true that the French state was able to undertake what Schmidt (1996) calls 'heroic policies', that is, programmes where government leadership remains paramount and consultation with interest groups is minimal, the sectoral approach shows clearly why this was not a uniform movement.[29] In both the processes of nationalisation and privatisation, Renault was a clear exception, in terms of timing and reasons as to why these measures were taken. Likewise, the automotive industry was not involved in the massive restructuring of the 1970s, and was instead a latecomer to industrial reorganisation. Hence, while macro-level shocks such as the 1983 U-turn are definitely important, they do not always lead the way, as it was clearer for the British case.

Secondly, in terms of resource dependence, the approach shows why even strongly anti-interference personalities like Michelin, Gautier and Calvet were not always opposed to the government's policy in the sector. While successive French governments wanted to promote domestic industry by creating national champions, these family firms accepted intervention because it was in line with their need to expand abroad. Thus, a convergence of interests was necessary for these companies to become insiders to the eyes of the French bureaucrats.

Thirdly, as in Italy and Britain, the French case shows that partisanship only played an ephemeral role

[29] To be sure, some scholars (e.g. Suleiman, 1974; Wilson, 1987) note that consultation was actually widespread, sometimes to the point of being excessive. Yet, this was almost always a mere formality that state agencies went through, without any substantial implications. Bureaucrats would *listen to* interest group representatives, but would not *follow up* on their requests, if these were contrary to what was deemed as the national interest.

in state aid politics. Governments of all colours were keen on providing subsidies to car makers, and most interestingly for the same reason: the protection of the French industry. Even to this day, state support for other key goals such as the electrification of vehicles and the quest for autonomous driving are subordinated to the main goal of 'choosing France', as President Macron stated. Like Schmidt (1996) and Goyer (2001) suggested for corporate governance, then, the strategy of the French state in state aid politics served the interests and priorities of the main innovating actor: the state before 1990s and then the large firms, once the state abdicated its role in policy formulation.

Finally, the policy network approach taken as interest intermediation shows that this mechanism can take several forms: through trade or peak associations, direct contact, or even the characteristically French *pantouflage*. Hence, the low degree of mobilisation of sectoral groups does not necessarily entail weakness on their part, as the Atkinson and Coleman (1989) schematisation may suggest, but can also be a consequence of the interlocking relationships they create with civil servants, something that neither the Italians nor the British managed to emulate.

Hence, it is not surprising that the French case proved the most difficult to analyse using the policy network approach. More than twenty years ago, Schmidt (1996: 45) warned that such an approach may neglect the institutions underlying the politics of policy-making. What Schmidt referred to was most of all the state institutions, whose presence, unlike Italy and Britain, looms over every aspect of the economy. Yet, the mixed nature of the French economy meant that there were only a few sectors where true *dirigiste* policies could be carried out. The automotive industry was not one of those.

Moreover, macro-institutional accounts could not by themselves properly address the peculiarities of the French automotive industry, contrasted to other sectors of the economy. The two frameworks, instead, must complement each other to provide an accurate representation of state-business relations and government intervention. In the next section, I address the accountability mechanism to explain aid allocations. It will show that, despite the majoritarian nature of both the British and French electoral systems, a micro-level analysis reveals stark differences that impinge on the incentives parliamentarians have to promote constituency service.

8.4 Accountability: between local and national

8.4.1 The French electoral system

The French run-off or two-ballot system was introduced in 1958 with the advent of the Fifth Republic, as part of a package of reforms to avoid the government instability that riddled the Third and Fourth Republics (see Atkin, 2005: 56-61). The two-ballot system was chosen both for the Presidential and the legislative elections, with some minor differences.[30]

The country is divided into 577 constituencies, 555 of which are situated in continental France, and the remainder in overseas territories. In any one constituency, the size of the electorate should not vary by more than 20% from the average size of the electorate in all the constituencies in the department in which the constituency is situated (each department must have a minimum of two constituencies) (Elgie, 2005: 121). The two-ballot system ensures that voters can choose their true preference at the first ballot, but will instead vote for the 'lesser of the two evils' come the second ballot, if their preferred candidate does not advance. This was, for instance, the situation that occurred in the 2002 Presidential elections, where the two candidates who advanced to second ballot were the centre-right incumbent Jacques Chirac and the far-right candidate Jean-Marie Le Pen, with the socialist Jospin coming in at third place in the first ballot. Voters resoundingly rejected a far-right Presidency, and Chirac won with 82.2% of the votes against Le Pen, despite receiving less than 20% of the preferences at the first round (Farrell, 2011: 50).

Like Britain, France's is a strongly majoritarian system, based on single-member constituencies, where the eventual winner is decided by plurality rules, but there is a number of features that distinguish French majoritarianism from Britain's. First, the system has not been immutable throughout the Fifth Republic. There have been small changes, such as modifications in the threshold for advancing to the second round – 5% in 1958, 10% in 1967 and finally 12.5% in 1976 (Alexander, 2004: 214). But most of all, the governing party was able to effectively change the electoral system in 1985, when then President Mitterrand decided to switch to a PR system following the 1983 U-turn and the *Parti Socialiste*'s poor performance in the 1984 European elections. Still, at the 1986 legislative elections the PS was at a clear disadvantage, and the switch to PR did not prevent a loss to the centre-right headed by Chirac, who then went onto undertaking a sweeping privatisation programme, as we saw (see Alexander, 2004: 214; Knapp, 1987). This experiment did not last long and in 1988 France went back to the run-off system.

[30] Such as the threshold for the second ballot, which in the Presidential elections does not exist: the two most popular candidates will proceed to the second round.

Secondly, the presence of a two-ballot system creates two implications for the party system. First, unlike Britain, there is more variety in the parties running for office. The ability of voters to express their true preference at the first ballot entails that there is no need for a push towards two major parties like Labour and the Tories. Secondly, the presence of a second ballot where often only two candidates run means that alliances become necessary because parties competing in the second round must necessarily increase their vote count. Those that fail to forge alliances, instead, will be likely to lose (Elgie, 2005: 125-6). This leads to a situation of 'bipolar multipartism' whereby the system forces bi-polarism, but each pole retains its multi-party characteristics (Knapp & Wright, 2001: 259-67).

Thirdly, a peculiarity of the French system is the possibility for Members of Parliament and Government Ministers to hold multiple offices (*cumul des mandats*, see also Knapp, 1991). This is something that has become increasingly common: between 1958 and 1988 this percentage of deputies (as MPs are called in France) holding a local office rose from 49% to 96% , and in the 1997-2002 legislature this became over 97% (Costa & Kerrouche, 2009: 223; Elgie, 2005: 131). This 'double jobbing' is a key feature of French exceptionalism in electoral politics, which is not apparent in its Italian or British counterparts – or most European democracies, as a matter of fact.

One of the most notable examples of *cumul des mandats* is Jacques Chirac, who was Mayor of Paris between 1977 and 1995, while at the same time being Prime Minister under Mitterrand. Former Prime Minister Jacques Chaban-Delmas (1969-1972), who was also Mayor of Bordeaux, remarked in an interview in the early 1970s, that since most important decisions for the cities in the country are taken in Paris, then, 'the cities must have as mayor a man who can obtain in the ministries in Paris the decisions that command their destiny in all fields,' and that for what concerned his own city, 'the state gives Bordeaux what it needs and [...] can legitimately claim' (cited in Suleiman, 1974: 170). Such a sentiment was reaffirmed more recently by an MP, who described the situation thusly: '[a]n MP is a gardener. He has a big garden, his constituency, and he has to go to Paris in order to get fertiliser' (cited in Brouard et al., 2013: 146).

Hence, one would expect French deputies to heed even more attention to their constituents' needs because of the compound effect of the single-member constituencies and the *cumul des mandats*. Recent surveys of French MPs showed that, while most deputies saw the national activity as their most important task, three out of four MPs listed constituency activity as the second most important task (Brouard et al., 2013: 145). These numbers seem to be historically in line with older surveys. In the late 1960s and early 1970s, 58% of respondent deputies listed attention to both the national and local level as important to their work, with only 29% favouring a national role and 10% a local one

(Cayrol et al., 1971). Indeed, the practice of the *cumul des mandats* also suggests that, since most deputies hold multiple offices, it would be rather difficult to believe that they would suddenly become deaf to the interests of their own constituents once elected to Paris (Costa & Kerrouche, 2009: 225).

Finally, candidate selection also presents slight differences with the British system. In France, the selection process is historically more centralised at the national level, often involving the Prime Minister or even the President of the Republic. Rosenthal and Sen (1969), for instance, describe how in 1967 the Gaullist leaders carefully scrutinised districts for potential candidate changes in a commission headed by then Prime Minister Pompidou. Jacques Foccart, a high-level civil servant under De Gaulle and Pompidou recollects in his diaries how the General would be involved in candidate selection by deciding disputed cases and choosing in which constituencies Gaullist allies would be free to run. Mitterrand behaved in a similar manner, according to his Prime Minister Rocard, who mentioned how the former President was basically 'able to appoint everyone' (cited in Knapp & Wright, 2001: 105).

Candidate selection today is less so in the hands of such figures, but remains nonetheless quite centralised. Murray (2010: 49-55) describes the process for different parties (Communists, Greens, Socialists, Centre-Right, Gaullists and Extreme Right). Generally speaking, leftist parties leave more initiative to local party organisations than right-wing parties. In almost all cases, however, either the National Party or the National Selection Committee have a power of veto and/or the final say over candidate selection. Factors of electoral competition also affect candidate selection. Thus, for instance, the National Party will almost always support the incumbent, or even former incumbents, which is a risky strategy in other countries.[31] In the absence of an incumbent, a new candidate that resembles the former incumbent as much as possible will instead be selected, thus perpetuating the status quo (Murray, 2010: 85-89).[32]

Hence, French deputies seem to also have to serve two masters, like their British counterparts. However, the practice of the *cumul des mandats* makes it so that in truth they have much more freedom than British MPs. According to interviews carried out by Costa and Kerrouche (2009: 231-2), although deputies recognised standard constraints such as necessity of party discipline, support of the government (if they are the majority party), and compliance with parliamentary rules, they also felt that they were free to make their own choices, especially at the local level where they 'expressed a sense of great satisfaction in the freedom of action that is theirs.' The next sub-section examines the relation between state aid allocations and electoral politics in France by means, as in the previous chapters, of

[31] In the case of the UDF (*Union pour la Démocratie Française*), the incumbent may be not re-selected if they are projected to perform very poorly or if they are old and unwilling to retire.

[32] For a quantitative analysis of the determinants of candidate selection in France, see Gavoille and Verschelde (2017).

an analysis of parliamentary questions. It will show how, despite also being based on single-member constituencies, the French system is more conducive than the British one to constituency service.

8.4.2 State aid and electoral politics in France

French national representation has its roots in the Rousseauvian tradition in that it is called to decide collectively (Brouard et al., 2013). Yet, this has not stopped French MPs from being active in their respective constituencies, where they are considered to be key actors and powerful political entrepreneurs, in order to pursue a personal vote (see Kerrouche, 2009). This type of politics in France takes on different forms due to constitutional constraints on economic expenditures. It could be a lobbying process in legislative texts, or the so-called *permanence* (allowance), which is used to hire assistants and establish the local headquarters, usually installed in the constituency in which the deputy holds a local office. A further tool is that of the *réserve parliamentaire*, which are monies decided upon by parliamentary authorities and then distributed across the different political groups. Deputies will use these subsidies to establish a stronger local network and benefit the local constituency (see Brouard et al., 2013; Kerrouche, 2009).[33]

As Rickard (2018) shows for the cognac industry, deputies can indeed bring local issues to the attention of national ministers. Below we will see how this is also true for the automotive industry. A set of 68 parliamentary questions (PQs) has been collected from the Assemblée Nationale website between 1988 and 2013.[34] This type of legislative activity is particularly apt for the task at hand since, according to Gavoille and Verschelde (2017), it has a two-fold function in France. First, it constitutes the 'most direct tool for deputies to control the government.' This is particularly important in a political system where the weak National Assembly has been historically seen as a mere 'rubber stamp' for the much stronger executive. The second function is to transmit to the government information about constituencies' concerns, therefore representing the electorate at the national stage. Still, it is worth remembering that such actions can also be expressed through different parliamentary activities such as reports, interventions and propositions (Gavoille & Verschelde, 2017). Hence, the analysis below

[33] However, since these monies are allocated by the party leadership *a priori*, their amount is not a function of the ability of the deputy to extract concessions.

[34] Web-scraping procedures were the same as in the British case, using RStudio's rvest and RSelenium packages (Harrison, 2020; Wickham, 2016). The quanteda package was then used to filter relevant ministries and topics (Benoit et al., 2018). Automated scraping generated a set of 171 PQs, 103 of which were manually deleted as they were not pertinent to the topic (e.g. some involve foreign commerce, agricultural machines or the fuel industry). I would like to thank Michele Clari for his help in this second part of the task. The low number of PQs should not be surprising in light of previous data as employed in the regression analyses of the European automotive industry in Chapter 4. The number of state aid cases in France was far lower than in both Britain and Italy. It should also be noted that web-scraping went as far back as 1981, but 1988 was chosen as starting point for two reasons. First, data before 1988 were often incomplete; and secondly this period would have covered the 1986-1988 PR switch, which would have made comparison with the rest of the sample inconsistent.

necessarily gives just a partial picture of constituency service.

