

# Safe Harbors

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# 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.  
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- '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.

# Regional Policy, National Retaliation

- 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)

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  - Countervailing duties (firm-product specific).
  - Reference to issue specific agreements (Wheat, Aircraft)
- 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.

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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?

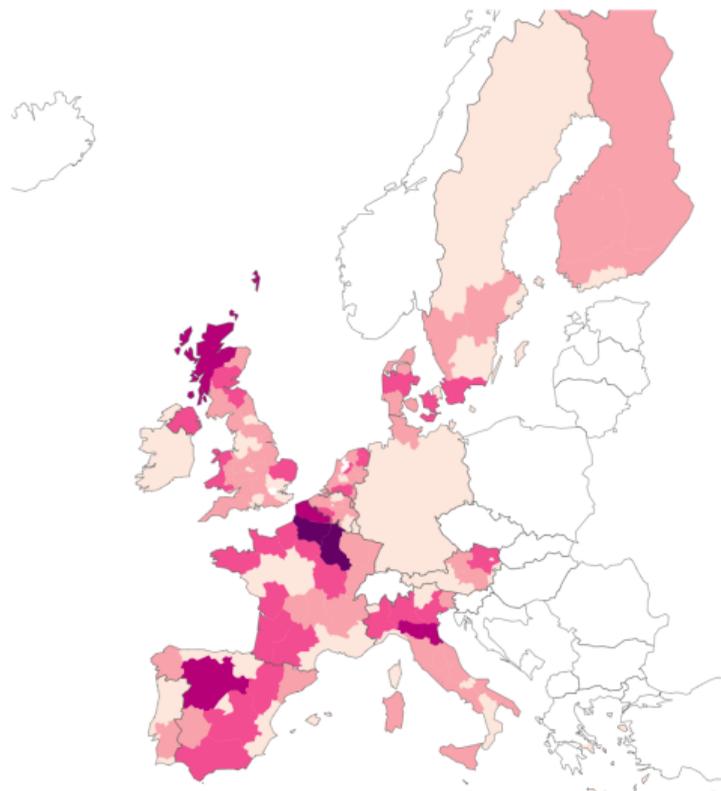
- Longstanding absence of international consensus on agriculture.
  - From 'Waiver' to 'Green Box' GATT/WTO has struggled with agriculture.
  - Countervailing duties: 'Peace Clause'
- Agricultural support central to European integration (CAP 1962).
  - At the national level, this pitted producing countries (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

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

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# 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.

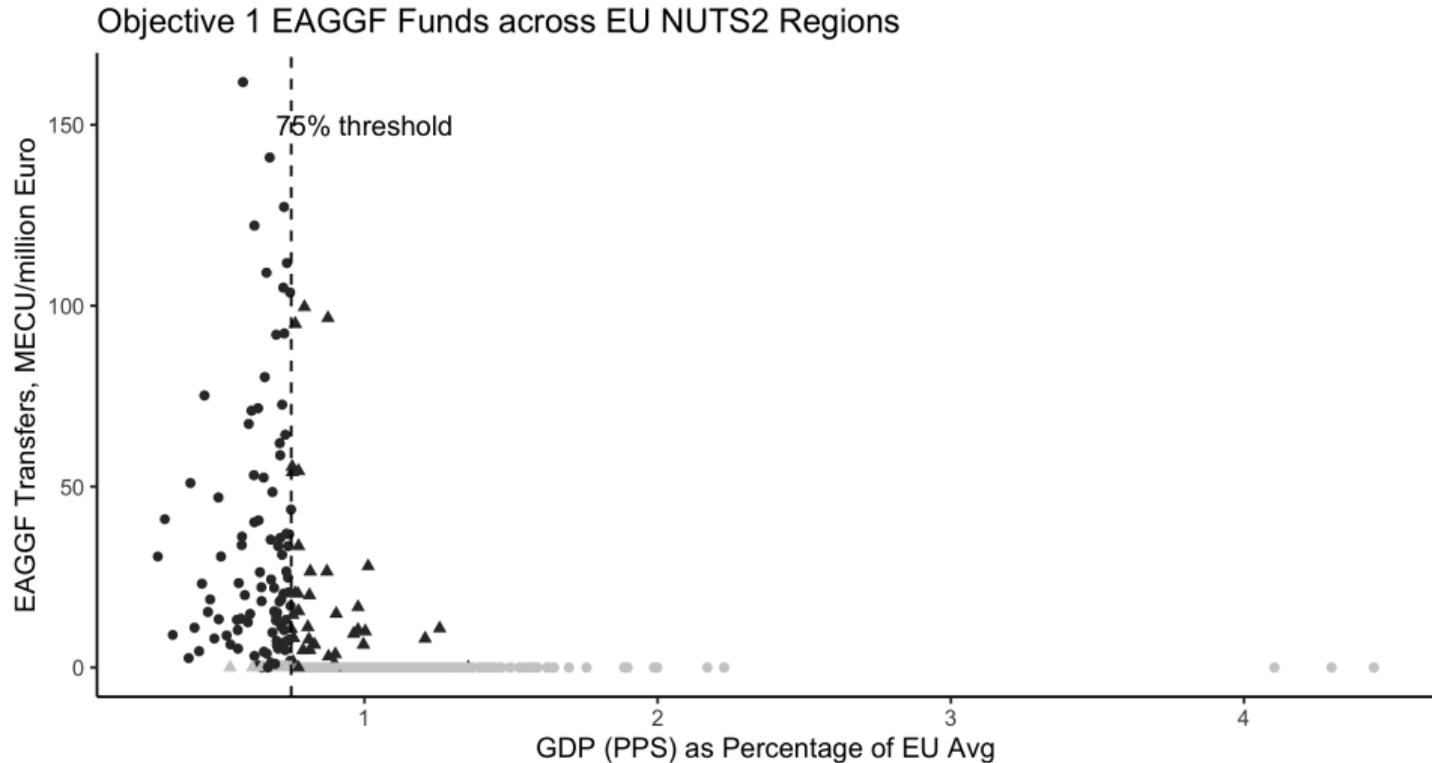


# Endogenous Subsidization

- 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)



# Fuzzy RD

- 8-12% violations of threshold  $\neq$  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

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

€10 million in funding causes between a 25% to 50% increase in SPS incidence.

# Conclusion

- 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.