

Compensation or Consternation?

The Role of International Competition in Domestic Trade Politics

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Grand Old Trade Politics

The global economy is here to stay. We cannot build walls to foreign competition, and we shouldn't want to. When have Americans ever been afraid of competition? America is the biggest exporter, importer, producer, manufacturer, and innovator in the world. That's why I reject the false virtues of economic isolationism.

- John McCain July 9, 2008

Power in the world today is moving east; the Asia-Pacific region is on the rise. ... Dealing with a rising China will be a central challenge for the next American president.

- John McCain March 26, 2008

Research Questions

- How do trade shocks affect support for politicians?
- What explains the low level of trade associated government assistance in the US?

Ongoing China Shock Shock Series

- Sudden increase in trade with China hurt the US labor market (Autor, Dorn, Hanson 2013).
- China shock shapes ethnocentric attitude (Guisinger 2017), increases crimes (Deiana 2015; Bisbee n.d.), premature mortality rate (Pierce and Schott 2016), and decreases marriage and fertility (Autor, Dorn, Hanson n.d.)
- The role of government?

Politics of Trade Adjustment

- Intuitively: Compensation can soften the electoral costs of trade shocks (Margalit 2011)
- Pre-2016 trade shocks increase Trump vote (Autor et al. 2016, appendix note; Lee 2017)
- Difficult to study: Politics shapes access to assistance (Kim and Pelc, Working Paper; Ritchie and You, forthcoming)

Government policies can inform as well as assist.

- Politicians face a tradeoff:
 - ▶ Compensation : There are political rewards for providing material assistance to constituents.
 - ▶ Consternation : Citizens vote on foreign policy is a function of naive realism.
- Politicians are chosen for their times.
- Proposing compensatory policies send a signal about the position of the community versus the world.

- Formal model of foreign policy accountability
- New identification strategy
 - ▶ “China Shock” 2000-2008
 - ▶ TAA instrument: Predicted TAA petition certification rate by county, instrumented by TAA certifying officer leniency (Hyman 2018)
- Mediation analysis
 - ▶ TAA certification as a mediator
 - ▶ Use **causalweight** package by Frolich and Huber (2017)
: Allows endogeneity in both treatment and instrument

Formal Theory

- Voter chooses between two politicians (liberal and bellicose)
- Their community is either threatened or unthreatened, which the voters do not directly observe.
- Voters benefit from compensation, but elect politicians to match politicians to the state of the world.
- Game Structure:
 - ▶ Nature reveals community status to politicians.
 - ▶ Politicians publicly propose a compensatory policy.
 - ▶ Depending on their community status, the voters observe shock.
 - ▶ Given the shock and the policy, voters update and vote.
- Result: Politicians must balance helping voters anticipate shocks against helping voters adjust to shock.

Dependent Variable

County-level Republican vote share increase, 2000 – 2008 (ΔY_{jt})

- Autor et al. (2016) study Trump vote (2000 – 2016) (ADHM)
- John McCain, a free-trade and hawkish foreign policy candidate
- Test whether voters respond to trade protectionism (Trump only) or hawkish foreign policy (Both McCain and Trump)

Independent Variable

Interaction term between the binary China Shock (high and low) and embedded liberalism (TAA petition certification rate)

- China Shock variable : Chinese Import Exposure

$$\Delta IP_{it}^{cu} = \sum_j \frac{L_{ijt}}{L_{it}} \Delta IP_{j\tau}^{cu}$$

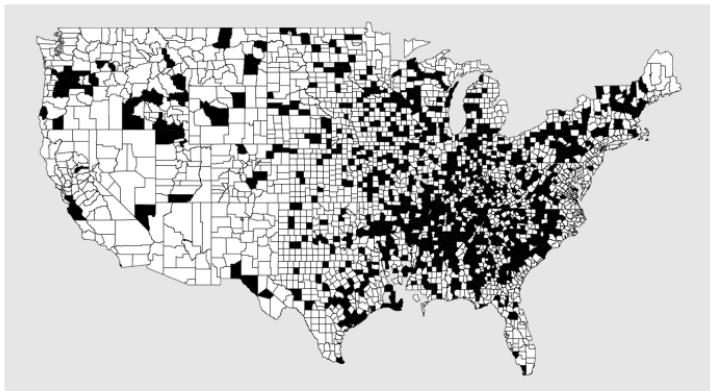
- China Shock instrument : Lagged contemporaneous changes in Chinese imports to eight other non-US high income countries

$$\Delta IP_{it}^{co} = \sum_j \frac{L_{ijt-10}}{L_{uit-10}} \Delta IP_{j\tau}^{co}$$

- High and Low China Shock counties based on the threshold value of mean

Binary China Shock Map

US Counties with High China Shock (In Black)
Subject to both High US and Non-US Trade Exposure



Data on Embedded Liberalism

- FOIA request on every TAA petition certification since 1975
- Information on the address of companies that fired workers, petition certification, bureaucrats that administered each petition
- Sample Data Structure