Like for the Italian case, but unlike Britain, these French PQs include concerns for suppliers, as well as car manufacturers. This is because the supply chain network is much more integrated in France and Italy than it is in Britain, and Italian and French suppliers have historically not had the same power as their British counterparts. Hence, by including suppliers, we are *de facto* ensuring that the the concerns of French deputies include national car manufacturers as well, whereas this may not have been the case in Britain.[35]

Table 8.4.1: Words used by French parliamentarians in PQs (1988-2013)

industrie industry (227)	*ministre* minister (206)	Renault 201	*demande* asks (159)	*automobile/s* car/s (157/55)
groupe group (134)	*attention* attention (129)	*production* production (124)	*emploi* employment (97)	*véhicules/véhicule* vehicles/vehicle (97/41)
attire grabs (95)	*gouvernement* government (94)	*économie* economy (92)	*site* [production] site (91)	France 84
situation situation (83)	*emplois/d'emplois* jobs (80/65)	*plan* plan (79)	*entreprise/s* enterprise/s (75/48)	PSA 73
direction direction (69)	*mesures* measures (68)	*constructeurs* manufacturers (67)	*compte* counts (66)	*usine* factory (61)
salarié/s salaried (61/56)	*territoire* territory (58)	*secteur* sector (57)	*effet* effect (53)	*industriel/s* industrial (51/49)
part part (47)	Peugeot 47	*faire* do (46)	*pays* country (45)	*nationale* national (44)
économique economic (44)	*filière* industry/sector (44)	*politique* politics/political (43)	*prendre* take (42)	*milliards* billions (40)

Source: personal elaboration from National Assembly data: `http://www2.assemblee-nationale.fr/recherche/questions/`

Table 8.4.1 shows the 40 most used words in the PQs for French deputies.[36] The table offers several insights on the topics that French MPs touch upon and their approach. First, Renault is indisputably the firm about which PQs are most tabled, with over 200 mentions. PSA (sometimes written as PSA

[35] Two notes on the inclusion of suppliers in the data. First, given the multitude of suppliers in the MVI, their names were not included neither in the web-scraping, nor in the filtering processes. Rather, the names of the manufacturer (e.g. Renault, PSA, Toyota) were included in the filter (as was the case for Britain). The resulting set of 171 PQs included question concerning both manufacturers and suppliers, often in relation to the manufacturers. In the second step of manual deletion, only the suppliers that are part and parcel of the French automotive industry, such as Valeo – that is, those firms that work exclusively or almost exclusively as part of the supply chain for the car manufacturers – were retained. Firms that have instead vested interests in a plurality of sectors such as automotive, aeronautics and electricity are excluded. This choice is justified in light of the argument just presented about the integration of the supply chain. Including manufacturers that operate across several sectors would negatively impinge on the integrity of such a system.

[36] Stopwords and some adverbs that offer little insight (e.g. *aussi*, *bien*, *afin*, *très*, *entre*) have been removed.

Peugeot [six occurrences], or even PSA Peugeot Citroën [two occurrences]) is only mentioned around half the times. This is probably not surprising, given the sample starts in 1988, right after the huge debt write-off that the government signed to save the company.

Secondly, in line with what Gavoille and Verschelde (2017) note, both the control and representation functions are present. The former is expressed through words such as *demande* in the context of formulations such as '*il/elle lui demande de preciser*' (s/he asks him/her to specify), '*il/elle lui demande de l'informer*' (s/he asks him/her to inform), or '*il/elle lui demande quelles dispositions il/elle compte prendre pour..*' (s/he asks him/her which measures s/he aims to take in order to...). The latter is expressed through words such as *attire*, *attention* or *situation.* Formulations that use a combination of these words are usually '[MP] *attire l'attention de* [Minister] *sur la situation de...*' (the MP grabs the attention of the Minister on the situation of...). On the contrary, the function of PQs for MPs to extract information also seems to not be as relevant as the other two functions of control and representation. The verb *savoir* is used only 14 times, whereas words such as *informe, informer, information/s, informé* are used, combined, only 15 times. Only in four occasions do MPs ask about '*la position du Gouvernement*' (the position of the government).

Thirdly, more in line with the Italian MPs, French deputies are concerned both about the productivity of the economy (*production*, *entreprise/s*, *filière*, *usine*), and the welfare of the employees (*emploi*, *emplois*, *salarié/s*). Fourthly, words such as *site*, *territoire* and *usine* suggest some degree of geographic focus, whereas words like *France*, *pays* and *nationale* point towards a more nationally oriented one. Both these points show that in the PQs there is an inherent tension between the idea that French deputies should follow a 'general will' on the one hand, and the ability and willingness of these MPs to advance constituency concerns on the other.

Finally, while in Britain MPs often focused on the notion of investment, typical of the liberal market tradition, such an approach is absent in France. *Investissements* (investments) is not among the 100 most used words, whereas *marché/s* (market/s) is only mentioned 40 (30 for the plural version) times: French MPs do not appear as focused on the long-term benefits of industrial policy. The following builds on this evidence to show how the functions of control and representation are exercised by French deputies.

Table 8.4.2: Parliamentary questions about the French automotive industry (1988-2013)

Questioner	Government	22 (*32.4%*)
	Opposition	46 (*67.6%*)
Double office	Holds a local office	53 (*77.9%*)
	Does not hold a local office	15 (*22.1%*)
Ideology	Left-wing	49 (*72.1%*)
	Other	19 (*27.9%*)
Incumbency status	Incumbent	40 (*58.8%*)
	New MP	28 (*41.2%*)
Supplier	PQ concerns supplier	30 (*44.1%*)
	PQ does not concern supplier	38 (*55.9%*)
Geography	Targeted questions	43 (*63.3%*)
	Non-targeted questions	25 (*36.7%*)
Jurisdiction	Targeted PQ about own constituency	26 (*60.5%*)
	Targeted PQ not about own constituency	17 (*39.5%*)

Source: personal elaboration from National Assembly data:
`http://www2.assemblee-nationale.fr/recherche/questions/`.

Table 8.4.2 distinguishes between questioner (government or opposition), office-holding (local office or not), ideology, incumbency status, whether the PQ involves a supplier or not, whether the question is targeted to a specific geographic area, and whether the targeted PQ concerns the MP's own jurisdiction (within the department).

Unsurprisingly, as was the case for both Italy and Britain, most questions come from the opposition benches: the function of checks-and-balances is well alive in France as well. Further, over three out of four PQs come from deputies who also hold a local office in different capacities (e.g. mayor or regional councillor). As was discussed in the previous sub-section, the *cumul des mandats* is not only a strong incentive for MPs to focus on constituency services, but it also provides the necessary tools to do so effectively, through pre-existing networks and local headquarters.[37] This finding contradicts both Brouard et al. (2013) on constituency service, and Gavoille and Verschelde (2017) on legislative activity. The former find that deputies who are multiple office-holders agree less with the statement that a foremost part of their activity is to provide resources for their constituents. The latter, instead, show that contemporaneous office-holding has a negative impact on legislative activity in that time is a limited resource and deputies with local office posts may devote less time to their Paris work (e.g. in parliamentary committees). François and Weill (2014), instead, find a complementarity between local and national mandates and that a limited *cumul des mandats* has a positive effect of legislative activity in the National Assembly. In other words, the two offices complement rather than substitute each other. This situation seems to be the most relevant for the case of the automotive industry.

The discrepancy could instead be explained by looking at what is actually being measured. First, whereas Brouard et al. (2013) use a sample of interviews with French deputies, that is, they measure their perception, I look at legislative activity (though only a partial picture thereof), thus measuring not what MPs *perceive* to be doing, but what they *effectively do*. Secondly, in the case of Gavoille and Verschelde (2017), it could be that legislative activity involving PQs could be less resource- and time-intensive than other assembly work such as parliamentary committees. This is because PQs may be used to air constituents' concerns which the deputy is already aware of given her mandate at the local level. Committee work, instead, could be completely unrelated to local affairs, thus forcing the deputy to a more resource-intensive exercise.

In the third place, an overwhelming majority of questions come from left-wing parties. This trend is reinforced when only targeted PQs about a deputy's own constituency are considered. This is a far cry from the picture of the British conservative MP as a lobbyist for local producers that Wood (1987) provides. Interestingly, there is no inverse relation between the ideological leaning of the deputy and that of the government. Thus, it is unlikely that partisanship plays a role in an MP's choice to table a question. This finding seems also to be in slight contradiction with what Brouard et al. (2013) report about right-wing deputies focusing more the local dimension compared to their left-wing counterparts. Two notes on this apparent contradiction can help unravel the puzzle. First, again, Brouard et al. (2013) measure what MPs perceive to be doing, whereas I measure what they effectively do. Secondly, as we saw, many MPs highlight not only the fact that the firm should be helped, but also that its employees should be supported, thus revealing a social dimension that is inextricably linked to French state-business relations. Such an element, indeed, was also present in the diachronical account in

[37] This percentage increases to 88.4% when considering only those PQs that are targeted at an MP's own constituency *and* in which deputies hold a local office.

the previous section. For instance, much of the restructuring aid to Renault and PSA in the 1980s was (mostly unsuccessfully) aimed at maintaining employment levels. This was again brought to the fore in the 2008 economic crisis, when one of the conditions for aid Sarkozy put was about avoiding redundancies. Thus, it is not surprising that in such scenarios left-wing MPs would be willing to air their constituents' concerns.

Further, like in Britain, incumbents (i.e. at least one term completed when the question was tabled) also ask more questions. This finding seems to support the role of the deputy as a 'political entrepreneur', as described by Costa and Kerrouche (2009). These authors characterise this particular MP as one showing 'a significant level of expertise, enabling him to draw fresh resources for the local dimension of his position from his role as a deputy,' and as a 'specialist in the field of pork-barrel politics.' Thus, constituency service is not used by freshmen MPs to advance in the ranks, but on the contrary, it is the result of the ability and expertise developed by deputies who built networks within political institutions and with the civil service. Freshmen deputies, especially parachuted ones, may instead encounter some local resistance even when they have significant contacts and a good network at the national level (Costa & Kerrouche, 2009).[38]

Focusing on suppliers, too, shows that, while only a minority of questions (44.1%) concern suppliers, this is not a negligible amount by any means. A content analysis of these questions shows the high degree to which these firms depend on the main car manufacturers. For instance, Maxime Gremetz, deputy for the Somme, wanted to stress how the market of a pistons-producing firm was constituted 'for 80% by requests from Renault and Peugeot,' whereas Jean-Claude Gayssot, MP for Seine-Saint-Denis noted that the main purchasers of the Valeo equipment are Renault and PSA.[39] Government officials were also on the same wavelength: as the Minister for Industry and Commerce replied to a question by André Lajoinie, 'the development [...] and reinforcement of the supply chain [*tissu des equipementaires*] are encouraged by the public powers because they constitute major assets for our motor vehicle industry.'[40] Hence, a strong dependence relationship exists between the car manufacturers and the suppliers, which makes interest from the MPs' part inevitable.

A major difference with Britain, despite both countries having single-member constituency systems, is the strong focus on targeted PQs in France. In Britain, the amount of targeted PQs tallied up to around 28% when including nearby constituencies, whereas the large majority of the questions lacked a geographic reference. In France, a whopping 63.3.% of the questions is geographically targeted. Of

[38] A parachuted deputy is one that leadership sends to run in a district with which she has no local ties.
[39] Questions no. 14404 of 12/6/1989 and no. 48084 of 10/2/1997 respectively.
[40] Reply to Question no. 53820 of 10/2/1992. Reply on 7/9/1992.

these, 60.5% concern a plant in the questioner's own constituency.

This is in stark contrast with the British case, which goes to show three things. First, as the quantitative analyses of Chapters 3 and 4 suggest, looking at the average district magnitude alone (or distinguishing between majoritarian and PR systems) is simply not enough when the attempt is to explain the effect of electoral rules on economic outcomes. Secondly, the cultivation of a personal reputation is not a mechanic consequence of the electoral system: the way British and French MPs approached constituency service differs strongly.

In the third place, deputies' PQs are not necessarily based on issues of electoral competition. Of the 68 PQs in the sample, six were from MPs who won their seat at the first ballot, one was from a deputy who took over their seat mid-term, and the remaining 61 were from deputies who won their seat at the second ballot. Among these, the average margin of victory was 25.5%, increasing to 40.92% when considering only those PQs targeted at the deputy's own constituency (23 questions).[41] To be sure, while this sample is relatively small, it suggests that factors other than electoral considerations can influence an MP's choice to table a PQ to air her constituents' concerns. These may be due to particular contingencies (e.g. an economic crisis), the cultural environment or even the personalities of each parliamentarian. However, what I would like to suggest here is that engagement in this kind of legislative activity is related to the typology of policy network of that economic sector.

Evidence pointing to this is not certainly circumscribed to France, but instead presents a pattern that is found in all three case studies so far. In pressure pluralist networks such as the one found in Britain, MPs are not particularly incentivised to be 'local promoters' since they are aware that negotiations between state and business are seldom based on privileged relationships. In Italy and France, instead, there is a strong insider/outsider system, with the state clearly privileging few, selected firms or groups. This, in turn, seems to incentivise MPs to behave in a way that is more consistent with the structure of the policy network.

Once again, the interaction between the meso- and macro-levels of a country's political economy seems to come to the fore. However, it remains difficult to establish the direction of causality (if there is indeed any). The next subsection explores this matter more in depth to provide a more fine-grained of electoral politics in the French automotive industry.

[41] The median being 12.01% and 23.33% respectively.

8.4.3 Taking stock of electoral politics in the French automotive industry

From the discussion so far it appears that, despite the weakness of the National Assembly *vis-à-vis* the executive, French MPs have upheld their duty to provide a check on the government's activity and represent their constituents. Though little can be inferred about their chances of success (especially since in many cases a government response is missing), three trends can be identified through a closer look at the questions.

First, there is a clear insider/outsider bias about whose interests MPs are concerned with. Although the scraping algorithm used to gather PQs from the National Assembly website included foreign firms that have a presence in the French territory such as Fiat, Toyota, and even Nissan (through its partnership with Renault), very few deputies were concerned about inviting foreign investment in the country. One instance can be found in the socialist's Christian Bataille question about Sevelnord.[42] Following Fiat's disengagement in the joint venture, he notes, it was 'indispensable and urgent to find a new partner,' though it was clear that the aim was not necessarily one of ensuring international alliances. Rather, the sense of urgency stemmed from the necessity to 'ensure the continuity of the activity of 2,800 employees and the development of the factory,' since it generated 'thousands of employees among the supplier.'

