Interest Organizations and Distributive Politics: Small-Business Subsidies in Mexico

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Introduction

Many recent studies of distributive politics analyze the distribution of government handouts to detect clientelistic linkages between ruling parties and voters. For example, contributions to the prominent "core-versus-swing" swing analyze how politicians divide excludable goods between voters predisposed to vote for their parties and undecided voters. However, political parties do not only establish clientelistic linkages with individual voters; they often form ties with collective actors such as labor unions, social movements, or ethnic groups. The goal of this paper is to explain the strategies of political parties in the allocation of distributive benefits to collective actors, focusing on economic interest organizations in Mexico. When do politicians involve interest organizations in distributive spending? And how do politicians opt between allocating benefits to organizational allies and swing groups?

This paper makes two main contributions to the fields of distributive politics and interest representation. First, I introduce collective actors to the study of distributive politics, helping bring this literature in line with the empirical reality that the electoral manipulation of government handouts quite often benefits organized groups of citizens rather than (or in addition to) individual voters. Politicians stand much to gain from forming clientelistic linkages with interest organizations, which are often disposed to provide considerable campaign and party-building services—resources that are much more valuable to the party than the organizations members' votes—in exchange for privileged access to government largesse. Second, I construct a theory regarding the types of linkages that parties form with organizations that are predisposed to support them ("core" organizations) and those that are not ("non-core" organizations), and the conditions under which ruling politicians prioritize these types of organizations in the allocation of distributive programs.

My central argument is that organizations in a party's core and non-core constituencies offer different resources to political parties, and thus ruling politicians allocate benefits between these two types of organizations based on the resources that their parties most need. Organizations in a party's core constituency—such as labor unions for a labor party—contribute to the party's long-term goal of strengthening and consolidating its base. These organizations socialize members to support the allied party and support the party's politicians once on office. On the other hand, organizations in a party's non-core constituency contribute to the party's short-term goal of winning an upcoming election. These organizations have the ability to mobilize support for the party in a given election, but are likely to sever the linkage following that election and thus do not contribute to long-term party-building. It follows that ruling politicians allocate distributive benefits in accordance with the degree of electoral threat that they face: When a party is electorally strong, it prioritizes organizations in its core constituency in order to keep these organizations in the fold and strengthen their efforts at recruitment, which ultimately grows the party base. When the ruling party faces an electoral threat, it prioritizes organizations in its non-core constituency, whose public endorsements and campaign activities may be pivotal in an upcoming election.

I test this theory by analyzing the subnational distribution of small-business subsidies in Mexico. My approach differs from previous studies of distributive politics in two ways. First, I focus on how these benefits are used to build and maintain alliances between state-level governments and interest organizations by examining the factors that lead politicians to mediate these subsidies through small-business organizations rather than allocating them directly to business owners. Second, I take a subnational focus by analyzing the distribution of a small-business subsidy program called *Fondo PyME*, which is designed and funded by the federal government, but operated by state governments.[1] The"federalized" nature of this program allows me to make controlled comparisons across Mexican states and over time, isolating the state-level electoral factors that drive governors' distributive choices. I conduct this analysis using an original dataset of all projects funded by this program from its inception in 2004 until 2011, acquired through public information requests to Mexico's Ministry of the Economy and paired with state-level electoral, economic, and demographic data.

By comparing states governed by the right-wing PAN and the centrist PRI, facing different levels of electoral threats, I test my argument that ruling politicians reward "core" interest organizations when they are electorally strong and "swing" organizations when they face an electoral threat. In the analysis that follows, I show that electoral competition has different effects on the distributional choices of PAN and PRI governments. PAN governors disproportionally reward small-business organizations—which belong to their core constituency—when they enjoy large margins of victory; and they reward these organizations less as elections become more competitive. On the other hand, when PRI governors enjoy large margins of victory, they tend to exclude small-business organizations—which belong to their non-core constituency—from subsidies, instead mediating these funds through government ministries and local non-governmental organizations. Only when they face aN electoral threat do PRI governors make it a priority to reach out to small-business organizations. These findings demonstrate that the electoral logic of distributive politics varies

[1] The acronym "PyME" refers to "small and medium-sized businesses" (*"pequeñas y medianas empresas"*).

with the type of party that controls the purse and whether it is principally concerned with winning the election at hand or with consolidating its electoral base.

The remainer of this paper is composed of five sections. The next section builds on the "core-versus-swing" debate to construct an argument for the incentives that drive politicians' allocation of distributive benefits to core and non-core organizations. The third section describes my subnational comparative approach, laying out the state-level traits of small-business organizations, electoral competition, and distributive politics that I exploit in my analysis. I then test the effect of electoral competition on the distributive choices of governors from different parties. The final section concludes, discussing potential extensions of this approach to other types of distributive programs and in various party systems.

A Theory of Distributive Politics and Interest Organizations

Existing theories that seek to explain the electoral targeting of distributive benefits are based on the assumption that parties reward benefits to individual voters, most commonly in reference to clientelist vote buying. Animated debates revolve around the question of whether parties prefer to allocate benefits to loyal or swing voters. The purported logic of rewarding the core constituency is that this constituency's electoral support is more cheaply bought than swing voters', these voters present less risk of deviating on the exchange bargain, and that their long-term loyalty is contingent on the ongoing receipt of benefits (Cox and McCubbins 1986; Diaz-Cayeros, et al 2012; Nichter 2008). The logic behind rewarding swing voters is that the group is pivotal: its votes are most likely to determine the outcome in a given election (Lindbeck and Weibull 1987, Stokes 2005). Another recent contribution argues that parties prefer swing strategies, but that an inability to effectively monitor brokers leads to *de facto* core strategies (Stokes, et al 2013). The present analysis concurs with those studies that do not seek to identify a universal logic of vote buying, but rather argue that vote-buying strategies are contingent on variations in electoral institutions, party systems, and social structure (Dixit and Londregan 1996; Dunning and Stokes 2007; Gans-Morse, et al forthcoming). In particular, I draw the intuition that ruling parties' distributive strategies vary based on the degree of electoral threat that they face, which in turn determines whether they are principally concerned with short-term goals (winning the election at hand) or long-term goals (consolidating an electoral base).

This paper address the core-versus-swing debate in a novel way by controlling for the type of constituency—middle-class business owners—and varying the type of party; I compare a right-wing party for which this group constitutes a core constituency to a centrist party for which this group constitutes a swing constituency. However, I extend beyond the framework of vote buying by exploring the logic driving parties' decisions about rewarding *interest organizations* with distributive programs. While much literature on vote buying assumes that distributive spending reflects direct party-voter linkages (Kitschelt 2000), perhaps mediated by party-contracted brokers, recent studies have shown that societal (i.e. non-party) organizational structures add an extra layer of representation between parties and voters (Calvo and Murillo 2013, Thachil 2011). Several studies in Latin American countries demonstrate that distributive spending and service provision are often mediated through interest organizations, such as neighborhood associations, peasant cooperatives, or informal-sector unions (Fox 1994, Garay 2009, Gay 1990, Hilgers 2008). However, none of these studies address how parties choose *which* organizations to incorporate in distributive spending.

