Safe Harbors

Robert Gulotty

Department of Political Science
University of Chicago
Subsidy driven Conflict

- In addition to an educational divide, regions are diverging.
  - There are significant regional differences in economic outcomes. 
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  - These differences are economically inefficient and politically dangerous. 
    Fajgelbaum and Gaubert 2020, Buhaug, Cederman and Gleditsch 2012.

- ‘Place based’ industrial policy involves either direct transfers or wage subsidies. 
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- ‘Place based’ industrial policy involves either direct transfers or wage subsidies.
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- Internationally, subsidy driven surpluses are associated with protection.
How would governments respond to regional subsidy policies?

GATT/WTO remedies to subsidy driven protectionism:
- Negotiation through Accession and DSU (China, Upland Cotton, Italian Tractors)
- Countervailing duties (firm-product specific).
- Reference to issue specific agreements (Wheat, Aircraft)
Regional Policy, National Retaliation

- How would governments respond to regional subsidy policies?
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- How would states respond without these tools?
- In this project, I examine the effect of EU ‘place based’ agricultural subsidies on under-constrained regulatory protectionism.
When is commercial conflict a problem?

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- Many studies of commercial policy identify conflict with disputes at the WTO, antidumping duties, and countervailing duties.
- However, these are all highly legalized and our models suggest these mechanisms offer states flexibility, allowing them to overcome ‘participation constraints’.
- What can appear to be a problem could alternatively be seen as a measure of success.
How peaceful is the Peace Clause?

- Longstanding absence of international consensus on agriculture.
  - From ‘Waiver’ to ‘Green Box’ GATT/WTO has struggled with agriculture.
  - Countervailing duties: ‘Peace Clause’

- Agricultural support central to European integration (CAP 1962).
  - At the national level, this pitted producing countries (e.g. France) against importing countries.
  - Internationally, these policies have made negotiations more difficult.

- While governments have agreed not to use tariffs (or CVD), there is a bog of NTBs beneath the surface.
Regulatory Retaliation

- If agricultural subsidies are a problem, how can we see it?
- MFN tariffs are low, many “non-tariff” barriers (AVD, CDV, etc) are ’on cycle’ deviation.
- Contrast: Sanitary and Phytosanitary Measures
  - Health and safety standards, port inspections, labeling requirements.
  - Product level “Specific Trade Concerns” (1994-2006).
- While SPS measures are presumed legitimate, they are also only loosely regulated.
Measuring Output

- Tariffs are often combined with manufacturing census data.
- Measuring exposure via regional agriculture output
  - NUTS2 level Farm Structure Survey (62 products from 244 regions).
  - Output is combined with indicators for SPS STCs in destination markets, then averaged per NUTS2 region.
- Measured at the same level of granularity as SPS measures.
## Farm Structure Survey

<table>
<thead>
<tr>
<th>Product</th>
<th>Top NUTS2</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>ES41</td>
<td>Castile-Leon, Spain</td>
</tr>
<tr>
<td>Broad and Fieldbeans</td>
<td>UKM6</td>
<td>Highlands and Islands, United Kingdom</td>
</tr>
<tr>
<td>Citrus</td>
<td>CY00</td>
<td>Cyprus</td>
</tr>
<tr>
<td>Cotton Fibre</td>
<td>ES61</td>
<td>Andalusia, Spain</td>
</tr>
<tr>
<td>Cottonseed</td>
<td>ES61</td>
<td>Andalusia, Spain</td>
</tr>
<tr>
<td>Durum Wheat</td>
<td>ITF4</td>
<td>Puglia, Italy</td>
</tr>
<tr>
<td>Field Peas</td>
<td>LT00</td>
<td>Lithuania</td>
</tr>
<tr>
<td>Grain Maize And Corn</td>
<td>FR61</td>
<td>Aquitaine, France</td>
</tr>
<tr>
<td>Grapes</td>
<td>CY00</td>
<td>Cyprus</td>
</tr>
<tr>
<td>Green Maize</td>
<td>ITC4</td>
<td>Lombardia, Italy</td>
</tr>
<tr>
<td>Hops</td>
<td>ES41</td>
<td>Castile-Leon, Spain</td>
</tr>
</tbody>
</table>
Subsidy Incidence

- European Agricultural Guidance and Guarantee Fund (EAGGF)
  - 90% Guarantee (Mostly non-Objective 1, product-based)
  - 10% Guidance (Objective 1, Non-Compulsory, region-based)
  - Reforms shifted more money toward the Objective 1 after 1990 and it is financed directly by the states.

- Regional Agriculture output
  - NUTS2 level Farm Structure Survey (62 products from 244 regions).
  - Output is combined with indicators for SPS STCs in destination markets, then averaged per NUTS2 region.
Endogenous Subsidization

- EU Agricultural policies were built under the shadow of foreign and intra-EU retaliation.
- Further, foreign protectionism would affect output and prices back home.
- Subsidies are shaped by domestic political pressure, institutional conditions, and geopolitical considerations that are associated with expected foreign demand for products.
Qualification Threshold

Objective I regions qualify if GDP < 75% of EU average (past 3 years)
8-12% violations of threshold \( \not\perp \) politics
- Error in measuring GDP \( \rightarrow \) state capacity
- Political power \( \rightarrow \) trade priorities.
- Targeting \( \rightarrow \) farm dynamics.

To address these I use a ‘fuzzy’ RD (2SLS) with a triangle kernel.
- Stage 1: Predict EAGGF Objective 1 funds with threshold.
- Stage 2: Regress SPS exposure on predicted funds.

Assumptions:
- Location above or below threshold is exogenous,
- qualifying regions are not less likely to receive funds,
- and we are interested in the LATE for compliers.
Results

Table 1: "Fuzzy" RDD Estimates of Subsidy on Regulatory Protection

<table>
<thead>
<tr>
<th></th>
<th>w/Pop control</th>
<th>w/NUTS2 f.e.</th>
<th>+Opt. BW</th>
</tr>
</thead>
<tbody>
<tr>
<td>RD estimate</td>
<td>23</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>p-value</td>
<td>0.02</td>
<td>0.0002</td>
<td>0.01</td>
</tr>
<tr>
<td>Standard error</td>
<td>10</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Bandwidth</td>
<td>0.1</td>
<td>0.05</td>
<td>0.4</td>
</tr>
<tr>
<td>Kernel type</td>
<td>Triangular</td>
<td>Triangular</td>
<td>Triangular</td>
</tr>
<tr>
<td>N</td>
<td>368</td>
<td>368</td>
<td>1989</td>
</tr>
</tbody>
</table>

€10 million in funding causes between a 25% to 50% increase in SPS incidence.
Place based subsidies are already a problem for global commerce.

Apparent lack of conflict over subsidies and protectionism may be a sign of problems.

Emphasis on manufactured goods and employment numbers may be missing important drivers of commercial conflict.