André Lajoinie, a deputy from the Communist Party, had a much more critical approach to welcoming or even supporting outsiders.[43] In a 1991 question, he criticised the internationalist strategy of Renault, particularly towards the Japanese firms, which had been offered to carve a portion of the European market share following negotiations with Renault's management. Such choices, he claimed, not only severely restricted Renault's profits in favour of its competitors, but they also entailed a 'considerable weakening of the human potential of the enterprise, with dozens of thousands of jobs being suppressed.' As a result, Lajoinie asked the government how they would face this 'programmed invasion of foreign firms, particularly Japanese ones, to the detriment of national car manufacturers,' even calling for an 'offensive policy of reconquest of parts of the market.' Though this may not seem he was asking for subsidies, it is an explicit call for the support of the national industry (the insiders), against foreign firms (the outsiders). Hence, even after several years since the end of the Gaullist era, and even if Lajoinie was on the Left, the notion of protectionism continued to survive, thus showing the heritage of the insider/outsider structure created during the *Trente Glorieuses*.

Secondly, and as a consequence of this attitude, several MPs highlight the importance of firms in the

[42] Question no. 126565 of 24/1/2012.
[43] Question no. 40703 of 18/3/1991.

motor vehicle sector to the local industry. For instance, Jean-François Mancel, a centre-right MP for the RPR (*Rassemblement pour la République*) noted how the Chausson factory in Creil was 'an essential piece of the industrial tissue of the South Oise.'[44] Likewise, Alain Bocquet, a member of the Communist Party, called for the help of an axles-and-pistons manufacturers in Vieux-Charmont, Doubs, since the 'whole regional industry [had been] destabilised.'[45] He further asked the government to ensure the continuation of production and employment in the Vieux-Charmont factory and to 'give body' to the project for the vehicles of the future by exploiting 'the expertise and the human capacities offered by this industrial basin.'

The ministers who were charged with replying to such questions agreed more often than not. In a reply to Jacques Brunhes regarding the Chausson factory in Gennevilliers, the Secretary of State for Industry Christian Pierret noted how, given the location of the enterprise 'at the heart of the Ile-de-France and in proximity of the capital, the mobilisation of public and private actors, both national and local, will allow to ensure a reconversion that will energise the economic tissue of the city of Gennevilliers.'[46] In a similar manner, following the crisis of PSA in 2012-13, the socialist MP Marc Dolez was worried that the Sevelnord factory in Hordain, one of the only two PSA sites in the Nord department would be closed. Emmanuel Macron, then Minister for Economy and Industry, reassured Dolez that the Sevelnord site in Hordain would be supported in order to make the site more quality-focused, which was something that employees also agreed with, according to the Minister.[47]

Both these elements point to the third, perhaps most important feature of French electoral politics when constituency service is involved: the tension between the national and local levels. This is self-evident in many of the questions reported above. While many deputies wanted to defend *local* production sites and the employees therewith, this was often, if not always aimed at perpetuating a *national* defence of domestic producers. For instance, in replying to the question above asked by Marc Dolez, Macron did not simply reassure the deputy that jobs would not be lost, but he especially highlighted how the government supported PSA as a whole during its restructuring. He concludes his reply with an even larger scope:

> Through the New Industrial France [*Nouvelle France Industrielle*] and the contract with the automotive industry, an ambitious plan has been put in motion to accompany the industry, manufacturers and suppliers of all sizes. The action of the government has as main aim to make the vehicles produced on the territory more competitive and attractive.[48]

[44] Question no. 31428 of 16/7/1990.
[45] Question no. 81743 of 27/12/2005.
[46] Reply to Question no. 271141 of 22/3/1999. Reply on 7/6/1999. It should be noted that at the time Jacques Brunhes was also Mayor of Gennevilliers.
[47] Reply to Question no. 948 of 17/7/2012, renewed on 21/1/2014. Reply on 31/5/2016.
[48] Reply to Question no. 948 of 17/7/2012, renewed on 21/1/2014. Reply on 31/5/2016.

In the same vein, suppliers and car manufacturers being inextricably intertwined meant that defending local firms entailed vicariously defending the national champions – Renault and PSA – to the detriment of their competitors, thus perpetuating the insider/outsider logic of French industrial policy. Deputies are still divided on whether their main focus should be national – as the Rousseauvian tradition suggests – or local, which is incentivised by their proximity to their constituents (see also Brouard et al., 2013; Costa & Kerrouche, 2009; Kerrouche, 2009).

In sum, electoral politics in the French automotive industry presents elements from both the Italian and British cases. It resembles Italy in its tradition to defend employees first and foremost and in its insider/outsider logic (though the root causes of each are different) due to the strong linkage between suppliers and manufacturers. It resembles Britain in the incentives that the electoral institutions – far more so than in Britain – offer deputies in engaging in constituency service. Thus, in a comparative perspective France takes the best of both worlds in providing its MPs with ways to counter-balance the strength of the executive and make the constituency work in which deputies engage worthwhile.

Still, France retains elements that make its system unique and difficult to compare to the other two. For one, the *cumul des mandats*, whereby the norm is for parliamentarians to hold a local office, seems to explain a great deal of the tension between the national and local levels. Secondly, the two-round system meant that there is more variety in the party system compared to the UK. Since deputies know that at the first ballot voters tend to express their true preference, and given that (with a few exceptions) advancement to the second ballot is not guaranteed, then it is important for MPs to show to their constituents that they are doing well and engage in constituency work by bringing financial support to the local projects. Finally, the presence of not one, but two national champions pushes for a strong insider/outsider logic that even Italy lacked. Whereas in Italy Alfa Romeo failed to attain the status of national champion and Fiat became far too big an entity for governments and legislators to control, this was not so in France. Thus, deputies were not put off by offensive protectionism, but instead actively embraced it: ensuring the welfare of French suppliers and manufacturers was the foremost issue to address.

Two conclusions can be drawn from this part. Although evidence presented here does not establish a direct link between MPs' constituency service and subsequent government action in state aid policy, it lends credence to the possibility of this mechanism being at play in the French MVI. Further, the set up of the electoral system strongly incentivises deputies to take on clientelistic relations with their constituents, including the *patrons* of the firms, thus perpetuating the insider/outsider logic in the industry. Hence, once again, an interlinking relationship between electoral rules and policy networks seems to arise whereby constituency service is not necessarily driven by immediate electoral concerns, but instead constitutes a way to build up political capital that can be subsequently expended in Paris.

8.5 Conclusion

France has always been an empirical exception in political economy studies. Thus, for instance, Schmidt (2002, 2003) and Amable (2003) referred to France as having a 'third variety of capitalism', opposed to the Anglo-Saxon and Rhenish models. In policy network studies, Van Waarden (1992) noted how the Atkinson and Coleman model was not necessarily accommodating of the *pantouflage* tradition. Clift (2013) and Levy (2017) wrote about a return to neo-statism, but noted – particularly the latter – how it assumed a rather different aspect whereby the new 'statism' was a mere shadow of the ability of the French state of old to coordinate the economy. The list of examples could go on. The analysis of this chapter continues this trend and highlights the difficulty of characterising state-business relations in the French automotive industry. This sector retains some peculiarities of the state-led capitalism of old and the more recent state-enhanced one. But the French automotive industry was also an outlier in several respects compared to other sectors in the country.

For a long time, state-business relations in the French automotive industry were characterised by three features, which precluded the possibility of building different state-business relations, and eventually impacted subsidy spending. First, the sector, very much like Italy's but unlike Britain's, was almost exclusively French in nature, meaning that there was an inherent protectionism in the way the state approached car manufacturers, rejecting instead foreign investment. This resistance came less with the opening of the economic borders thanks to the Single Market in the 1990s.

Secondly, foreign investment was rejected not merely as a way to defend domestic producers, but to *nurture* them. The French state led attempts to rationalise the industry so as to create national champions with a two-fold aim, one purely offensive and the other also containing defensive elements. The offensive goal was to make these producers compete internationally. The more defensive goal was to avoid take-over from foreign companies of national lame ducks. Having a few firms in a strong financial position, with explicit backing from the state meant that the industry could continue to remain French. From the way the French state acted, it could also be suggested that the defensive aim is a prerequisite to the offensive one. Competition at the international level for French firms was not possible before first staving off foreign competition at the national level. This is something that British governments found out the hard way: by accommodating important foreign makers from the get-go, the defensive goal in Britain was already impossible to attain, making the nurturing of a national champion, BLMC, if not an impossible task, one that became even more difficult to attain.

Finally, the reason why there was such an important involvement of the state in industrial policy was the high degree of synergy among the political and economic elites. This was due to two factors: the weakness of interest groups *vis-à-vis* the state; and *pantouflage* – the shuttling of members of the civil service or politics into the highest posts of business or vice-versa – meant that there was a closed, limited circle of decision-makers that encompassed both business leaders and high-level bureaucrats. This meant that civil servants were reluctant to open up to external influences, thus precluding the possibility of concertation between state and business.[49] Moreover, thanks to this practice, parentela relations too, while possibly feasible (particularly in the case of Renault), were not needed.

In sum, the large subsidies given to car manufacturers until the late 1980s were the results of an interlocking system of relations between state and business that lay on the foundations of a strong executive that pursued a policy of offensive protectionism. Yet, this did not entail neither a coherent strategy in industrial policy, nor a leading role for the state in this sector. On the contrary, compared to other sectors such as electronics and high technologies, the state-owned Renault had a fairly large degree of autonomy, since the French state never was willing to take on a sector that offered neither a public service (like utilities, with Électricité de France) nor was strategic for the national interest (like defence, with Dassault or Aérospatiale), which precluded any clear state-led paths for industrial policy in the automotive industry.

Since the 1990s, the relationship between state and the automotive firms changed radically. Perhaps better than Italy and Britain, France managed to switch the focus towards environmentally friendly 'Vehicles of the Future'. What should be noted, however, is that whereas the British government was at the forefront of the re-organisation of the industry, the French one stepped aside and let experts and business take the lead, thus once again potentially preventing a clear, proactive sectoral policy. This is not to say that a proactive sectoral policy is not feasible without the state. However, by making policy formulation and (partially) implementation rest in the hands of few private actors, issues of coordination and compliance might arise.

In terms of electoral strategies, instead, the second part of the chapter showed that French electoral politics are a mixture of the Italian and British cases, with some original elements of its own. The analysis of the parliamentary questions showed that French deputies are more engaged in constituency

[49] As Howlett (2002) notes, more closely integrated policy networks may be less receptive to new, external ideas, therefore perpetuating the defence of the existing institutional elements.

service than their British counterparts, despite both countries having single-member constituencies. The presence of the *cumul des mandats*, of the second round, and of a rooted insider/outsider logic in industrial policy meant that French MPs had more reason to cultivate a personal reputation compared to British MPs. Beside their typical goal of representation, PQs also functioned as a check on the government, which is important in a political system such as France's, where the executive is a much stronger institution than the legislative chambers.

One key characteristic of electoral politics in France was the local-national contrast. Deputies often acted as local promoters of factory employees. Yet, at the same time they defended the presence of national champions in the automotive industry as of strategic importance for the French economy. The findings of this second part of the chapter are only partially supported by larger studies on French legislative behaviour. At least two reasons may be adduced. First, the sample for the French PQs is rather small – less than 70. Hence, one should not put unwarranted confidence in these results. Secondly, and as in the other cases, the legislator's approach towards one sector of the economy may not be representative of their overall approach to constituency service.

Two important lessons, therefore, can be gathered from this chapter. The first one is that the policy network approach can be useful in complementing macro-level or statist accounts of political economy. It helped explain why, despite the strong executive and the widely understood statist tradition, France was not able to carry out a coherent industrial policy in the sector. Responsiveness to societal interests depended not only on state capacities, but most of all on the interlocking relationships that state official and business leaders in the industry created. Industrial policy in the automotive sector was the outcome of the interplay between these two sets of actors rather than institutions or partisanship.

The second lesson concerns the importance of the controlled comparison of matched case studies. Italy, Britain and France were chosen to match because of their electoral rules, among other factors. While the former boasted several different system, mostly based on PR, the latter two were based on majoritarian single-member constituencies. Yet, the analysis of French PQs not only revealed important differences with the other majoritarian system, Britain, but also some similarities with the Italian's PR system, particularly in their deputies' accent on employment levels – which is mostly absent in Britain. Had the study stopped with the British case, one could have erroneously inferred that electoral institutions are not conducive to constituency service, and therefore the results from the quantitative analysis that found a significant effect between electoral rules and aid disbursement were spurious. Instead, the more fine-grained case studies unearthed peculiarities of each system that show how micro-level variables can affect such results. It also shows that focusing exclusively on the French electoral system to understand the accountability side of the story may lead to limited inferences due to the almost uniqueness of this system. Hence, from a methodological standpoint, controlled comparisons continue to offer invaluable insights in case study analysis and should not be discounted *a priori* in favour of newer, sophisticated techniques (see Slater & Ziblatt, 2013).

In conclusion, this last case study added to the pre-existing two both in theoretical and methodological terms. The state-enhanced nature of French capitalism partially translated to the national automotive industry, where the French state remained a looming presence, ready to intervene when necessary, but where it also failed to effectively take the reins. Neither the Italian nor the British states presented such features. Hence, despite its status as 'empirical exception', France should not be seen as a case study that adds little to comparative literature. On the contrary, it can greatly contribute to the goal of discovery by pointing out why particular mechanisms do not travel well across national borders.