Under organization-mediated clientelism, organization leaders are employed as brokers, and balance their commitments to the rewarding party with those to the members that they are charged to represent (Holland and Palmer-Rubin 2013). Incorporating organizations in distributive spending can pay dividends to parties: these organizations provide a ready-made base network for parties that lack roots in society; organization leaders may be better situated than party activists to deliver patronage goods efficiently and monitor their members' votes; and organizations provide many electoral services that extend beyond the votes of their members, such as organizing rallies and endorsing candidates in the media. At the same time, organization leaders are often quite eager to enter into linkages with political parties, as such relationships may afford the organization access to policymaking forums or patronage benefits that can be repurposed as selective benefits to recruit and mobilize members.

I argue that ruling parties' decisions about how to involve interest organizations in distributive spending is influenced by two factors: the affinity between the organization and the party and the degree of electoral threat faced by the ruling party. The first factor, *party-organization affinity* reflects whether a given type of organization belongs to a party's core constituency, belongs to its non-core constituency, or is in opposition to the party.[2] As shown in Table 1, there are three dimensions to party-organization affinity, having to do with the alignment of the party's and the organization's programmatic policy goals, the relationship of the organization's membership to the party's electoral constituency, and the compatibility of the party and the organization to form electoral linkages.

The second factor, the degree of *electoral threat*, is simply a factor of the likelihood that the governing party will be unseated in an upcoming election. When the party in office is

[2] I borrow the terms "core constituency" and "non-core constituency" from Gibson (1996).

Table 1: Typology of Party-Organization Affinity

	Programmatic Goals	Membership	Linkage Compatibility
Core Org's	Similar to party's	Core constituency	Amenable to long-term
Non-Core Org's	Some overlap with party's	Non-core constituency	Amenable to short-term
Opposition Org's	Conflicting with party's	Opposition voters	Not amenable

relatively certain that it will prevail in foreseeable elections, the threat is low. When the ruling party perceives that it is likely to face a significant challenge of losing office in an upcoming election, the threat is high. As Diaz-Cayeros, et al (2012: 5) point out "parties are motivated both by long-term considerations—maintaining their electoral coalitions over time—and short-term concerns—expanding their electoral base at election time." The degree to which ruling parties prioritize these short- and long-term goals depends on the strength of their hold on power. When the electoral threat is high, the ruling party is preoccupied with the short-term goal of winning the upcoming election in order to stay in office, but when the electoral threat is low, the party may turn to the longer-term concern of consolidating its base to secure its hold on power in the long run.

The implication for organizational linkages is that under high electoral threat, parties increasingly prioritize the construction of short-term linkages with non-core organizations, which may be decisive in an upcoming election; and under low electoral threat, parties prioritize the reinforcement of long-term linkages with core organizations, which play an important role in consolidating the party's base. This argument is similar to But what do parties gain from these different types of linkages? And what draws organizations into these linkages?

We can think of party-organization linkages as entailing an exchange between the party and the organization. A short-term linkage—the type of linkage most common between parties and non-core organizations—involves a circumscribed exchange negotiated in the context of a single election. In such an exchange, the organization provides services to the party that are useful for winning the election at hand: endorsements in the media, opportunities to speak in front of its members, and the use of the organization's membership base as a patronage network. In exchange, the organization is offered some excludable benefit, such as preferential allocation of subsidies that are under the discretionary control of politicians belonging to that party. Short-term linkages with non-core organizations are particularly valuable because in garnering the support of these organizations, the party is taking support away from an opposing party. An example of such a linkage is the neighborhood leader in Rio de Janeiro described by Gay (1990). Prior to a given election, this leader negotiates with multiple parties, factoring in the desirability of their promised rewards (infrastructure investments, social programs) and their likelihood of winning. To the chosen candidate, he offers to deliver the votes of his members as well as their efforts in campaigning on behalf of that candidate in an upcoming election. Following the election—and the delivery of the promised benefits to the community—the linkage is dissolved and the organization is free to support a different party in the future.

Long-term linkages—typically between a party and core organizations—involve significant organizational overlap and mutual dependence between the party and the organization, constructed over the course of iterated interactions. In the most extreme cases, the organization provides an organizational backbone for the party, such as is the case for labor-based parties and labor confederations (Collier and Collier 1991). However, even for parties that do not rely so centrally on an organizational infrastructure, core organizations are key allies and ruling politicians prefer to privilege these organizations in distributive spending if they can afford to neglect non-core organizations. The members of core organizations are socialized to support the party, the party often recruits candidates and bureaucrats from the organization's ranks, and the ongoing support of the organization serves as a signal to the broader electorate that the party and its candidates are "pro-labor," "pro-business," or "pro-peasant," for example. The organization contributes not only short-term electoral goals, but also to governability between elections: helping design and implement policy, cooperating in service delivery, and aligning its activities with the party's policy goals. The benefits of such a linkage to an organization are obvious: significant input in policymaking and having friends in power. Core organizations stand much to gain from the party retaining office and thus in a close election, are likely to support the party, even as it deviates resources to swing organizations in the short term.

Observable Implications

Small-business organizations belong to the core constituency of the right-wing PAN and the non-core constituency of the centrist PRI. Thus, the theory predicts that PAN governors will prefer to reward these organizations when this party is electorally strong in an effort to consolidate its base. However, PAN governors in states where the their party faces a significant threat in an upcoming election may decide that it is more efficient to deviate rewards away from these organizations and towards swing voters, whose support is more likely to be pivotal. Given that small-business organizations share programmatic policy goals with the PAN, they are likely to support this party anyway, perhaps in exchange for non-distributive inducements, such as nominations for public office or influence in programmatic policies. Conversely, when the PRI governs, its leaders will reward small-business organizations with distributive benefits when it faces a significant electoral threat—and particularly when this threat comes from the PAN—as PRI leaders are interested in gaining the organizations' support in the upcoming election. However, when the PRI is electorally dominant, it will use its distributive spending to reward its own base, bypassing these organizations in the distribution of small-business subsidies.

Parties, Business and Distributive Politics in Mexico

I test the above-outlined theory by comparing how state governments in Mexico distribute small-business subsidies under the program *Fondo PyME*. In contrast to many studies of distributive politics whose focus is on the national level, my subnational-comparative approach allows me to observe distributive outcomes across jurisdictions governed by parties belonging to the left (PRD), right (PAN), and center (PRI), governing under different degrees of electoral competition, while controlling for national institutions.[3] I achieve greater inferential leverage by analyzing each of Mexico's 32 states over an eight-year period, from 2004 to 2011, yielding 256 units of analysis. Variation on party in power and electoral threat occurs both across states and within states over time, as several of Mexican states experienced party alternation or modifications in competitiveness during this eight-year window.

