

# How Trade Shocks Prompt Racism in the United States

Jim Bisbee\*

New York University

## Abstract

How do individuals respond to trade shocks? This question has reemerged as a salient topic with the election of Donald Trump in the US, and the nativist backlash in western industrial democracies across Europe. However, the IPE literature has historically viewed trade's winners and losers through the lens of economic theory, ignoring the cognitive and behavioral dimensions of political economics. Using a novel new dataset of individual Pew survey respondents geolocated within varying distances from firms that lay off workers, I show that individuals living in areas of the US more negatively affected by free trade have grown more in-group oriented along the dimensions of race and ethnicity. Importantly, these causally-identified effects are most apparent among white respondents. I augment these empirical findings with a cognitive model that endogenizes out-group resentment, building on strategic models of discrimination in conditions of resource scarcity. My findings contribute to a nascent literature in IPE that focuses on the behavioral responses to trade at the micro level, complicating the traditional dominance of industry and skill-based explanations for trade preferences.

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\*james.bisbee@nyu.edu