Table 8.5.1: State aid to the French automotive industry, 1960s-2020

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1963-1965	Renault			FRF 250mn capital increase (FRF 50mn yearly)		Expansion of production (new factory)	FRF 50mn in 1963; FRF 100mn in 1964 and 1965
Dec-65	Citroën			FRF 100mn	Fonds de Develop-pement Économique et Sociale (FDES)	R&D and ease decentralisa-tion efforts	
Dec-65	Renault			FRF 20mn	FDES	Expansion of production capacities	Agricultural vehicles
Dec-65	Berliet			FRF 25mn	FDES	Expansion of production capacities	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Dec-65	Saviem/Richard-Continental			FRF 10mn	FDES	Rationalisation programme following merger between Saviem (Renault subsidiary) and Richard-Continental	Agricultural and construction vehicles
1966	Citroën			FRF 80mn grant			Crédit National
1966-1967	Citroën			FRF 200mn loan with interest rate lower than market rates	FDES		FRF 100mn in 1966 and FRF 100mn in 1967
1968	Renault			FRF 150mn capital grant			

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Apr-68	Citroën			FRF 300mn			Asked to the Treasury, but not allowed
1969	Renault			FRF 150mn capital grant			
1970	Renault			FRF 125mn capital grant			
1971	Renault			FRF 100mn capital grant			
1973	Renault			FRF 200mn capital grant			
1974	Renault			FRF 250mn capital grant			
Dec-74	Renault			FRF 450mn loan at 9.75% rate	FDES	Purchase of Berliet, following the Cit-roën/Peugeot merger	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1975	Citroën			FRF 1bn loan at 9.75% rate	FDES	To ease Citroën's link with Peugeot	Conditional on results; reimbursed in its entirety by 1977
1975	Renault			FRF 320mn credit			
1977-1980	Renault			FRF 1.2bn capital increase			FRF 350mn in 1977 and 1978; FRF 250mn in 1979 and 1980
1982	Renault			FRF 1.02bn capital grant			
1983	Renault			FRF 1bn capital grant			
1984	Renault			FRF 1.9bn capital increase			

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Feb-84	PSA	Poissy	FRF 1.2bn	FRF 500mn ten-year loan at 9.75% rate	Fonds Industriel de Modernisation (FIM)	Modernisation of Poissy assembly plant to build a fuel-efficient car	
Jun-84	Renault			FRF 750mn participative loan at 8.4% rate	FIM	Development of a fuel-efficient car	Market rate was around 14.75%. The Commission found that Renault had to reimburse FRF 248mn of all the FIM loans

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1985	Renault			FRF 3bn capital grant			Together with the aid received in 1986, the Commission found it to be illegal

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Jun-85	PSA	Aulnay-sous-Bois	FRF 2.8bn	FRF 500mn participative loan at 9.75% rate	FIM	Development of a fuel-efficient car	Additionally, FRF 1.5bn in low interest loans from Crédit National. The aid was deeded illegal by the Commission. Further FRF 200mn to component manufacturer SMAE were part of the total investment

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Jun-85	PSA	Aulnay-sous-Bois	FRF 2.8bn	FRF 1.5bn	FDES	Development of a fuel-efficient car	
Jun-85	PSA (Citroën)		FRF 1.15bn	FRF 500mn loan at 8.75% rate	FIM	Development of a fuel-efficient car	
Sep-85	Renault Vehicules Industriels (RVI)			FRF 500mn ten-year loan at 8.75% rate	FIM		Market rate was around 13%

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1986	Renault			FRF 5bn capital grant			The sum was given in two tranches of 3 and 2 billions, both coming out of the 1986 budget. Part of the sum (FRF 2bn) went to the re-capitalisation of RVI
Mar-86	PSA (Citroën)		FRF 1.36bn	FRF 500mn loan at 8.75% rate	FIM	Development of a fuel-efficient car	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1987	Renault			FRF 2bn capital grant			Included in the budget, but eventually not granted
1988	Renault			FRF 12bn debt write-off			Eventually not allowed by the Commission in 1990. The government had to recoup FRF 6bn
1993-1998	Renault-PSA		FRF 650mn	FRF 207.75mn grant		Joint R&D project on car and road safety	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1996	Renault		FRF 192.3mn	FRF 29.5mn in outright grants and FRF 49.2mn in repayable loans in the event of success	Fonds de la recherche et de la technologies; Grands projets innovants	Research into the development of a new medium-range motor-vehicle structure	Steel manufacturer Sollac was a co-beneficiary of the aid as it was involved in the project of the construction of a lighter chassis

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1996	Micro Compact Car France (Smart)	Hambach, Moselle	FRF 3bn	FRF 455mn in regional development aid and FRF 30mn in environmental aid	PAT for regional develop-ment aid	Production of a new type of car	PAT is *Prime d'aménagement du territoire.* Joint venture set up by the German motor vehicle manufacturer Mercedes-Benz and the Swiss group SMH (Schweizer Gesellschaft fur Mikro-elektronik und Uhrenindus-trie, AG)

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
1996-1997	Renault		FRF 127.5mn	FRF 64mn	Grands projets innovants	Development of a demonstration electric vehicle specifically for urban use	The project initiated in 1992 for two years and was allowed two further years in 1996 following the Commission decision
1998	Toyota	Valenciennes, Hauts-de-France	FRF 5bn	FRF 340mn regional investment grant		Production of a new car model (Yaris) starting in 2001	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2008	PSA		€211mn, of which €157 can be taken into account for aid	€61mn	Agence de l'Innovation Industri-elle (AII)	R&D programme	PSA is one of eight partners of a grand projet spearheaded by Valeo, called LOwCO2MOTION. PSA received €3.5mn

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
2009	Renault			€3bn loan at 6% rate		Financial relief following the economic crisis	Conditional on some commitments such as stopping dividends and delocalisations and stronger engagement with the suppliers
2009	PSA			€3bn loan at 6% rate		Financial relief following the economic crisis	Conditional as above
2009	Renault Trucks			€500mn loan at 6% rate		Financial relief following the economic crisis	

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Jul-09	PSA			€572mn state guarantee	Article 85 of the 2012 Amending Finance Law No 2012-1510 of 29 December 2012		A gross subsidy-equivalent of €486mn, and a repayable advance of €85.9mn for the implementation of the '50CO2Cars' R&D project

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Oct-13	Renault			€20.5mn	Loi n. 2010-237 du 9 mars 2010 de finances rectificat-ive pour 2010 relative au pro-gramme d'Investissement d'Avenir	Development of diesel hybrid commercial vehicles	€3.8mn in grants, €3.4mn in repayable advances for industrial research and €13.1mn in repayable advances for experimental development

Date or length of project	*Beneficiary*	*Location*	*Investment*	*Amount of aid*	*Legal basis*	*Goal*	*Notes*
Apr-20	Renault			€5bn loan		Financial relief due to Covid-19	The French state asked to halt or moderate dividends if companies are to seek state support

Sources: ARCP (various issues), Bhaskar (1984), Financial Times (various issues), Le Monde (various issues), Sénat reports on budgets, Smith (1998), state aid register, Stoleru (1969).

Chapter 9

Conclusion: subsidies still a political tool?

9.1 Summary of the results

9.1.1 The puzzle and theoretical set up

This thesis started by acknowledging the pivotal role that business plays in a market economy, as was most eloquently presented by Charles Lindblom in the 1970s (Lindblom, 1977). Many market functions today rest in the hands of firm executives, to whose performance government officials cannot be indifferent. States will then attempt to induce business to perform well in order to increase the wealth of the country itself. There are many ways to do so. Some smaller countries like Singapore or Hong Kong will support the export of services. Other countries like Ireland will lower corporate tax rates to attract foreign investment. Countries that have not yet fully transitioned to a market economy will instead attempt to manage as many aspects of the market as possible.

Regardless of the political-economic system of the country, governments *will* have an active supporting role for business. This insight is neither outdated, despite almost half a century passing since Lindblom's work, nor is it likely to become so anytime soon. Recent works by Wilks (2013), Woll (2019) and Wu (2018) show that business power is here to stay and that we should be concerned the most about our inability to exert influence over a 'government of corporations'. This kind of power has not flourished in a political vacuum, but has instead been supported by a continuous interlinking between state and business. As an example of a field which is thought to have little government interference – mergers and acquisitions – Chari (2015) shows that national governments will proactively take positions to ensure that certain firms succeed in expanding through takeovers or that others will prevent others from being acquired by foreign competitors. This is in line with what was found in the case studies in Chapters 6, 7 and 8. Business and politics inevitably overlap: economic problems are by necessity political problems, and we must consider the political dimension of economic management to understand why countries pursue certain economic policies (Hall, 1986: 259).

The most common way to induce businesses to perform is by subsidising them, which can be done in a variety of ways: through cash grants, guaranteed loans, tax deferrals or even capital increases in the case of state-owned enterprises. By subsidising business, the government remains at a relative arm's length *vis-à-vis* the markets and *induces* rather than *commands* economic performance. It is no wonder that for a long time subsidies have been synonymous with industrial policy. For all intents and purposes, then, subsidies represent a distributive policy insofar as they involve taxes and transfers, and concentrate the benefits to narrow recipients while spreading their costs across all constituencies through generalised taxation (Weingast et al., 1981: 643; see also Lowi, 1964; Rickard, 2018).

It is also thanks to state subsidies that firms have been able to stay afloat, maintain their market position or even expand. Recent examples certainly include how governments from all over the world have been active in ensuring that banks and other business be bailed out following the recent economic crises. Banks like Northern Rock in 2008 and several airlines after 9/11 have avoided financial cracks thanks to state intervention. But subsidies are not only aimed at bailing out losers. They can also create winners by generating conditions that are conducive to investment. Technology giants like Amazon, Facebook and Tesla have made their location decisions following incentives offered by states who wanted to attract investment. Subsidies, therefore, constitute a crucial tool that can be used for political purposes by governments of different colours for electoral reasons or to advance their own political agenda.

In this thesis I have investigated state aid allocations in the EU-27, and selected a few case studies in the automotive industry to better explore state-business relations in this economic sector. The focus on the EU and the automotive industry was justified in light of the higher relevance that state aid control has in competition policy, which is a pillar of the Single Market, and the importance of the car sector to many member states, where it could add to the value of a country's GDP up to six percentage points. Moreover, while certainly not representative of all sectors of the economy, the automotive industry provided a crucial case study to test the political power of big firms in state-business relations.

My investigation started by asking two questions. The first question asked why some member states disburse more aid than others, knowing that the Commission is attempting to crack down on races to the bottom caused by excessive subsidisation. My answer to the question was to highlight two key words: responsiveness and accountability. The former addressed the fact that governments may want to use subsidies for the pursuit of particular policy goals and the degree to which these goals reflect voter preferences. With the latter term, I noted the need for politicians to secure re-election, which can be done by bringing large and clear benefits to voters – through subsidisation for example – and therefore improving their electoral fortunes. In Chapter 2 I developed an account of state aid politics based on the process of democratic policy-making by Persson and Tabellini (2003) and then tested it in Chapters 3 and 4, on the overall level of subsidies and to aid to the automotive industry respectively, by means of regression analysis.

The second question, instead, followed by the results of such analyses. The findings prompted a more fine-grained understanding of state-business relations: how can we understand state-business relations in state aid politics in terms of responsiveness and accountability? This second question expands the scope of analysis by looking not merely at the political determinants of aid allocations, but rather at the very dynamics at the heart of state aid politics, showing how state and business interact in this domain. Chapters 5 laid down a theoretical approach based on policy networks that complements the macro-level theory expounded in Chapter 2, whereas Chapters 6, 7 and 8 analysed state-business relations in the Italian, British and French automotive industries respectively. It did so by both taking on a historical perspective on the development of industrial policy in this sector about how and why the state intervened, and by exploring the motivations that parliamentarians in each country had to support firms in the sector.

9.1.2 Why a multi-method approach? A summary of the results

One of the most salient features of the thesis is its multi-method approach. Multi-method analyses have been on the rise in the past decade (Seawright, 2016b). Such approaches have been normally understood to employ a combination of quantitative and qualitative tools to answer different research questions. However, here I operated a double shift of analysis. One which was methodological and consisted in shifting from quantitative regression analyses to qualitative historical case studies (as well as text and content analysis of parliamentary questions); the other shift concerned the level of analysis, which moved from the macro- to the meso-level.

The thesis has unearthed the usefulness of such an approach in at least two ways. First, the shift from the macro- to the meso-level of analysis in Chapters 3 and 4 showed that not all results held, as summarised in Table 9.1.1. The hypotheses laid down in Chapter 2 (and re-stated in Chapter 4 for the sectoral analysis) concerned both the responsiveness and accountability sides of the story. *H1* asserted that state aid (in the MVI) would be higher the more the electoral manifestos of the parties in government mention the need to use subsidies and other similar tools to stimulate the economy. The assumption, drawing from Downs (1957), is that parties do not compete in elections to enact policies, but enact policies (when possible) to win elections, and therefore aim to be responsive towards the median voter. The table shows that this is not true for all subsidies: governments were not responsive to the median voter; and subsidies to concentrated and politically sensitive industries even seemed to go against the idea of responsiveness to the median voter. The targeting of subsidies to car producers no longer seemed to benefit the median voter, even if the aid helped employees of the firm and the regions in which assembly plants were located as a whole (e.g. employment aid or regional aid).

H2a, *H2b* and *H3* took the analysis a step further by suggesting that power-sharing arrangements (respectively, the presence of coalition partners and veto players) and supranational control of state aid would negatively condition the degree of responsiveness of the governments. This was based on the idea that governments do not enact policies in a vacuum, but must account for both domestic and international institutions. Whereas *H2a* and *H3* found support in Chapter 3, H2b did not. None of these mechanisms, moreover, seemed to hold when the automotive industry was considered.

For its part, *H4* suggested an effect on the amount of aid disbursed that was conditional on the interaction of two elements of a country's electoral institutions: the magnitude of electoral districts, and the possibility for MPs' to cultivate a personal reputation. This would put an onus on governments to support those candidates that could help maximise their winning chances. The findings supported this accountability side of the coin in both chapters: subsidies, including aid to the MVI, could indeed be used as an electoral tools for geographically targeted benefits.

Table 9.1.1: Summary of results for Chapters 3 and 4

	Expectation	**Results (Chapter 3)**	**Results (Chapter 4)**
H1	+	Ø	–
H2a	–	–	Ø
H2b	–	Ø	Ø
H3	–	–	Ø
H4	+	+	+

Note: results refer to the main regression tables.

These results prompted a further line of inquiry: how does the mechanism that links state and business in this sector and that leads to aid allocations be described? In the second part of the thesis, I addressed this issue by complementing the macro-level account with a fine-grained analysis of state-business relations in the automotive industry. This required also a change in the approach, for which a policy network theoretical framework was deemed most apt to explore the relationship between state agencies and car manufacturers. This is because, while the degree of responsiveness and accountability is set by the institutional rules and legacy, how policy-makers act on them is a story that can be told through the lens of policy network analysis. A descriptive summary of the results is presented in Tables 9.1.2 and 9.1.3.