This section lays out three characteristics of the Mexican case that make it a fruitful choice for such an analysis. First, I briefly describe the historical relationship between organized

[3]See Snyder (2001) for a discussion of the subnational comparative method under the framework of qualitative case studies.

business and political parties in Mexico, demonstrating that these organizations belong to the PAN's core constituency and the non-core constituencies of the PRI and PRD. Second, I discuss state-level electoral competition in Mexico, showing how the uneven spread of the democratic transition across Mexican states has yielded some states with vigorous multi-party competition for governor, others where the once nationally hegemonic PRI remains dominant, and others where former opposition parties—the PAN or the PRD—have won by large margins. Finally, I argue that the locus of electorally discretionary distributive spending in Mexico has shifted from the national to the state level, justifying an analysis of subnational governments' distributive choices.

Party-Business Organization Ties in Mexico

Today we can say that small-business organizations belong to the core constituency of the right-wing PAN and the non-core constituencies of the formerly dominant centrist PRI, and the left-wing PRD. This is not to say that business groups unwaveringly support the PAN. Similarly to business interests in the United States, small-business organizations in Mexico are known to "hedge their bets" by forming linkages with all major parties. Interviewed leaders of these organizations attest to prioritizing a friendly and vigilant relationship with the party in power—whatever its ideology—over declaring firm partisan allegiances. However, small-business organizations comply with all three criteria for a core organization for the PAN: First, these organizations tend to coincide with the PAN on policy issues. For example, the *Centro Coordinador Empresarial* (CCE), the peak-level confederation uniting Mexico's largest business organizations, aligned with the PAN in debates regarding three "structural" reforms—regarding labor policy, the national oil company (PEMEX) and the tax code—undertaken by the Mexican government during the first year of current PRI president Enrique Peña Nieto's term.[4] Second, the members of small-business organizations overwhelming belong to the core constituency of the PAN, the urban middle classes. Third, these organizations are amenable to long-term linkages with the PAN, demonstrated in frequent nominations of business-organization leaders for elected office and ministry posts under this party. Nonetheless, the PAN is not electorally competitive in all Mexican states. In many states, elections are essentially two-party races between the PRI and PRD or the PRI remains electorally dominant. Under such circumstances, business organizations may opt to support the centrist party in state-level races, perpetuating corporatist ties pre-dating the 2000 transition or to form pragmatic linkages with the left-wing PRD when this party is in government.

In most states, small-business organizations play an important role in both electoral politics and in policymaking. These organizations are highly active during campaigns, hosting debates and speeches, presenting proposals to candidates, supporting their own members as candidates, and organizing election-monitoring initiatives. While most business organizations have policies against formal endorsements of candidates or parties, organization and party personnel acknowledge that these organizations frequently affect electoral outcomes. Organization leaders have described their organizations as "extremely political, yet non-partisan," and as "incubators for politicians."[5] Beyond the electoral arena, business organizations have many tools at their disposal to influence policy outcomes if they choose to do

[4]The CCE incorporates representatives from twelve national business organizations. Those with the largest memberships (and those most closely studied by my dissertation) are Canacintra, Concanaco, and Coparmex, the vast majority of whose members are micro and small-business owners.

[5]Interviews with José Ángel Zaizar Prado, Vice President of Delegations of Canacintra and Luis del Valle López, member of the Executive Committee of Coparmex-Jalisco.

so. Perhaps more than any other mass-membership organizations, organizations representing business enjoy extraordinary instrumental power, exercised through the press, lobbying, and informal dealing with politicians. In sum, friendly relations with business are essential for governors, both for assuring the continued electoral success of their party and for effective governance.

State-Level Party Competition

The significant variation among Mexican states (and over time within states) in terms of the party in power, the challenger party, and vote margins in gubernatorial elections during the period in question facilitates an analysis of the effect of party competition on state governments' distributive choices. While the transition away from one-party dominance is often associated with the 2000 victory of the PAN for the presidency, the transition unfolded gradually on the state level, beginning with gubernatorial victories by the PAN as far back as 1989 and by the left-wing PRD beginning in 1997. As shown in Table 1, the PAN or PRD secured gubernatorial victories in over two-thirds (23 out of 32) of Mexican states between 1989 and 2012. Eleven of these states (*in italics*) were eventually reclaimed by the PRI, as it ramped up its comeback that culminated in recouping the presidency in 2012. However, a few years ago, we could certainly have spoken of states that had become bastions of the PAN (Aguascalientes, Baja California, Guanajuato, Jalisco, and Querétaro) and of the PRD (Chiapas, Distrito Federal, Guerrero, Michoacán, and Zacatecas), having been held by the former opposition parties for consecutive terms. On the other extreme, nine states were continuously controlled by the PRI during the period under analysis.

Table 2: Party Turnover in Mexico States

PRI Continuity	PRD Ascendency	PAN Ascendency	PAN and PRD
Campeche	*Chiapas (2000)*	Aguascalientes (1998)	Baja Calif. Sur (1999)
Coahuila	Dist. Federal (1997)	Baja California (1989)	Morelos (2000)
Colima	Guerrero (2005)	*Chihuahua (1992)*	*Nayarit (1999)*
Durango	Tabasco (2012)	Guanajuato (1995)	Oaxaca (2010)
Hidalgo	*Michoacán (2001)*	*Jalisco (1995)*	Puebla (2010)
México	*Zacatecas (1998)*	*Nuevo León (1997)*	Sinaloa (2010)
Quintana Roo		*Querétaro (1997)*	*Tlaxcala (1998)*
Tamaulipas		*San Luis Potosí (2003)*	
Veracruz		Sonora (2009)	
		Yucatán (2001)	

Note: In Nayarit (1999), Oaxaca, Puebla, and Sinaloa (all 2010), a candidate backed by a PAN-PRD alliance defeated a PRI candidate for governor. Baja California Sur, Morelos, and Tlaxcala are the only states where all three parties have independently held the governorship. Many of the candidates represented in this table were backed by a coalition of one the three large parties with one or more minor parties. In these cases, the state is coded as belonging to the large party that led the coalition. Source: CIDAC electoral database: http://www.cidac.org/esp/Datos_Electorales.php.

Due to the universal presence of the PRI and the geographically distinct areas of strength for the PAN (north, west) and PRD (center, southeast), state-level races frequently break down to two-party contests between the centrist PRI and either the PAN or PRD. Thus, as shown in Table 2, for the 256 state-years under analysis (32 states across 8 years—2004-2011) the four most common configurations of ruling and challenger parties all involve the PRI. The PRI governed during the majority of these state-years (55.8 percent), followed by the PAN (28.1 percent) and the PRD (18.8 percent). When it was not governing, the PRI was almost always the main challenger to either the PAN or PRD.[6] All 32 states held at least one gubernatorial election during this period and twelve of the states experienced

[6] The PRI failed to qualify as either the governing or principal challenger party (finishing in second place in the immediately preceding gubernatorial election) in only 6.7 percent of the state-years in the sample (corresponding to Morelos 2007-2011, Michoacán 2008-2011, and Distrito Federal 2004-2011).

party turnover. On average, the PRI won by larger margins that the other parties, but with significant variation between elections.