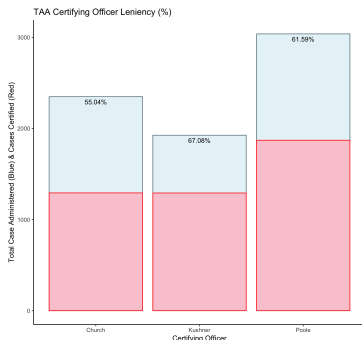
Petition#	Company Name	Address	Product	...	Determination	Est.#Workers
40	CHRYSLER	...	Automobiles, Standard	...	Denied	127
			Investigator	...	Certifying Officer	Type
			Lopez	...	Poole	Production

Independent Variable (Continued)

Instrumented TAA certification rate

Steps

- 1 Regress the petition outcome (1= certified, 0= not certified) to a certifying officer
- 2 Average the fitted value at the CZ-level which county j belongs

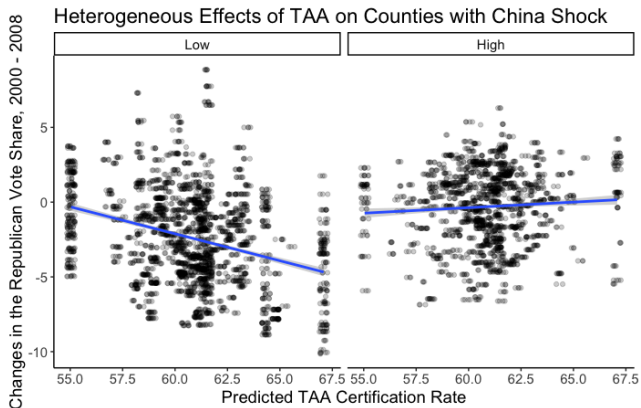


Estimation Strategy 1: Weighted 2SLS

$$\Delta Y_{jt} = \gamma_d + \beta_1 \Delta IP_{jt}^{cu} \cdot TAA_j + \beta_2 \Delta IP_{jt}^{cu} + \beta_3 TAA_j + Z'_{jt} \beta_4 + e_{jt} \quad (1)$$

- Replicate ADH
- Weighted by county-level total vote counts in 2000 presidential election
- Control for Industry/Occupation, Demographic, Geographic Characteristics

Results 1



10% increase in TAA certification DECREASES the Republican vote share by 3.5% in LOW shock counties, and INCREASES the Republican party vote share by 1.25% in HIGH shock counties.

Estimation Strategy 2: Mediation Analysis

Direct and indirect effects in non-parametric model

$$\left. \begin{aligned} Y &= \varphi(D, M, X, U) \\ M &= \zeta(D, Z_2, X, V) \\ D &= \mathbb{I}[\chi(Z_1, X, W) \geq 0] \end{aligned} \right\} \quad (2)$$

- D : Treatment
- M : Mediator
- Z_1 : Binary instrument for treatment D
- Z_2 : Continuous instrument of mediator M
- X : Covariates
- U, V, W : Unobservables

Estimation Strategy 2: Mediation Analysis (Continued)

- LATE: The average effect of among compliers:

$$\Delta = E[Y^1 - Y^0 \mid T = co] = E[Y^{1,M^1} - Y^{0,M^0} \mid T = co] \quad (3)$$

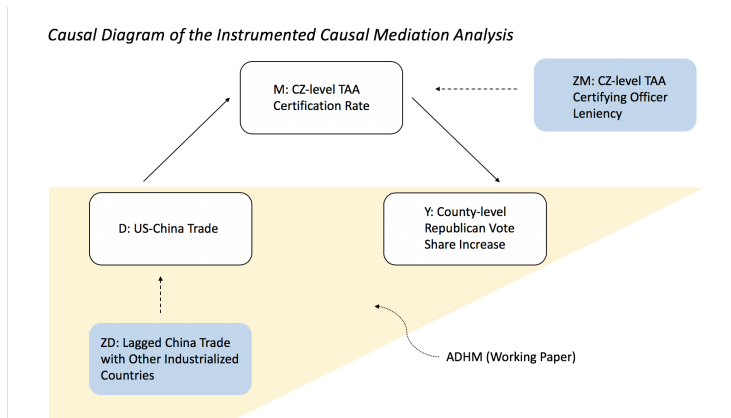
- The *direct* effect among compliers:

$$\theta(d) = E[Y^{1,M^d} - Y^{0,M^d} \mid T = co], d \in \{0, 1\} \quad (4)$$

- The *indirect* effect among compliers:

$$\sigma(d) = E[Y^{d,M^1} - Y^{d,M^0} \mid T = co], d \in \{0, 1\} \quad (5)$$

Causal Diagram



Results 2

Table: Instrumented Causal Mediation Analysis

	LATE	dir.treat	dir.control	indir.treat	indir.control
Effect	3.037	3.438	1.908	1.128	-0.401
SE	0.306	4.565	0.627	0.577	4.575
p-value	0	0.451	0.002	0.050	0.930

(1) **Direct effect** in the control group: INCREASES Republican vote share by 1.91%

(2) **Indirect effect** in the treatment group: INCREASES Republican vote share by 1.13%

Conclusion

- When giving assistance to trade shocks, we should expect politicians trading off between compensation and consternation effect.
- The consternation effect is salient in high China Shock regions.
- In high China Shock regions, support for the Republican party increased in the 2008 presidential election. The opposite pattern is observed in low China Shock regions.