Table 9.1.2: Summary of results of Chapters 6, 7 and 8: policy networks

	Italy	**Britain**	**France**
Type of MVI	Exclusively national	Internationalised	Mostly national
National champions	Fiat, Alfa Romeo (failed)	BLMC (failed)	Renault, PSA
Relation with suppliers	Suppliers subordinated to Fiat	Suppliers on equal footing	Suppliers subordinated to Renault/PSA
Type of interest groups	Confindustria, ANFIA	CBI, SMMT	CNPF/Medef, CCFA
	Highly centralised, broken up	Non-representative, decentralised	Highly decentralised, weak
Type of policy network	Clientele, Parentela	Pressure pluralist	Clientele, partially state-enhanced
	Unclear after 2009, weakened link	Towards concertation after 2009	Unclear after 2009, mostly resembles clientelism (insider/outsider divide and freedom of policy to private actors)
Consequences on policy	Reactive policies	Reactive policies	Reactive policies, partially state-led
	Absence of state after 2009	More proactive after 2009	Slightly more proactive after 2009

Table 9.1.2 shows that the three cases different vastly in their type of automotive industry, the relation between producers and suppliers, the type of sectoral interest groups and policy network structure. Yet, in all three cases, for a long time, policy in this sector has been reactive rather than proactive. In no case did the state clearly take the reins to direct the sector in its preferred direction. The results

have also become more unclear since the 2008 crisis, when the state had to act in a rising climate of liberalisation and 'emancipation' of the firm from national boundaries. This has led to situation that either weakened the policy network to the point it has become either almost non-existent (Italy), one in which the state has seen its interventionist capacity strongly reduced and botched the response to the crisis by failing to properly indicate a direction for the industry (France), or one where the state embraced the internationalisation of the industry to fruitfully collaborate with the firms in the sector (Britain).

The consequence on policy intervention was that where the policy network loosened, as in Italy, the state became a silent voice, bereft of any aspiration to lead industrial policy in the sector. Where the state attempted to intervene without the necessary institutional and fiscal capacities, as in France, it was sidelined in favour of action based on the goodwill of private entrepreneurs. This is not to say that it was absent, but rather that the ability of the sector to *formulate* policy no longer rested with the state, although the state was still important in its *implementation*. Finally, where the state embraced the plurality and international nature of the industry, as in Britain, the government stood as an equal partner with business, which facilitated concertation in policy.

Table 9.1.3: Summary of results for Chapters 6, 7 and 8: electoral politics

	Italy	**Britain**	**France**
Type of electoral system	Several (open-list PR, mixed-majoritarian, closed-list PR)	FPTP majoritarian with SMCs	Two-round ballot majoritarian with SMCs
Candidate selection	Party-led at the national level	Party-led at the local level	Party-led at the national level
Topics addressed in PQs	Employment, national champions, local issues, government plans for intervention	National champions, investment, assistance, car manufacturers, public funds	National champions, employment, local issues, protectionism, national industry, government plans for intervention
Percentage of PQs that are targeted	Up to 67.8%	Up to 28.6%	Up to 60.5%
Aim of PQs	Information, representation, control	Information, control	Representation, control

Table 9.1.3 instead shows that, despite the incentives offered by the British and French system compared to the Italian one for aims of constituency service, it is in the latter where MPs addressed local issues the most. This was a consequence of the typology of electoral system, candidate selection, but also non-electoral factors such as the nature of the industry being analysed and the type of policy network that was created. As a result, MPs' aims were not solely confined to representation, but also included control of government action, and in some cases – particularly in Britain – also information gathering.

Hence, the usefulness of this double shift of analysis comes to the fore. Without testing the political determinants of aid allocations at the sectoral level (Chapter 4), the case studies would have wrongly linked the effect of power-sharing arrangements found in the macro-analysis (Chapter 3) to the developments at the sectoral level, thus leading to contradictory findings. Instead, by first testing the account of state aid politics at the sectoral level, the expectation was already one where such power-sharing arrangements should not matter. Indeed, in almost none of the three cases were coalition partners or veto players found to be relevant in the decisions to allocate aid to car manufacturers (Italy during the Second Republic being a minor exception).

Seemingly more puzzling remains the non-significant effect of state aid control, since it was apparent in all three countries that the Europeanisation of competition policy was a clear determinant of the lowering of subsidies to the automotive industry. This, too, can be resolved when considering the fact that the hypothesis concerns the *conditional effect* of supranational control of state aid on a government's policy preference as expressed through the electoral manifestos. However, since it became clear through the case studies that the channel of responsiveness to societal demands in the industry *did not* necessarily go through electoral promises as expressed in the manifestos, then the non-significance of the hypothesis can also be explained.

The shift from the macro- to the meso-level of analysis also entailed a focus on the structure and process of policy networks, which allowed to avoid falling into statist and institutionalist traps. Without the policy network approach, the case studies would have had wrongly inferred that, were macro-level institutions the determinants of state aid allocations at the sectoral level, this would have translated to all other sectors of the economy. Focusing on policy networks, instead, allowed for a clear separation of state-business relations between sectors. For instance, the French case study showed how car manufacturers did not necessarily follow the same industrial policy of steel and defence contractors. Thus, although the analysis does not touch upon industries other than automotive, it was clear that different mechanisms were at play, which could not have been captured without the focus on the policy network approach.

The second way in which the shift of analysis became useful is best exemplified by the accountability side of the story. Both in Chapters 3 and 4 the conditional effect of electoral institutions was found to be positively correlated to aid allocations. The assumption was that there existed electoral incentives to provide subsidies in order to get re-elected. In parliamentary systems this allowed MPs to have leverage over the executive, since they could lobby the government to direct subsidies where needed.

The analysis of the parliamentary questions showed instead that there is a far more nuanced picture to account for, in at least four respects. First, the typical PR-majoritarian opposition and the subsequent 'protectionist bias' in majoritarian politics (Grossman & Helpman, 2005b) can be crude over-simplifications. PR systems can also be conducive to protectionism given the right circumstances. Secondly, it showed that there is no mechanic process whereby a certain set of electoral institutions *will* engender a particular type of legislative behaviour. Lower district magnitude (i.e. stronger link between politician and constituents) and higher scores of personal votes (i.e. better identification of credit/blame-assignment) do not necessarily lead to more constituency service from the MPs' part to direct more subsidies to certain locations. Britain and France both scored high in this respect, but each had other features outside the electoral rules that contributed to the incentives MPs had in engaging in constituency service.

Thirdly, the analysis also showed that representation is not the only goal parliamentarians have when asking about subsidies. This function must be complemented by those of information and government control, and it is not always easy to judge which one is prevalent in MPs' questions. Finally, it must be taken into account that this analysis *does not* establish causality by means of a direct nexus between legislative behaviour and subsequent government action in subsidy spending. Nevertheless, it also allows to identify trends among parliamentarians' behaviour, which seemed to be consistent within countries, but not between them. Thus, for instance, in Italy MPs adapted their behaviour to fit the new electoral system after 2005, even though from a purely mechanistic point of view the new rules would not be conducive to constituency service. In Britain, instead, MPs agreed that, despite the nearness between representative and constituents, the system did not reward a cultivation of a personal reputation, since selection was handled by the parties. In France, finally, there was a common emphasis on the protection of domestic producers regardless of political affiliation, and despite the similar electoral rules France shares with Britain. This was explained partly by the Gaullist legacy of offensive protectionism, and partly by the unique French feature of *cumul des mandats*, which allowed MPs' 'double jobbing' at both the local and national levels.

However, there also are weaknesses that could impinge on the certainty of the results. One of the biggest obstacles to studying subsidy spending, as Chapter 1 showed, is the definitional aspect of aid. This not only varies across jurisdictions, but also over time within the same jurisdiction, as new tools become available to policy-makers. In 2012, for instance, the the State Aid Modernisation initiative triggered an overhaul of state aid policy at the EU level.[1] This concerned not only a shift in the agenda of the Commission towards more support for environmental aid in particular as previous changes in policy like the Lisbon Declaration did, but also changes in operational definitions of aid. As an example, the Commission added ‘Reductions in funding support for electricity from renewable sources,’ ‘Energy infrastructure,’ and ‘Generation adequacy’ as new categories of environmental aid to the 2014 Guidelines on Environmental and Energy aid (EEAG) compared to the 2008 guidelines (European Commission, 2014a). The 1992-2011 time period used in the quantitative analyses is the result of the largest possible sample that could ensure unit homogeneity, while also addressing the issue of data availability.

For this reason, too, even though the analysis in Chapter 3 employed official data from the Commission, these figures are unlikely to provide a complete picture. Indeed, Commission data are restricted to what DG COMP deems to be state aid, which may differ from the definition of other organisations, and there is an intrinsic temporal lag between the decision of a government to allocate aid and the approval by the Commission. This is usually less of a problem for lower sums of aid (e.g. those subject to the GBER), but becomes relevant when there are concerns regarding the legality of the measure, especially with high-profile cases such as big tech.

A similar issue arose in the collection of data in Chapter 4, regarding aid to the MVI in 16 member states. Although today aid cases are available to consult through the state aid register, there are still several shortcomings in data collection. One is that the state aid register only records cases from 2000 onwards: disaggregated data are therefore not available before this date. Another issue is that even among the recorded cases, the NACE classification code is not always included and sectoral analysis becomes particularly difficult when addressing firms in a diffused industry, with hundreds, if not thousands of competitors. This is why data collection was limited to the car manufacturers and did not include the suppliers, who are instead far more numerous.

The cases studies in Chapters 6, 7 and 8 also showed how little transparency there was before the 1990s in state aid policy. In several cases, aid was not properly reported, with either beneficiaries or amount missing – or both. Thus, for instance, in the Italian case there were several instances of aid to both

[1] This was mentioned in both Chapter 3 and Chapter 4.

Fiat and Alfa Romeo that were not properly documented in governmental records. In Britain there were discrepancies in the counting of aid to British Leyland. And in France little information about the investment to which the aid was attached has been made available. This, of course, generates uncertainty in the findings, since the full record of variation across the dependent variable is not available.

A final weakness is also present in the data gathering process of the parliamentary questions, as acknowledged in the case studies, for four reasons. First, automation of web-scraping was not always possible due to the structure of the governmental websites, subjecting the process to human error. Secondly, data availability of parliamentary questions was not consistent throughout the case studies. The sample in Italy goes from 1976 to 2017; in Britain from 1974 to 1988 (as well as a second 1990-2000 sample); and for France from 1988 to 2013.[2] This obviously impinges on the ability to compare MPs' legislative behaviour using as similar a historical context as possible, though the problem is somewhat attenuated by the preceding historical account, which helps contextualise this part of the analysis.

Thirdly, human intervention was needed to delete those questions that, although containing key words, were not pertinent to the topic. Although these outliers could be treated as statistical noise in a large enough sample, the small number of parliamentary questions, with fewer than 200 cases per country, meant that non-pertinent questions could no longer be understood as such and could instead severely bias the results. For both points it must be acknowledged that human treatment could also potentially bias the results, although less so than the inclusion of irrelevant questions, if case-wise deletion is performed in an attentive and consistent manner. For this reason, the set of PQs that have been analysed should not be seen as the full population of the questions concerning state aid for a particular time period, but rather as a representative sample thereof. Finally, there is an inherent lack of relevant data in older PQs, particularly in Italy and France. In Italy, older PQs only included the title of the question to be asked, but not the question itself; in France, instead, even the question itself was absent,[3] and in several other cases, a reply from the relevant Minister was not included – though it is not specified whether the Minister refused to answer or whether this was an incomplete effort in data gathering by the National Assembly.

Two further problems of representativeness need to be mentioned. While it is true that subsidies constitute one of the main government tools to *induce* business performance, they are far from being representative of all government intervention. If one is to study government retreat from interven-

[2]In the case of Britain, selected time periods were dictated more by the findings from the historical account than data availability.

[3]In this case, the PQ was not included in the final sample.

tionism, then state aid is but one of many facets that need to be addressed (Schuster et al., 2013; Zohlnhöfer et al., 2018). Further, as Buigues and Sekkat (2009) show, industrial policy can also pass through different inducements, namely public procurement, which is not analysed here. Hence, subsidies constitute an important political economy tool to generate inducements by distributing benefits to targeted recipients, which in turn can be translated to electoral support. However, they are not and should not be seen as the only tool to do so. This analysis only provides one facet of government intervention in this sense and does not account for other available channels that policy-makers can exploit.

The second issue of representativeness is about the motor vehicle industry. As was mentioned repeatedly throughout the thesis, this sector is not meant to be seen as representative of all state aid action taken by member states' governments. Rather, it is only likely to reflect a subset of state-business relations: those between the 'big firms' and state agencies. In this case, business has more political capital to expend and therefore more clout over state agencies. Yet, this is also perhaps the most relevant aspect of state-business relations since, as was noted before, business power is here to stay. In an age where market cap values have passed the trillion dollar valuation, where banks and other business have been repeatedly bailed out because they are 'too big to fail,' it is a better understanding of these relationships that is most telling about government interventionism.

In sum, the multi-method approach was pivotal to to the generation of a more fine-grained analysis at the sectoral level, without which discrepancies between the macro-level regression and the meso-level case studies would have arisen and remained unexplained. It was also important to understand the nuances of electoral politics, to show that there does not exist (at least for the universe of cases considered) an 'automatic' mechanism that translates the incentives offered by the electoral system into constituency service to channel funds to MPs' local constituencies.

At the same time, several warnings about the certainty and generalisability of these results need to be issued. Subsidies constitute but one facet of government intervention and are notoriously difficult to properly account for in national statistics. Likewise, the automotive industry cannot be representative of business at large, but instead reflects the more relevant relations between state agencies and 'big firms'. Finally, although the analysis of PQs uncovered an important reality of constituency service when state-business relations are involved, there is no clear-cut nexus between MPs' legislative behaviour and subsequent government action. Studying both remains essential for a complete understanding of state aid politics. The last part of the thesis will address the wider implications of this work.

9.2 The wider implications

The main contribution of this study is that it brings together different aspects of state aid politics that have often been addressed separately, based on the ideas of responsiveness and accountability. The study therefore contributes to a plethora of different literatures: on competition policy, on distributive politics, on electoral politics, on institutionalism, and on industrial policy and state-business relations. It has bridged various ideas from scholars writing on these topics, highlighting the key subsequent impact on the role of the state in a modern market economy.