Table 3: Party Configurations in Mexican States

Governing Party	Challenger Party	Total State-Years (2004-2011)	Mean Margin of Victory (SD)
PRI	PAN	104 (40.6%)	14.3% (11.1%)
PRI	PRD	39 (15.2%)	8.9% (7.5%)
PAN	PRI	60 (23.4%)	11.5% (11.1%)
PRD	PRI	36 (14.1%)	8.8% (6.2%)
PRD	PAN	12 (4.7%)	11.1% (11.7%)
PAN	PRD	5 (2.0%)	3.9% (0%)

Note: $N = 256$. The ruling party and challenger parties are determined by the first and second place finishers, respectively, in the most recent gubernatorial election. Candidates backed by multiple-party coalitions are attributed to the major party in the coalition. Where PAN-PRD alliances occurred, the candidate is attributed to the party that had enjoyed the higher vote margin in the most recent election where the PAN and PRD ran separately.

***Fondo PyME*: An Application-Based Federalized Subsidy**

The third ingredient that makes Mexico a good testing ground for a theory of distributive politics and business organizations is the prevailing brand of subnational distributive politics, which grants discretion to state governments over several sizable programs. In present-day Mexico, state governments enjoy significantly more discretion over distributive programs than the federal government and are subject to much less oversight.

This project capitalizes on a specific category of subnational spending: "federalized" subsidies, which are particularly well suited for cross-state comparisons. These are subsidies that have not been completely decentralized. Rather they are programs designed and largely funded by federal government agencies, but administered by state governments. In the case of application-based subsidies such as *Fondo PyME*, rules of operation adopted on the national level lay out a broad array of types of benefits that can be supplied and basic application procedures for potential beneficiaries.[7] State governments then make decisions about what types of projects to prioritize, evaluate applications, and decide whom to reward with the benefits. Thus, these programs offer a standardized institutional framework that permits a controlled cross-state comparison of distributive spending.

Fondo PyME was adopted in 2004 and administered by the Sub-Ministry of Small and Medium Firms (*Subsecretaría para la Pequeña y Mediana Empresa*) of the Ministry of the Economy. The program's stated goal was to "increase the competitiveness of businesses, through the development of the skills necessary to participate successfully in national and international markets" (UNAM 2004: 1-2).[8] The administration of Vicente Fox (2000-2006) highlighted *Fondo PyME* as an important element of its campaign to generate employment and bolster the Mexican middle class. This program provides funding for a wide variety of types of projects that benefit small-business owners, including consulting services, finance for capital improvements, and participation in conventions and other events.

During the presidency of Felipe Calderón, Fox's successor, budgets for *Fondo PyME* practically quadrupled—from 1.8 billion pesos (roughly 140 million USD) in 2006, Fox's last year to 7 billion pesos (roughly 550 million USD) in 2012, Calderón's last year. The program represented the centerpiece in the government's small-business policy and the largest line item in the Ministry of the Economy's budget. With a yearly budget of 6.8 billion pesos in 2011, *Fondo PyME* is the second largest federalized application-based subsidy in Mexico,

[7] Approximately 65 percent of *Fondo PyME*'s total budget is administered directly by the federal government. However, this project focuses on the remaining 35 percent, which is administered by state governments and totaled 8.7 billion pesos (about 700 million US dollars) over the period from 2004 to 2011.

[8] Taken from: http://www.fondopyme.gob.mx/fondopyme/2010/evaluaciones/EvaluacionFondoPYME_2004.pdf, accessed November 15, 2013.

following the rural development ministry's (Sagarpa) *Programa de Apoyo a la Inversión en Equipamiento e Infraestructura*, whose 2011 budget was 13.9 billion pesos.

Each project funded by *Fondo PyME* must have an "intermediating organization" (IO, *organismo intermedio*). Typically, the IO designs a project and submits it to state government personnel for approval. If approved, the ministry provides money to the organization to implement the project. However, state economic ministry personnel interviewed also described cases where projects were designed within the government and then an IO was sought out to administer the project. Examples of IOs include business chambers, civil society organizations, universities, private consulting firms, or government ministries. I measure my main dependent variable—involvement of small-business organizations in distributive programs—by calculating the value of *Fondo PyME* subsidies in each state for which these organizations are listed as IOs.

The analysis in this paper uses data acquired through a public information request to the Ministry of the Economy.[9] In response to the information request, this ministry provided a dataset that included one case for each project funded by *Fondo PyME* from its inception in 2004 through the end of 2011. Data for each project included the name of the IO, the amount of funding provided, and the type of benefit.

I compare the degree that different states involved business organizations in this program by calculating the amount of total funding that states allocate to projects with business organizations as IO. As shown in Table 4, approximately one-fifth of the projects (513 out of 2548) in the sample had business organizations as IOs, representing about seven percent of

[9]Information request folio number: 0001000127411. Response received October 11, 2011. Appeal (*recurso de revisión*) folio number: 5531/11. Responses received November 28, 2011 and December 8, 2011.

all federalized *Fondo PyME* spending (599 million pesos over the eight-year period). Close to one-third of projects have government agencies as IOs. These projects can be interpreted as projects where benefits were delivered directly to business owners, bypassing interest organizations. The remaining projects involve other types of non-governmental organizations as IOs. Because it is difficult to ascertain whether these organizations constitute core or non-core groups for the different parties, I limit my analysis of organization-mediated spending to small-business organizations.

Table 4: Fondo PyME Subsidies by Intermediating Organization

Type of Organization	Examples	Number of Projects	Total Spent
Government	state ministry, municipal gov.	858	5938.4
Small-Business Org.	commerce or industry chambers, Coparmex	513	598.9
Other Organization	university, consulting firm, NGO	1177	2148.6
Total		2548	8685.8

Note: Figures correspond to total public spending on federalized Fondo PyME projects for the years 2004-2011. "Total Spent" column show millions of Mexican pesos.

Electoral Variables and State-Level Controls

Data on yearly *Fondo PyME* spending in each state is paired with data drawn from governors' election results in order to calculate several indicators of electoral competition in each state. The ruling party is the party of the candidate that won the last governor's election and the challenger party is the party of the second-place finisher in the same election.[10] The level of electoral competition in the state is calculated as the margin of victory in

[10]The values for ruling party and challenger party are coded beginning with the year following the election because elections are typically held in July and the new governor does not take office until the following year. Candidates backed by multiple-party coalitions are attributed to the major party in the coalition. Where PAN-PRD alliances occurred, the candidate is attributed to the party that had enjoyed the higher vote margin in the most recent election where the PAN and PRD ran separately.

the immediately preceding election. I add control variables for each state from Mexico's statistical bureau (INEGI), including population, GDP, and the number of firms. I also include a measure of the percent of firms in each state that appear in a national database of firms (SIEM), a proxy for the coverage of business chambers, since these chambers are responsible for enrolling firms in the SIEM. Summary statistics for the relevant dependent variables, electoral traits of states, and socio-demographic controls are shown in Table 5.

Table 5: Summary Statistics

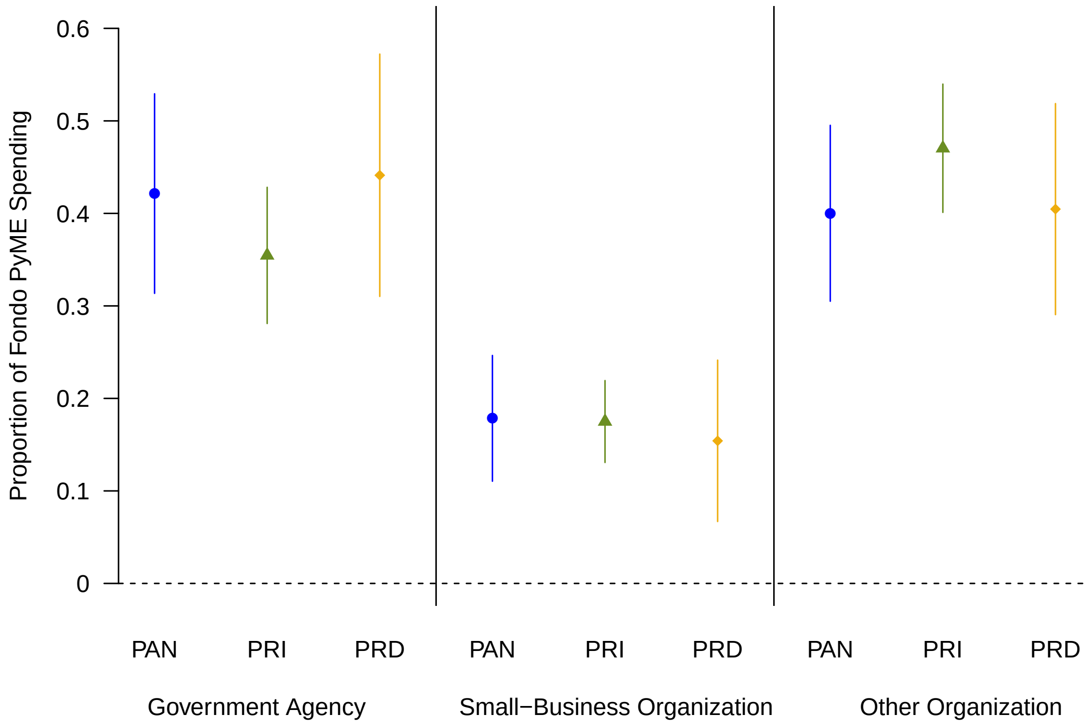
	Mean	SD	Minimum	Maximum
Fondo PyME Spending (thousands)	33,929	403,536	0	3,209,471
Org-Mediated Spending (thousands)	2,339	6,384	0	81,580
Margin of Victory	0.11	0.09	0.01	0.41
PRI Vote Share	0.43	0.09	0.22	0.62
PAN Vote Share	0.32	0.16	0.01	0.62
PRD Vote Share	0.20	0.17	0.01	0.55
GDP (thousands)	432,617	440,053	72,114	2,291,440
Population (thousands)	3,226	2,754	512	14,007
Number of Firms	111,000	96,478	20,190	446,200
SIEM Percentage	22.3%	18.4%	1.6%	93.0%

Note: $N = 256$. Spending variables and GDP expressed in thousands of Mexican pesos. PAN and PRD vote share figures exclude cases where PAN and PRD ran in coalition.

Analysis of *Fondo PyME* Distribution

I now analyze the state-level distribution of small-business subsidies. An initial question regards whether state governments under the control of different political parties distribute *Fondo PyME* funds differently. I begin with a descriptive analysis that compares the amount

Figure 1: Proportion Spent on Each Type of Intermediating Organization by Party in Power



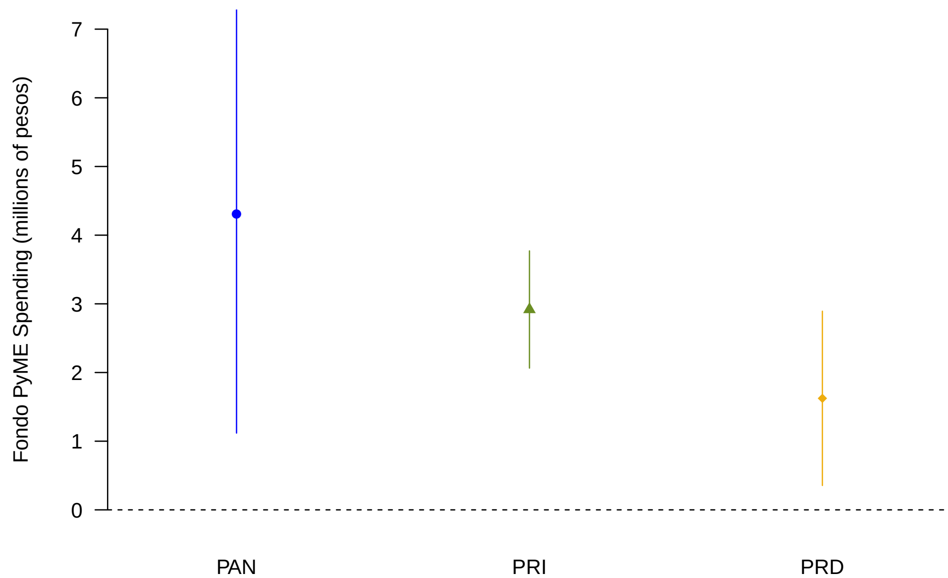
Note: $N = 199$. Data reflects federalized Fondo PyME spending from 2004-2011 for all states that participated in the program. Segments reflect 95 percent confidence intervals for the proportion of yearly Fondo PyME spending in states governed by each party that was spent on projects with each category of IO.

of subsidy funds that governors of the three parties allocate to projects with government agencies, small-business organizations, or other types of organizations as IOs. It is important to note that although state governments have significant discretion over the types of projects to fund, all projects must benefit micro-, small- and medium-sized businesses. Thus, while a governor may prefer to spend these funds on benefits for poor rural populations or large corporate interests, program rules and oversight by the federal government prevent them from doing so.