In particular, in addressing the role of the state, this study brings important contributions to three key literatures on comparative politics and political economy. The first one is the VoC literature (Hall & Soskice, 2001; Hancké et al., 2007). This burgeoning literature puts the firms at the centre of analysis by regarding companies as the crucial actor in modern capitalist economies. The present thesis starts from the same assumption, following Lindblom (1977), but instead of comparing the way in which firms resolve coordination problems among themselves, it includes a crucial actor that is all too often missing among VoC scholars: the state (see Schmidt, 2009). The three case studies showed that the presence (or even absence) of the state plays a pivotal role in how firms organise their production choices, thus going beyond the dichotomous characterisation of VoC between LMEs and CMEs.[4] These ideal-types are seldom found pristine in the real world. Even the archetype of LME, Britain, has been moving towards more concertative efforts to actively involve the state in negotiations with the social partners in the automotive sector. This further points to the inherent difficulties of economy-wide comparisons, suggesting that VoC scholars should be more cautious in their generalisation efforts.

The second literature is that of interest intermediation. The policy network approach is understood as one such theoretical framework of interest intermediation. Hence, it is important to spell out the implications that the use of policy networks to study policy outcomes entails for this literature. In his study on French interest group politics, Wilson (1987) showed how the typical understandings of pluralism and corporatism did not properly describe the state of affairs in France at the time. The policy network approach further highlights a key element that escapes typical theories of interest intermediation: the interdependence of state and groups. Neither is truly captive to the other and power relations are often in equilibrium. The result is one of bargaining where the outcome is often suboptimal due to contrasting interests. This could be seen in how Britain tackled the 1970s crisis, in the refusal of the French right-wing governments to nationalise failing firms, and in the use of CDPs in Italy as surrogates for long-term projects.

[4] Or even trichotomous, if one is to include mixed market economies.

Likewise, the use of state intervention in the past two decades showed how the pattern of interest intermediation has been inconsistent with the characterisation of the system of interest groups. The structure of the latter did not always coincide with the process in the former. In Italy, the clash between the peak business association Confindustria and Fiat did not lead to the state stepping in to resolve these disputes (as would also be expected in a CME, as per the VoC). On the contrary, the state retreated to the point that its absence in the sector became the most striking feature. In Britain, too, the typical length's arm approach of the state and the numerous and varying interests failed to ensure the continuation of the pluralist system, and the social parts found a more optimal model in concertation – whose results are yet to be assessed, however. Finally, in France, the dilution of state power (Levy, 2008) did not translate to more strength to business groups. Medef, on the contrary, remained a very weak organisation due to its multi-level structure. Rather, the power that private actors gained was the conscious decision of public institutions to delegate parts of the policy-making process to business. Hence, in terms of interest intermediation, the case studies show the pre-eminence of process over structure. Current theories of interest intermediation can still help make sense of the role of the state and private actors in the economy, but should better emphasise two points: the internationalisation of the economy; and dynamics of interest intermediation, at least compared to the attention that the structure of the systems of interest intermediation has been given.

The final literature relates to what Arend Lijphart (2012) called the consensus and majoritarian models. The former, typical of continental Europe, is characterised by inclusiveness, bargaining and compromise. The latter, instead, is exclusive, competitive and adversarial and is most commonly found in Anglo-Saxon countries and former British colonies. Lijphart (2012) finds that consensus democracies have a better record for what concerns effective economic policy-making, thus going against the conventional wisdom of majoritarian governments as superior decision-makers. Although the present thesis makes no distinction between majoritarian and consensus institutions, some important patterns can be identified in terms of power fragmentation and preference aggregation. A tendency towards more consensus-oriented institutions should in theory include more diverse interests and therefore lead to higher subsidies. However, contrary to this expectation (see Zahariadis, 2008 for a subsidy-focused argument more in line with Lijphart's) power-sharing arrangements and purely PR systems (i.e. with closed lists) lead to fewer subsidies.

This apparent paradox can be explained when one accounts for the fact that, unlike many of the economic variables that Lijphart (2012) uses to measure economic performance and effectiveness of policy-making, subsidies are a highly distributive policy. Hence, governments will act strategically and will prefer to allocate subsidies in accordance to their own preferences rather than seeking bargaining. Subsidies are not about economic performance in the sense that they measure how well a country is doing economically (unlike unemployment rate, GDP/capita growth or consumer price index, for instance). Rather, a different logic applies here that does not rely on preference aggregation and bargaining. The clear implication for this literature is then twofold. On the one hand, studies of distributive politics that attempt to explain distributive outcomes using the difference between majoritarian and consensus models should be wary of the boundaries of application of this theory. On the other hand, Lijphart's work could also be expanded to better understand the degree to which such a distinction can explain different economic outcomes, regardless of the goals of effectiveness and quality of governance.

But the implications of this study for the role of the state in the modern economy should not be confined to state aid politics in the automotive industry. There are at least four ways in which this study can be expanded upon. First, as was repeatedly noted, the role of the interventionist state in the market economy is not confined to using subsidies as political tools. Other policies can also follow similar patterns. For instance, similar studies analysing the retreat of the interventionist state have compared the frequency of subsidy spending to other policies such as privatisation and product market regulation (Engler & Zohlnhöfer, 2019; Schuster et al., 2013; Zohlnhöfer et al., 2018). Other studies that instead look at subsidies as a trade policy tool might compare their use to policies such as tariffs, instead (Evans, 2009; Rickard, 2012b).

Even studies that do not touch upon subsidy spending can be used as a basis for the comparison of the theoretical framework used here with other policies. In a market economy governments *induce* business to perform instead of directly managing the economy; and business performance remains important to a politician's chance of re-election, regardless of the policy that is employed as inducement. Therefore, even a policy that has attracted little attention from political scientists such as M&A can be studied from the standpoint of their being useful political tools in the hands of policy-makers. Thus, Chari (2015: 256) notes in his study on privatisations and M&A that there exists a 'lingering protective function of the post-privatisation state' whereby the evolution of firms even after they are privatised continues to be shaped by their previous experience with state ownership. For his part, Kim (2010: 437) contends that M&A have important political ramifications because they 'damage local businesses as firms may move out,' meaning that 'politicians may lose votes as jobs are eliminated or transferred due to the post-M&A restructuring process.' Hence, as the French case in Chapter 8 also shows (with the Renault-Fiat vetoed merger, for instance), the ability of making or breaking a deal remains a key political weapon in the arsenal of government intervention.

In sum, there exist several policies that can – and *should* – be compared to state aid politics in order to offer a more complete picture of state interventionism. The theoretical framework suggested here may require some minor tweaks to accommodate comparisons of multiple policies, but the underlying idea holds true. Politicians may want to protect pre-existing jobs by subsidising lame ducks, or enacting tariffs; or they may also welcome foreign investment through tax breaks or by encouraging privatisation and liberalisation. Each of these policies can be used as a political tool, and each offers a different facet of the role of the state in a modern market economy.

A second way in which this study could be expanded is by looking at different sectors of the economy. As was noted in the previous chapters, the automotive industry, while potentially a crucial test case, is not representative of a country's economy or its industrial policy. At best, it can be a mirror to similarly concentrated and politically powerful sectors such as airlines, banking or telecommunications. But it is exactly in the performance of such sectors that politicians are most interested. For instance, in the wake of the financial and economic crisis of 2008, the use of crisis aid to prop up the banking sector was rampant, which shows the particular attention governments give to such politically sensitive sectors. But if governments have the ability to make or break deals, firms with political clout have the ability to make or break governments – and remain unaccountable for it. Hence, by analysing multiple sectors, the findings of this study could be further reinforced, thus providing more insights into state-business relations and the degree to which the government is willing or incentivised to intervene.

In the worst case, the automotive industry can represent a deviant scenario that does not conform to patterns found in other similarly powerful sectors. Even here, the insights offered by this study remain useful. Deviant case studies offer the best chance of making discoveries: they are good for finding omitted variable bias and sources of measurement error; they can also be useful to discover new information about causal pathways connecting the main independent variables with the outcome of interest (Seawright, 2016a). Further analysis into different sectors can therefore still offer a window into state-business relations and corporate lobbying *even if the automotive industry is a deviant case study*. However, neither scenario can be assessed *a priori* and judgment can only come after such new studies are carried out. Either outcome would provide useful insights.

The third implication of this study concerns state-business relations and the usefulness of the policy network approach in a globalised economy. The rise of the 'stateless' multinational corporation able to challenge the authority of national governments has put the latter in a difficult position. This also impinges on the traditional understanding of sectoral state-business relations, which for a long time has been confined within the national boundaries. The case studies showed that the policy network can also come loose or even break down, and that it is becoming harder to approximate these ideal types of networks.

This is not the result of the internationalisation of the economy or even a particular sector, as the British case study in Chapter 7 showed. Rather, this is a consequence of firms becoming themselves state-like by acting as independent actors on the international stage. As a result, policy network analyses that look at interest intermediation between state agencies and businesses in a particular sector could better accommodate the changing environment of today's international political economy.

While specific solutions to the topic remain outside the scope of this work, two suggestions can be made, without making the lattice of combinations overly complicated as was the case for Van Waarden (1992). First, sectoral approaches should more clearly distinguish between structure and process. As the case studies showed, the eventual policy outcome was not necessarily the result of the combination of the autonomy of state agencies, the concentration of power and the mobilisation of sectoral interests. In Italy, for instance, very little in terms of the structure of the policy network changed, yet the network came loose as the result of Fiat's attempts to 'go-it-alone'. The second suggestion concerns the level of regulation. Much of industry regulation today does not take place at the national level, but at the international one – and at the EU level, when the old continent is considered. All three case studies showed the importance of the element of Europeanisation in the shift of approach: policy changed not only as a result of the intermediation between sectoral business and state agencies, but also external factors, in this case changes in the level of regulation of the policy.

Finally, the case studies unearthed an interesting, although potentially spurious, correlation between the typology of policy network and the workings of electoral politics within the network. Linking policy networks with electoral competition is far from a novel idea. Verdier (1995) and Zahariadis (2005) both found that electoral monopolies favour the activation of policy networks for the disbursement of subsidies. However, the key difference is their definition of policy network as 'an informal relations between rational individuals [...] for the exchange of personal favours.' The definition favoured here, instead, while retaining the presence of exchange of resources, does not limit the set of relations to informal ties, but instead explicitly analyses the institutional structure of interest mediation. Formal, as well as informal relationships, as Börzel (1998) put it.

Thus, finding a correlation between the structure of policy network and electoral competition that goes beyond purely informal arrangements gives credence to the argument that the way two influence policy outcomes may be interlinked. However, this work does not explore the potential direction of causality, which remains ambiguous. On the one hand, it could be argued that the typology of policy network influences how MPs behave in terms of constituency service, since deputies could be differently incentivised by electoral concerns depending on how the network is set up. The pressure pluralist network in Britain offered little reason for MPs to lobby for local interests, as the relationship developed between firms and local politicians was not one based on the exchange of political resources, such as campaign expenditures. On the other hand, an argument could be advanced that particular electoral rules lead to the development of a certain structure of network within a sector. In France, the *cumul des mandats* strongly incentivises deputies to take at heart local interests and strike agreements with local business for the exchange of resources. Future research could follow on these intuitions to better explore this relationship, although important hindrances to the operationalisation of policy networks remain.

In conclusion, although this work was originally born as an analysis of state aid politics in the European automotive industry, it needs not be limited as such, neither in terms of geographic or sectoral scope nor in terms of policies that can be explored. State intervention and the degree to which governments will induce business performance can take many forms – subsidies being one of them. The way governments will act in this regard will depend then on factors such as the relationship it built with business, its own policy goals, what is electorally convenient and what is politically feasible. Thus, *subsidies are still a political tool*, in the sense that this policy remains influenced by a plurality of political elements. But the factors that influence state aid politics increase with the complexity of institutional arrangements at the national and international levels alike. There is no off-the-shelf recipe or magic formula to accurately forecast government action in state-business relations. Still, this work has provided some insights in how these factors interact to shape policy while also setting the scene for expanding the research agenda in a plurality of directions.

Appendices

Appendix A to Chapter 3 – Responsiveness: issues of congruence between Manifesto data and voters' preferences

Democratic responsiveness requires a positive association between public support for a policy and the likelihood of the policy being adopted (Gilens, 2012: 70). As Thomson et al. (2017: 527) put it, 'if parties channel societal demands into government policies effectively, there should be a substantial level of congruence between the policy content of their election programmes or manifestos and subsequent government policies.' Following the Downsian model of electoral competition two political parties compete and 'formulate policy in order to win the election, rather than win elections in order to formulate policy' (Downs, 1957: 28). In their quest to gain the highest number of votes, electoral competition will lead to the expectation that the party closest to the median voter will receive a parliamentary majority (Kang & Powell, 2010). Thus, on the one hand, both in majoritarian systems and in multi-party systems the government will be likely to include the party closest to the position of the median voter (Blais & Bodet, 2006; Downs, 1957; Huber & Powell, 1994). On the other hand, if, as Thomson et al. (2017) claim, the parties channel societal demands successfully (which they should be able to do because they formulate policy to win elections, thus attracting the median voter), then government policies should strongly reflect the policy contents of their election programmes. Therefore, there would be some kind of (admittedly, indirect) positive association between public support for the policy and the policy that is adopted, as Gilens (2012) claims.

This model of electoral competition forces us to consider cases when policies are 'patently at odds with the preferences of the median voter,' who has a below-average income (see Franzese, 2002). If state aid is to be preferred by the median voter, then it should have some welfare-improving characteristics, since in this case the measure would benefit voters rather than aim to electoral return (Golden &

Min, 2013). Recent evidence from van Buiren et al. (2019), shows that, in some situations state aid control is excessive because state aid can have welfare-improving characteristics, favouring the median voter. Hence, despite the targeted nature of state aid, the literature does not exclude the possibility for subsidy spending to be welfare-improving.