At first glance, states governed by the PAN, PRD, and PRI select IO's for *Fondo PyME* projects in relatively similar ways (Figure 1). On average, PRI governments allocated a slightly lower proportion of budgets to government agencies and slightly more to "other" organizations, but the differences are far from statistically significant, as denoted by the overlap between the 95 percent confidence intervals in Figure 1. States governed by the three parties spent roughly equal proportions of *Fondo PyME* budgets on projects that were mediated through business organizations: between 15 and 18 percent, again with highly overlapping confidence intervals. When we look at *total* spending on small business organization-mediated projects (Figure 2), we begin to see some differentiation (albeit not statistically significant), in line with what we would expect given the relationship of these three parties to these groups. PAN-governed states spent a yearly average of 4.3 million pesos on these projects, followed by the PRI (2.9 million pesos) and the PRD (1.6 million pesos). These differences are largely attributable to the biases in allocation of *Fondo PyME* funds to states: PAN-governed states spent a yearly average of 62 million pesos on all projects, compared with 41 million pesos for PRI-governed states and 27 million pesos for PRD-governed states.[11] However, the high degree of variation among states governed by the same party suggests that factors other than the party in power drive governments' decisions about how much money to allocate to small-business organizations. In the next section, I conduct multivariate analyses of the correlates of small business organization-mediated spending. These

[11] This bias cannot be interpreted as being entirely exogenous—state economic-development ministry personnel reported that the amount of funding that they receive from the federal government takes into account the amount that they request for various projects in the prior year. To account for these different measures, I conduct the following analysis using both the raw amount of funds allocated to business organizations and the proportion of total spending in the state allocated to these organizations.

Figure 2: Average Allocations to Small-Business Organizations by Party in Power



Note: $N = 199$. Data reflects federalized Fondo PyME spending from 2004-2011 for all states that participated in the program. Segments reflect 95 percent confidence intervals for yearly *Fondo PyME* spending on projects whose IO's were small-business organization in states governed by each party.

results show that characteristics of intrastate electoral competition are highly associated with state governments' distributive choices.

The Correlates of Distributive Spending

Finally, I move to multivariate analyses focusing on distributive decisions by governors belonging to the three major political parties in Mexico: the PRI, the once-dominant centrist party; the PAN, a pro-business right-wing party; and the PRD, a left-wing party. As discussed above, I am interested in understanding how electoral risk affects a governing party's distributive decisions. In the following multivariate analyses, the degree of competition is measured as the governing party's margin of victory (*Vote Margin*) in the most recent gubernatorial election. The coefficient for this variable reflects how electoral competition is associated with overall allocation to small-business organizations. I also interact this variable with a categorical variable reflecting the ruling party. The coefficients for each of these interaction terms reflect how the different governing parties' allocations to small-business organizations change at different levels of electoral risk. I run two sets of models, the first set uses total state-level allocations to small-business organizations as the dependent variable and the second set uses a (logged) measure of the share of total state-level spending that is allocated to small-business organizations. Each set of models has three versions. The first model includes only *Vote Margin*, *Ruling Party*, and the interaction terms. The second model adds several control variables, accounting for state-level socio-economic factors (GDP, population, percent poverty), a dummy variable reflecting whether a gubernatorial election took place during the year in each state, the number of firms and the SIEM rate (a measure of the business chambers coverage in the state). The third model in each set includes year fixed effects. It should be noted that the analysis does not take the typical form of panel analysis because vote margin varies considerably more across states than over time within a given state—thus, it is inappropriate to include state-level fixed effects. However, as is standard with panel data, all models report robust standard errors clustered at the state level.

Results of these models are reported in Table 6. In these models, the PAN is the baseline value for the Ruling Party variable. Given that the business community—and small-business organizations in particular—belong to the PAN's core constituency, my theory predicts that the PAN will spend less on these organizations when elections are closely contested because it has a greater need to deviate these funds to swing groups, but that when the PAN enjoys larger margins of victory, its governors will reward these core groups in order to consolidate the party base. A first observation is that the PAN spends a larger absolute amount (Models 1-3) and a higher proportion of *Fondo PyME* budgets (Models 4-6) on projects mediated by small-business organizations than the PRI or PRD. The significant negative coefficients for the PRD and PRI levels of Ruling Party reflect that states governed by these parties allocate less funding to business organizations than the PAN. Second, the PAN spends increasingly more on business organizations at higher vote margins, in line with my prediction. The coefficients for the interaction effects between Vote Margin and the PRD and PRI levels of Ruling Party are negative and of roughly the same size as the Vote Margin main effect (PAN); the association between Vote Margin and business organization-mediated spending disappears in states governed by these two parties, for whom small-business organizations are non-core.

Figure 3 provides a graphical representation of the relationship between electoral threat and predicted values, drawn from Model 3, for allocations to small-business organizations for states governed by the three parties. As PAN governors enjoy higher vote margins, they allocate greater shares of subsidies to small-business organizations. For every additional percentage point in vote margin, PAN governors allocate roughly 350,000 more pesos (about 30,000 USD) to these organizations. No relationship is detectable between vote margins and allocation to these organizations for the PRI or PRD.

The distributional choices of PRI governments merit further attention. As several studies of subnational authoritarianism in Mexico have shown, in states where the PRI retains a stranglehold on elected office, distributive spending operates under a machine-party logic,

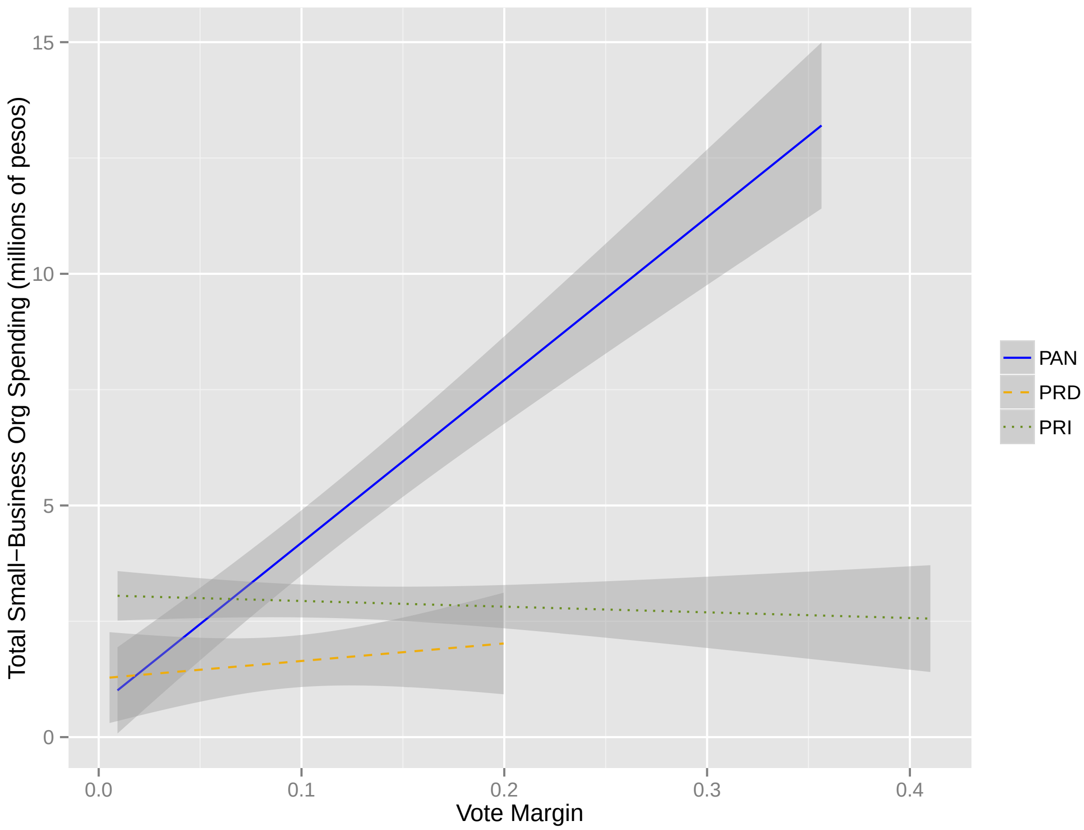
Table 6: Correlates of Business Organization-Mediated Spending

	Business Organization Spending			Share of Total Spending (logged)		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Vote Margin (logged)	4.35^{**}	4.17^{**}	4.26^{**}	0.47^{**}	0.48^{***}	0.47^{**}
	(2.03)	(2.07)	(2.11)	(0.19)	(0.18)	(0.19)
Ruling Party (PRD)	-14.38^{**}	-12.57^{*}	-12.63^{*}	-1.80^{*}	-1.71^{**}	-1.64^{**}
	(6.62)	(7.03)	(7.11)	(0.98)	(0.79)	(0.79)
Ruling Party (PRI)	-13.79^{**}	-13.28^{**}	-13.67^{**}	-0.99	-0.94	-0.92
	(6.59)	(6.59)	(6.62)	(0.80)	(0.71)	(0.71)
Vote Margin:PRD	-4.26^{**}	-3.73^{*}	-3.79^{*}	-0.47^{*}	-0.63^{**}	-0.61^{**}
	(2.05)	(2.17)	(2.25)	(0.28)	(0.26)	(0.26)
Vote Margin:PRI	-4.53^{**}	-4.35^{**}	-4.45^{**}	-0.40	-0.43^{*}	-0.42^{*}
	(2.06)	(2.09)	(2.13)	(0.25)	(0.24)	(0.25)
GDP (logged)		-0.16	-0.06		-0.35	-0.34
		(0.69)	(0.66)		(0.26)	(0.27)
Population (logged)		1.88	2.01		0.24	0.26
		(1.37)	(1.38)		(0.40)	(0.41)
State Election Year		-1.40^{*}	-1.70^{**}		0.09	0.18
		(0.77)	(0.80)		(0.31)	(0.34)
Percent Poverty		-0.01	-0.01		-0.04^{**}	-0.04^{**}
		(0.05)	(0.05)		(0.01)	(0.01)
Number of Firms		0.00	0.00		0.00	0.00
		(0.00)	(0.00)		(0.00)	(0.00)
SIEM Rate		-1.12	-1.49		-0.30	-0.31
		(2.00)	(1.98)		(0.50)	(0.51)
(Intercept)	16.25^{**}	-6.78	-11.15	3.06^{***}	8.37^{*}	8.07
	(6.50)	(25.97)	(26.89)	(0.55)	(4.99)	(5.14)
Year Fixed Effects	No	No	Yes	No	No	Yes
R^2	0.11	0.13	0.17	0.05	0.17	0.19
Adj. R^2	0.09	0.07	0.09	0.02	0.12	0.12
Num. obs.	199	199	199	199	199	199

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Note: Spending figures reflect millions of Mexican pesos for ease of display. Standard errors clustered at the state level. Sample includes all state-years with some level of *Fondo PyME* spending.

Figure 3: Vote Margin and Small-Business Organization Spending by Governing Party



Note: $N = 199$. Values on the vertical axis represent predicted values from Model 3 in Table 6.

which likely differs considerably from the logic of distribution in states where opposition parties pose a realistic electoral threat to the PRI (Gibson 2005, Giraudy 2010). I thus conduct additional analysis focusing only on PRI governed states, replacing the continuous Vote Margin variable with a dummy variable for one-party dominance, which takes on a value of 1 if the PRI won the previous election by at least 15 percentage points.[12] The goal of including *Dominant Party* is to evaluate whether one-party dominance has an impact on distributive decisions. I also include a categorical variable reflecting the challenger party, coded as the party that finished in second place in the immediately prior gubernatorial

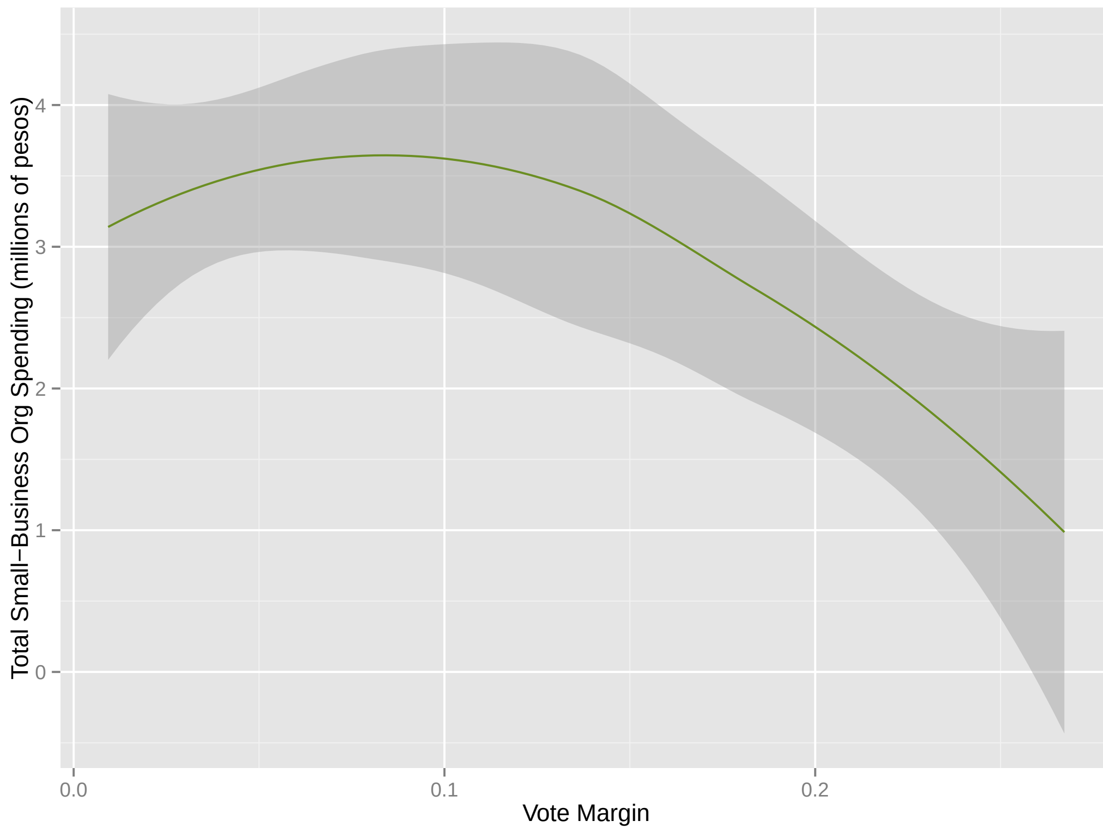
[12]These findings are robust to other specifications of the dominant-party dummy, including 10-point and 20-point thresholds.

election. This variable allows me to gauge whether the PRI makes different decisions about the distribution of small-business subsidies when opposed by the PAN—for whom business organizations are a core group—or the PRD—for whom business organizations are also a non-core group.