Thus, I conclude that the median voter theorem offers a 'natural benchmark' against which to assess policy distortion of allocative measures. If this is indeed the case, then the government would be said to be responsive, at least with respect to correction of market failures. Hence, it would be in the interest of the governing parties that their election promises be translated into policy outputs. However, the first regression model finds no evidence for the responsiveness hypothesis. Parties in government do not seem to act out their policy programmes with regard to correction of market failures. If state aid is granted, it does not, on average, benefit the median voter. While Grossman and Helpman (1996) might suggest that the lack of responsiveness may be due to capture by special interest groups, no such claim can be inferred from this analysis. Another possibility is that polarisation leads to a government composition that does not reflect the median voter (Powell, 2009), which also highlights the limitation of the median voter theorem.

In this Appendix, I explore this possibility by looking at the congruence between the Comparative Manifesto Project (CMP) data and the International Social Survey Programme (ISSP) surveys on the role of government data, which measure public opinion in selected countries.[5] The ISSP surveys on the role of government provide, among many other items, four questions which I identified as being relevant to government intervention in the economy and the use of subsidies. The first one, called 'Government financing create new jobs' (Q1), asks whether respondents agree that the government should finance projects to create new jobs. The second one, called 'Support of industry for new products' (Q2), asks whether respondents agree that the government should support industry to develop new products and technology. The third one, called 'Support of declining industry to protect jobs' (Q3), asks whether respondents agree that the government should support industries in difficulties to protect jobs. The fourth one, called 'Responsibility: provide industry with help to grow' (Q4), asks whether, on the whole, respondents agree that it should be the government's responsibility to provide industry with the help it needs to grow. For each question, respondents can be 'strongly in favour of', 'in favour of', 'neither in favour or against', 'against' or 'strongly against' (or they could choose not to answer).

I sum up the scores of 'strongly in favour of' and 'in favour of' of each question and correlate these values with the CMP `per402` variable I use, which expresses that there is a 'need for wage and tax policies

[5] https://www.gesis.org/issp/modules/issp-modules-by-topic/role-of-government.

to induce enterprise; encouragement to start enterprises; need for financial and other incentives such as subsidies' (Volkens et al., 2017). Though it would be good to have empirical congruence between Manifesto data and public opinion, the ISSP data have characteristics that could make this exercise potentially misleading.

Firstly, surveys on the role of government are taken on average almost every eight years (seven years if only the years 1991-2010 are included): in 1985, in 1990, in 1996, in 2006 and in 2016. Secondly, not all member states are part of the surveys, or some member states (such as Italy, for instance), only partially participated to these surveys. As a result, against 381 observations in my dataset, the ISSP data provided between 178 and 183 observations, slightly less than half the sample. Further, the data for each country-year observations do not vary in between one survey and another. Yet, it would be hard to justify that the public's opinion in 1996 would be the same as in 2005; or that in 2007 the same as in 2010, particularly after the economic crisis. Indeed, upon creating the correlation matrix, the results were rather poor, as shown in Table 3.A1.

Table 3.A1: Correlation matrix between CMP data and ISSP data

	`Per402`	**Q1**	**Q2**	**Q3**	**Q4**
`Per402`	1.000				
Q1	0.120	1.000			
Q2	0.113	0.721*	1.000		
Q3	-0.053	0.646*	0.473*	1.000	
Q4	0.007	0.701*	0.679*	0.466*	1.000

Note: * indicates a significance level of at least 0.05.

Although the four questions correlate rather well between themselves, the results are less optimistic when compared to the Manifesto variable. CMP `per402` correlated best with the first question, on government financing for new jobs, but even then, Pearson's r coefficient was a measly 0.12. For the other questions, correlation was 0.113 (Q2 on the support of industry for new products), -0.053 (Q3 on the support of declining industries), and 0.007 (Q4 on the responsibility to help industry grow) respectively. This could be due to a variety of reasons. 1) Because of poor data, which seems very likely; 2) because there is a mismatch between that the parties in government promise and what the median voter wants, which I also acknowledge as a possible shortcoming; or 3) both. In sum, while a direct empirical justification could potentially provide a stronger benchmark of justification for the theory, poor data would not properly allow for such a comparison.

Appendix B to Chapter 3 – Robustness checks tables

Table 3.B1: OLS regression for state aid in the EU27 (1992-2011) with Panel-Specific (AR1)

	(1) H1	(2) H2a	(3) H2b	(4) H4	(5) Full Model
Economic Policy	-0.008	0.010	0.040		0.047
	(0.013)	(0.035)	(0.027)		(0.043)
Coalition	-0.036*	-0.048			-0.030
	(0.020)	(0.032)			(0.034)
Veto Players	-0.009**		-0.003		-0.004
	(0.004)		(0.006)		(0.006)
Economic Policy x Coalition		-0.002			-0.007
		(0.012)			(0.013)
Economic Policy x Veto Players			-0.003†		-0.003
			(0.002)		(0.002)
Regulation	0.013	0.028†	0.029*		0.030†
	(0.012)	(0.018)	(0.017)		(0.019)
Economic Policy x Regulation		-0.004	-0.004		-0.005†
		(0.003)	(0.003)		(0.003)
log(District Magnitude)				-0.351**	-0.394***
				(0.143)	(0.141)
Personal Vote				-0.672**	-0.699**
				(0.287)	(0.291)
log(District Magnitude) x Personal Vote				0.495***	0.520***
				(0.173)	(0.175)
Real Economic Growth	-0.007	-0.008	-0.008	-0.011*	-0.008
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Trade Globalisation	0.006	0.005	0.005	0.008	0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Financial Globalisation	-0.005	-0.007	-0.007	-0.001	-0.006
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Timing of Election	0.009	0.007	0.005	0.004	0.006
	(0.029)	(0.029)	(0.029)	(0.030)	(0.030)
EMU	-0.318***	-0.323***	-0.324***	-0.339***	-0.369***
	(0.079)	(0.078)	(0.078)	(0.079)	(0.081)
Debt/GDP	0.002	0.002	0.002	0.002	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Unemployment	-0.013	-0.013	-0.017†	-0.016	-0.015
	(0.010)	(0.010)	(0.011)	(0.011)	(0.010)
Constant	-0.662	-0.545	-0.600	-0.695	-0.116
	(0.489)	(0.525)	(0.509)	(0.485)	(0.590)
Observations	380	380	381	381	380
R-squared	0.871	0.862	0.867	0.855	0.857
Country-fixed effects	✓	✓	✓	✓	✓
Wald χ^2	130365***	41758***	54688***	155223***	367194***

Note: Prais-Winsten regressions with PCSE and casewise selection; PCSE in parentheses; *** p<0.01, ** p<0.05, * p<0.1, † p≈0.11.

Table 3.B2: OLS regression for state aid in the EU27 (1992-2011) with LDV

	(1) H1	(2) H2a	(3) H2b	(4) H4	(5) Full Model
lag(State aid)	0.389***	0.393***	0.392***	0.368***	0.360***
	(0.071)	(0.068)	(0.069)	(0.070)	(0.067)
Economic Policy	-0.020	0.046	0.044*		0.113***
	(0.014)	(0.030)	(0.023)		(0.037)
Coalition	-0.022	0.012			0.013
	(0.023)	(0.035)			(0.034)
Veto Players	-0.004		0.004		0.007
	(0.004)		(0.006)		(0.006)
Economic Policy x Coalition		-0.017			-0.024**
		(0.013)			(0.012)
Economic Policy x Veto Players			-0.004*		-0.005***
			(0.002)		(0.002)
Regulation	0.006	0.029**	0.030**		0.035**
	(0.009)	(0.014)	(0.014)		(0.016)
Economic Policy x Regulation		-0.006*	-0.007**		-0.007*
		(0.003)	(0.003)		(0.004)
log(District Magnitude)				-0.940***	-1.079***
				(0.254)	(0.276)
Personal Vote				-1.909***	-2.210***
				(0.575)	(0.598)
log(District Magnitude) x Personal Vote				1.046***	1.125***
				(0.285)	(0.306)
Real Economic Growth	-0.011*	-0.013**	-0.013**	-0.016***	-0.012**
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Trade Globalisation	0.003	0.001	0.001	0.003	0.001
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Financial Globalisation	0.002	0.001	0.000	0.005	0.002
	(0.005)	(0.004)	(0.005)	(0.004)	(0.005)
Timing of Election	0.006	0.003	0.002	-0.002	-0.005
	(0.040)	(0.040)	(0.040)	(0.041)	(0.039)
EMU	-0.253***	-0.236***	-0.248***	-0.240***	-0.278***
	(0.063)	(0.061)	(0.063)	(0.063)	(0.066)
Debt/GDP	-0.001	-0.002	-0.002	-0.002	-0.003*
	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
Unemployment	-0.008	-0.011	-0.011	-0.011	-0.008
	(0.010)	(0.010)	(0.010)	(0.009)	(0.009)
Constant	-0.486	-0.452	-0.372	0.769	1.394**
	(0.356)	(0.361)	(0.370)	(0.546)	(0.640)
Observations	365	365	366	366	365
R-squared	0.794	0.800	0.803	0.802	0.817
Country-fixed effects	✓	✓	✓	✓	✓
Wald χ^2	1089***	580***	337***	1491***	165663***
ρ	0.116	0.111	0.100	0.107	0.092

Note: Prais-Winsten regressions with PCSE and pairwise selection; PCSE in parentheses; *** p<0.01, ** p<0.05, * p<0.1, † p≈0.11.

Table 3.B3: OLS regression for state aid in the EU27 (1992-2011) with Country- and Year-Fixed Effects

	(1) H1	(2) H2a	(3) H2b	(4) H4	(5) Full Model
Economic Policy	-0.029	0.048	0.032		0.095**
	(0.023)	(0.043)	(0.032)		(0.047)
Coalition	-0.040	-0.003			0.005
	(0.027)	(0.045)			(0.039)
Veto Players	-0.008		-0.004		-0.002
	(0.006)		(0.007)		(0.007)
Economic Policy x Coalition		-0.021			-0.024
		(0.018)			(0.016)
Economic Policy x Veto Players			-0.003		-0.004*
			(0.002)		(0.002)
Regulation	-0.015	0.010	0.009		0.025
	(0.018)	(0.025)	(0.024)		(0.028)
Economic Policy x Regulation		-0.007†	-0.007†		-0.008†
		(0.005)	(0.004)		(0.005)
log(District Magnitude)				-0.408***	-0.384***
				(0.123)	(0.146)
Personal Vote				-0.665***	-0.658***
				(0.214)	(0.251)
log(District Magnitude) x Personal Vote				0.541***	0.482***
				(0.142)	(0.175)
Real Economic Growth	-0.007	-0.010	-0.010	-0.009	-0.008
	(0.012)	(0.011)	(0.012)	(0.012)	(0.011)
Trade Globalisation	0.002	0.000	-0.001	0.003	-0.000
	(0.007)	(0.007)	(0.006)	(0.006)	(0.006)
Financial Globalisation	0.004	0.002	0.002	0.003	0.003
	(0.007)	(0.007)	(0.007)	(0.006)	(0.006)
Timing of Election	-0.001	-0.005	-0.006	-0.004	-0.009
	(0.036)	(0.036)	(0.034)	(0.033)	(0.034)
EMU	-0.401***	-0.388***	-0.407***	-0.446***	-0.478***
	(0.086)	(0.087)	(0.081)	(0.088)	(0.089)
Debt/GDP	-0.002	-0.002	-0.002	-0.000	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Unemployment	-0.004	-0.009	-0.008	-0.014	-0.009
	(0.011)	(0.010)	(0.011)	(0.011)	(0.010)
Constant	-0.525	-0.503	-0.376	-0.263	-0.106
	(0.485)	(0.504)	(0.468)	(0.484)	(0.523)
Observations	380	380	381	381	380
R-squared	0.615	0.614	0.622	0.620	0.645
Country-fixed effects	✓	✓	✓	✓	✓
Year-fixed effects	✓	✓	✓	✓	✓
Wald χ^2	6.48e+06***	7.27e+07***	3.06e+06***	4.83e+06***	4.27e+07***
ρ	0.446	0.456	0.440	0.439	0.425

Note: Prais-Winsten regressions with PCSE and pairwise selection; PCSE in parentheses;
*** p<0.01, ** p<0.05, * p<0.1, † p≈0.11.

Table 3.B4: OLS regression for state aid in the EU27 (1992-2011) with LDV and Country- and Year-Fixed Effects

	(1) H1	(2) H2a	(3) H2b	(4) H4	(5) Full Model
lag(State aid)	0.400***	0.406***	0.398***	0.375***	0.373***
	(0.081)	(0.077)	(0.072)	(0.071)	(0.075)
Economic Policy	-0.024	0.040	0.047**		0.112***
	(0.018)	(0.034)	(0.024)		(0.037)
Coalition	-0.019	0.011			0.012
	(0.023)	(0.037)			(0.032)
Veto Players	-0.005		0.005		0.008
	(0.004)		(0.005)		(0.006)
Economic Policy x Coalition		-0.016			-0.023*
		(0.015)			(0.013)
Economic Policy x Veto Players			-0.004**		-0.006***
			(0.002)		(0.002)
Regulation	0.009	0.034*	0.039**		0.046**
	(0.012)	(0.018)	(0.017)		(0.020)
Economic Policy x Regulation		-0.006†	-0.007*		-0.007†
		(0.004)	(0.004)		(0.004)
log(District Magnitude)				-1.054***	-1.098***
				(0.230)	(0.281)
Personal Vote				-2.171***	-2.286***
				(0.519)	(0.593)
log(District Magnitude) x Personal Vote				1.159***	1.202***
				(0.239)	(0.314)
Real Economic Growth	-0.013	-0.017	-0.017	-0.016	-0.016
	(0.014)	(0.013)	(0.013)	(0.013)	(0.012)
Trade Globalisation	0.001	-0.001	-0.002	0.000	-0.002
	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)
Financial Globalisation	0.007	0.005	0.005	0.006	0.006
	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)
Timing of Election	0.004	-0.000	-0.000	-0.003	-0.006
	(0.044)	(0.043)	(0.041)	(0.041)	(0.040)
EMU	-0.314***	-0.297***	-0.327***	-0.301***	-0.346***
	(0.075)	(0.068)	(0.070)	(0.074)	(0.071)
Debt/GDP	-0.002†	-0.002	-0.003*	-0.002	-0.003**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Unemployment	-0.010	-0.015*	-0.014*	-0.018**	-0.011
	(0.009)	(0.008)	(0.008)	(0.008)	(0.008)
Constant	-0.654*	-0.556	-0.485	1.160**	1.269*
	(0.364)	(0.366)	(0.345)	(0.589)	(0.656)
Observations	365	365	366	366	365
R-squared	0.807	0.811	0.813	0.815	0.829
Country-fixed effects	✓	✓	✓	✓	✓
Year-fixed effects	✓	✓	✓	✓	✓
Wald χ^2	2.44e+08***	1.37e+08***	4.62e+09***	5.57e+07***	2.80e+09***
ρ	0.104	0.099	0.097	0.097	0.079

Note: Prais-Winsten regressions with PCSE and pairwise selection; PCSE in parentheses;
*** p<0.01, ** p<0.05, * p<0.1, † p≈0.11.