These analyses return significant negative estimates for Dominant Party across all specifications with total small business organization-mediated spending as the dependent variable and no significant findings for challenger party, suggesting that PRI governments base their distributional decisions more on their degree of electoral threat rather than the type of party that poses a threat. (Results reported in appendix). As shown in Figure 4, which uses a loess curve to allow for a non-linear relationship, PRI governments' allocations to small-business organizations decline precipitously after vote margins exceed 10 percent. This finding supports the hypothesis that PRI-run state governments deviate a greater share of distributive goods to business organizations—a non-core group—when they perceive that the support of these organizations may increase the PRI's odds of retaining the governorship. This finding combined with the lack of an association using the continuous vote margin variable in the previous models, suggests that PRI governors only feel safe neglecting business organizations when the PRI is dominant, in which case they may prefer to allocate *Fondo PyME* benefits to core groups.

Interestingly, results regarding organization-mediated spending by both PAN and PRI governors support the argument that spending on non-core interest organizations occurs more under competitive electoral conditions. By holding the constituency constant and varying the party in power, I was able to compare spending mediated through small-business organizations in cases where these organizations constituted a core constituency for the

Figure 4: Vote Margin and Small-Business Organization Spending, PRI-Governed States



Note: $N = 102$. Values on the vertical axis represent predicted values from Model 3 in Table 7 (appendix).

party in power (PAN-governed states) and when they constituted a non-core constituency for the party in power (PRI-governed states). Higher levels of electoral competition are associated with organization-mediated spending when these organizations are non-core (i.e. when the PRI is governing), but lower levels of electoral competition are associated with *less* organization-mediated spending when these organizations belong to the governing party's core constituency (i.e. when the PAN is governing).

Conclusion

In this paper, I explore the factors that lead politicians to incorporate interest organizations in distributive spending. Political parties often depend on collective social actors, such as labor unions, peasant associations, and business groups for electoral resources. These types of organizations contribute both to parties' short-term goals—mobilizing voters, distributing patronage benefits, organizing rallies—and long-term goals—recruiting and socializing members of society to support the party, grooming candidates for elected office and ministry posts, participating in policy design and implementation. Allocating discretionary distributive programs to interest organizations in exchange for these resources may be a particularly efficient way for ruling politicians to achieve their electoral objectives. However, the literature on distributive politics has largely ignored these groups, focusing instead on allocations of distributive benefits to individual voters.

I outlined and tested a theory, arguing that two factors shape the preferences of governing parties for incorporating interest organizations in distributive spending: the relationship of the organization to the party's electoral base (core versus non-core constituency), and the degree of electoral threat faced by the governing party. My analysis of *Fondo PyME* distribution supported the argument that a governing party prefers to reward interest organizations belonging to its core constituency when it enjoys a significant electoral advantage, but will privilege organizations in its non-core constituency when elections are closely contested. Thus, as the right-wing PAN's hold on power becomes more secure, it allocates greater rewards to small-business organizations, which belong to its core constituency. Conversely, when the centrist PRI establishes electoral dominance, it channels fewer rewards to these organizations, likely deviating those rewards instead to directly to business owners that are central to the PRI's electoral base. This finding has important implications for interest representation in Mexico and beyond, suggesting that electoral competition increases the incentives of ruling politicians to reach across the aisle—not to rival political parties, but rather to interest organizations that fall outside the ruling party's base.

Future research could build on my approach in two ways. First, staying in Mexico, we might ask whether a similar logic underlies the distribution of programs that are designed to benefit constituencies that belong to the left-wing PRD's core constituency, such as urban popular associations or peasant cooperatives. If my theory travels, we would expect PRD governors to reward these organizations when its hold on power is strong, but for PRI governors to reward swing interest organizations in these sectors when it faces an electoral threat—and particularly when that threat comes from the PRD. Second, we should explore whether this theory travels to different types of party systems, such as two-party systems where no "centrist" party is present (e.g. the United States), or fragmented party systems where organizations are unlikely to belong to any party's core constituency (perhaps Brazil, excepting the contemporary PT).

Another possible extension of this logic would be to investigate the organizational side of clientelistic linkages between parties and interest organizations. While I have argued here that politicians' preferences for allocating benefits to core- and non-core organizations is influenced by the degree of electoral threat faced by their parties, we may explore the factors that influence the preferences of organizations to enter into these linkages. For instance, under what conditions are organizations willing to abandon parties that are their natural allies in order to join up with ruling parties that offer access to distributive benefits?

While the theory outlined here suggests that parties facing a significant electoral threat have a greater incentive to incorporate non-core groups, the logic from the perspective of the organization may be the opposite—supporting such a party increases in attractiveness as that party establishes electoral dominance, given that the natural ally for the group is unlikely to win an upcoming election. Such a logic would explain why many small-business organizations supported the PRI during the twentieth century while the PAN was unable to pose an electoral threat.

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Table 7: Correlates of Business Organization-Mediated Spending, PRI-Governed States

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Dominant Party	-2.05^{***}	-2.76^{**}	-2.46^{**}	-0.35	-0.31	-0.34
	(0.65)	(1.28)	(1.22)	(0.53)	(0.60)	(0.63)
Challenger Party (PRD)	-0.06	1.15	1.34	-0.25	-0.20	-0.17
	(1.07)	(1.17)	(1.38)	(0.47)	(0.53)	(0.60)
GDP (logged)		0.13	0.35		-0.25	-0.25
		(0.86)	(0.82)		(0.37)	(0.40)
Population (logged)		1.09	1.41		0.35	0.36
		(1.14)	(1.08)		(0.51)	(0.54)
State Election Year		-1.30	-1.53		-0.08	0.18
		(0.89)	(1.28)		(0.40)	(0.53)
Percent Poverty		-0.07	-0.08		-0.03	-0.03
		(0.07)	(0.07)		(0.02)	(0.02)
Number of Firms		0.00	0.00		0.00	0.00
		(0.00)	(0.00)		(0.00)	(0.00)
SIEM Rate		-5.60^{*}	-7.62^{**}		0.26	0.31
		(3.35)	(3.67)		(1.32)	(1.44)
(Intercept)	3.46^{***}	-10.19	-20.43	2.05^{***}	3.27	2.99
	(0.91)	(18.78)	(20.75)	(0.27)	(5.84)	(6.67)
R^2	0.04	0.13	0.26	0.01	0.09	0.12
Adj. R^2	0.02	0.04	0.14	-0.01	0.02	-0.02
Num. obs.	105	105	105	105	105	105

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Note: Spending figures reflect millions of Mexican pesos for ease of display. Standard errors clustered at the state level. Sample includes all state-years with some level of *Fondo PyME* spending and for which the governor belonged to the PRI.