Table 3.B5: OLS regression for state aid in the EU27 (1992-2011) with OECD subsidies as DV

	(1) H1	(2) H2a	(3) H2b	(4) H4	(5) Full Model
Economic Policy	0.016	0.060**	0.005		0.020
	(0.012)	(0.026)	(0.018)		(0.030)
Coalition	-0.025	-0.021			-0.020
	(0.022)	(0.030)			(0.033)
Veto Players	0.006		-0.007		-0.006
	(0.005)		(0.005)		(0.006)
Economic Policy x Coalition		-0.006			-0.005
		(0.010)			(0.010)
Economic Policy x Veto Players			0.004**		0.004**
			(0.002)		(0.002)
Regulation	0.023**	0.047***	0.038***		0.036**
	(0.011)	(0.015)	(0.015)		(0.016)
Economic Policy x Regulation		-0.007**	-0.004		-0.004
		(0.003)	(0.003)		(0.003)
log(District Magnitude)				-0.009	-0.001
				(0.051)	(0.067)
Personal Vote				-0.015	0.049
				(0.103)	(0.121)
log(District Magnitude) x Personal Vote				0.205***	0.172*
				(0.078)	(0.093)
Real Economic Growth	-0.001	-0.000	-0.001	-0.003	-0.001
	(0.006)	(0.007)	(0.007)	(0.007)	(0.008)
Trade Globalisation	-0.003	-0.006	-0.006	-0.001	-0.006
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Financial Globalisation	-0.016***	-0.018***	-0.018***	-0.010**	-0.018***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Timing of Election	-0.009	-0.015	-0.012	-0.014	-0.014
	(0.018)	(0.021)	(0.021)	(0.019)	(0.022)
EMU	-0.049	-0.025	-0.019	-0.041	0.007
	(0.069)	(0.073)	(0.073)	(0.074)	(0.083)
Debt/GDP	-0.000	-0.000	0.000	0.000	0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Unemployment	0.003	0.001	-0.001	0.006	-0.002
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Constant	4.740***	4.971***	4.988***	4.048***	4.709***
	(0.373)	(0.359)	(0.343)	(0.317)	(0.371)
Observations	271	271	271	271	271
R-squared	0.785	0.816	0.818	0.784	0.837
Country-fixed effects	✓	✓	✓	✓	✓
Wald χ^2	1812***	2860***	2980***	1821***	3710***
ρ	0.661	0.578	0.577	0.656	0.517

Note: Prais-Winsten regressions with PCSE and pairwise selection; PCSE in parentheses; *** p<0.01, ** p<0.05, * p<0.1, † p≈0.11.

Appendix A to Chapter 4 – Robustness checks tables

Table 4.A1: Zero-inflated Negative Binomial regression for state aid to the European automotive sector (1992-2011) with year-fixed effects

	Baseline		**Country variables**		**Industry Variables**		**Full model**	
Policy Preferences (H1)	-0.175**	-0.332*	-0.163**	-0.403*	-0.108	-0.344**	-0.068	-0.320
	(0.071)	(0.171)	(0.072)	(0.207)	(0.079)	(0.164)	(0.088)	(0.202)
Coalition		0.434*		0.440*		0.380*		0.366*
		(0.245)		(0.238)		(0.197)		(0.194)
Veto Players		-0.143***		-0.150***		-0.130***		-0.112
		(0.042)		(0.054)		(0.039)		(0.089)
Regulation		0.000		-0.111		-0.010		0.037
		(0.062)		(0.112)		(0.041)		(0.147)
Policy Preferences x Coalition (H2a)		-0.035		-0.014		-0.011		0.004
		(0.065)		(0.071)		(0.055)		(0.065)
Policy Preferences x Veto Players (H2b)		0.020**		0.020*		0.024***		0.018
		(0.008)		(0.011)		(0.008)		(0.018)
Policy Preferences x Regulation (H3)		0.001		0.009		0.000		0.001
		(0.010)		(0.013)		(0.008)		(0.012)
District Magnitude		1.392***		1.719***		1.493***		1.515***
		(0.209)		(0.317)		(0.178)		(0.283)
Personal Vote		1.914**		2.596***		2.264***		2.237**
		(0.783)		(0.967)		(0.685)		(0.946)
District Magnitude x Personal Vote (H4)		0.733***		0.879***		0.719***		0.834***
		(0.183)		(0.279)		(0.144)		(0.311)
Trade Globalisation			-0.074	-0.013			-0.127**	-0.068
			(0.046)	(0.039)			(0.056)	(0.090)
Financial Globalisation			-0.015	0.052			-0.024	0.039
			(0.040)	(0.035)			(0.037)	(0.036)
Debt/GDP			-0.012	0.009			-0.016	0.004
			(0.021)	(0.018)			(0.022)	(0.027)
Timing of elections			0.533*	-0.027			0.493*	0.013
			(0.296)	(0.225)			(0.273)	(0.221)
EMU			-0.480	-0.353			-0.432	-0.464
			(0.695)	(0.540)			(0.851)	(0.705)
Matriculation of new cars					-0.034**	-0.027***	-0.044***	-0.025***
					(0.014)	(0.007)	(0.011)	(0.009)
Value added (%GDP)					-0.530	0.434	0.713	0.880
					(0.432)	(0.363)	(0.853)	(0.639)
National Champion					1.498**	1.787*	-0.789	0.562
					(0.609)	(1.015)	(1.378)	(1.316)
Constant	4.682***	-1.357	9.640***	-5.802*	5.541***	-1.997*	12.368***	-2.260
	(1.174)	(1.119)	(2.120)	(3.122)	(1.100)	(1.186)	(2.009)	(3.020)
Observations	239	239	239	239	233	233	233	233
Country-fixed effects	✓	✓	✓	✓	✓	✓	✓	✓
Year-fixed effects	✓	✓	✓	✓	✓	✓	✓	✓
Log pseudo-likelihood	-510.01	-500.470	-499.139	-487.196	-478.702	-475.940	-466.934	-465.17
α	0.561	0.480	0.496	0.403	0.290	0.283	0.253	0.255
Wald's χ^2	2411.29***		1688.93***		3544.09***			

Note: robust standard errors in parentheses. Inflation part of the equation not included. *** p<0.01; ** p<0.05; * p<0.1.

Table 4.A2: Zero-inflated Negative Binomial regression for state aid to the European automotive sector (1992-2011) in the EU-15

	Baseline		**Country variables**		**Industry Variables**		**Full model**	
Policy Preferences (H1)	-0.285***	-0.273	-0.193***	-0.277	-0.281***	-0.323	-0.180***	-0.285
	(0.105)	(0.234)	(0.072)	(0.229)	(0.107)	(0.239)	(0.069)	(0.228)
Coalition		-0.036		-0.171		-0.085		-0.214
		(0.325)		(0.318)		(0.330)		(0.318)
Veto Players		-0.079		-0.084		-0.078		-0.075
		(0.060)		(0.067)		(0.061)		(0.064)
Regulation		-0.118*		-0.022		-0.107*		-0.017
		(0.063)		(0.096)		(0.063)		(0.100)
Policy Preferences x Coalition (H2a)		0.056		0.055		0.077		0.057
		(0.079)		(0.084)		(0.083)		(0.081)
Policy Preferences x Veto Players (H2b)		0.010		0.012		0.011		0.013
		(0.013)		(0.014)		(0.013)		(0.016)
Policy Preferences x Regulation (H3)		-0.002		-0.014		-0.001		-0.015
		(0.018)		(0.017)		(0.018)		(0.017)
District Magnitude		0.825***		0.873**		0.822***		0.904**
		(0.292)		(0.364)		(0.311)		(0.369)
Personal Vote		0.925		1.146		0.840		1.278
		(0.927)		(0.982)		(0.967)		(0.979)
District Magnitude x Personal Vote (H4)		0.856**		0.933***		0.953**		0.840**
		(0.397)		(0.360)		(0.436)		(0.395)
Trade Globalisation			0.040	0.028			0.024	0.025
			(0.052)	(0.042)			(0.049)	(0.054)
Financial Globalisation			-0.111***	-0.067			-0.115***	-0.077*
			(0.031)	(0.045)			(0.033)	(0.045)
Debt/GDP			-0.001	0.031***			0.007	0.034***
			(0.018)	(0.010)			(0.015)	(0.010)
Timing of elections			0.150	0.162			0.272	0.259
			(0.291)	(0.334)			(0.304)	(0.308)
EMU			1.105*	0.783			1.287**	0.984*
			(0.642)	(0.666)			(0.591)	(0.592)
Matriculation of new cars					0.007	0.001	-0.015	-0.010
					(0.019)	(0.014)	(0.016)	(0.012)
Value added (%GDP)					0.477	0.365	-0.220	-0.006
					(0.594)	(0.419)	(0.465)	(0.524)
National Champion					0.897**	1.994*	2.680***	3.212*
					(0.432)	(1.181)	(0.944)	(1.716)
Constant	3.417***	1.304	9.135***	2.202	2.987***	0.941	9.959***	2.750
	(0.419)	(1.404)	(1.732)	(3.648)	(0.681)	(1.429)	(1.822)	(3.639)
Observations	239	239	239	239	233	233	233	233
Country-fixed effects	✓	✓	✓	✓	✓	✓	✓	✓
Log pseudo-likelihood	-471.468	-445.601	-457.268	-438.90	-467.647	-440.604	-453.479	-432.466
α	1.372	0.665	0.889	0.570	1.283	0.661	0.868	0.591
Wald's χ^2	91.57***	408.63***	113.39***	775.38***	96.07***	431.37***	115.99***	822.18***

Note: robust standard errors in parentheses. Inflation part of the equation not included. *** p<0.01; ** p<0.05; * p<0.1.

Table 4.A3: Zero-inflated Negative Binomial regression for state aid to the European automotive sector (1992-2011) without influential observations

	Baseline		**Country variables**		**Industry Variables**		**Full model**	
Policy Preferences (H1)	-0.149**	-0.209	-0.130**	-0.216	-0.141**	-0.239	-0.120**	-0.248
	(0.064)	(0.214)	(0.058)	(0.218)	(0.068)	(0.208)	(0.056)	(0.209)
Coalition		0.321		0.244		0.275		0.165
		(0.273)		(0.255)		(0.263)		(0.249)
Veto Players		-0.070		-0.085		-0.060		-0.069
		(0.056)		(0.060)		(0.062)		(0.059)
Regulation		-0.140**		-0.086		-0.140**		-0.105
		(0.059)		(0.082)		(0.061)		(0.086)
Policy Preferences x Coalition (H2a)		0.014		0.022		0.033		0.038
		(0.067)		(0.072)		(0.070)		(0.070)
Policy Preferences x Veto Players (H2b)		0.010		0.011		0.010		0.010
		(0.012)		(0.012)		(0.012)		(0.012)
Policy Preferences x Regulation (H3)		0.010		-0.003		0.011		-0.002
		(0.016)		(0.018)		(0.017)		(0.019)
District Magnitude		0.499		0.982**		0.548		1.051**
		(0.449)		(0.476)		(0.449)		(0.448)
Personal Vote		0.369		1.193		0.436		1.393
		(1.090)		(1.114)		(1.091)		(1.053)
District Magnitude x Personal Vote (H4)		0.307		0.557**		0.350		0.558**
		(0.254)		(0.270)		(0.243)		(0.235)
Trade Globalisation			-0.015	-0.010			-0.020	-0.014
			(0.046)	(0.037)			(0.048)	(0.040)
Financial Globalisation			-0.048	-0.018			-0.059*	-0.024
			(0.031)	(0.028)			(0.032)	(0.028)
Debt/GDP			0.017	0.029***			0.023**	0.034***
			(0.011)	(0.009)			(0.010)	(0.009)
Timing of elections			0.235	0.132			0.317	0.220
			(0.262)	(0.271)			(0.267)	(0.290)
EMU			0.787	0.293			0.985**	0.525
			(0.533)	(0.473)			(0.492)	(0.483)
Matriculation of new cars					-0.005	-0.007	-0.014	-0.014
					(0.015)	(0.011)	(0.011)	(0.009)
Value added (%GDP)					0.281	0.187	-0.276	-0.096
					(0.500)	(0.346)	(0.457)	(0.406)
National Champion					0.794**	1.703	1.652*	2.184
					(0.370)	(1.045)	(0.991)	(1.511)
Constant	3.202***	1.932	6.171***	0.410	2.910***	1.570	7.007***	0.540
	(0.297)	(1.606)	(1.504)	(2.597)	(0.609)	(1.690)	(1.571)	(2.371)
Observations	239	239	239	239	233	233	233	233
Country-fixed effects	✓	✓	✓	✓	✓	✓	✓	✓
Log pseudo-likelihood	-515.860	-500.01	-506.669	-495.04	-509.077	-493.71	-500.10	-488.513
α	0.750	0.586	0.627	0.537	0.746	0.590	0.611	0.536
Wald's χ^2	4627.79***	5299.12***	1281.06***	1554.96***	3412.36***	3192.76***	1052.06***	1269.42***

Note: robust standard errors in parentheses. Inflation part of the equation not included. *** p<0.01; ** p<0.05; * p<0.1.

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