Labor and Trade Protection in Comparative Perspective

Erica Owen and Rena Sung

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Summary and Keywords

Research on the domestic politics of trade typically begins with a theory about who benefits from trade and who is harmed by it. The actors—for instance, firms, workers, or industries—who benefit from trade are expected to support liberalization while those who are harmed are expected to oppose liberalization. For individuals, exposure to globalization through the labor market—including the type of job, firm, or industry—is likely to be an important determinant of individuals' preferences over policies governing the global economy. To understand the domestic politics of trade with respect to labor, therefore, it is important to ask two key questions.

First, what explains the preferences of workers? Broadly, scholars can be divided between those that argue different economic factors (i.e., labor market consequences) explain attitudes toward free trade and those who argue that noneconomic factors (e.g., values, information) are the main drivers of attitudes. Empirical tests of these theories rely on survey data. Second, how do trade pressures influence elections and when do workers' interests influence policy outcomes? Research on mass politics shows that workers' interests with respect to trade shape not only support for incumbents in elections but also whether elected officials support free trade. Domestic institutions also play an important role in this process, with research suggesting that democracies and left-leaning governments implement trade policies that are more favorable to workers.

Yet trade in the 21st century looks very different from trade 30 years ago. It no longer involves only (or even primarily) the exchange of final goods but also trade in intermediate goods and services. Trade is also closely linked to the production strategies of multinational firms, including offshoring. These fundamental changes in the nature of global economic activity have important implications for the how the interests of workers relate to those of their employers, and by extension the politics of trade. As a result, scholars are increasingly incorporating new models of trade into analysis of politics at the individual and aggregate levels.

Keywords: trade, labor, global production, preferences, domestic politics, domestic institutions

Labor and the Political Economy of Trade

The distributional consequences of trade in labor markets are among the primary channels for globalization to affect the economic well-being of the public. Thus, citizens' identities as workers are an important factor driving the domestic politics of trade. To understand how labor shapes the politics of trade, we must answer two key questions: what explains the preferences of workers and when do workers' interests influence the domestic politics of trade?[1] In the face of the rising backlash against globalization, and the broader populist wave sweeping across many countries, it is particularly important to understand voters' attitudes toward trade and how trade shapes their political behavior.[2]

At the individual level, scholars have extensively debated whether economic or noneconomic factors are the main determinants of individuals' preferences over trade. The first wave of research builds on the Heckscher-Ohlin or Ricardo-Viner models of trade, which predict that the individual's skill level or industry are key determinants of support for free trade. The literature finds mixed support at the individual level. More recently, theories of heterogeneous firms and global production suggest that the characteristics of firms or occupations shape who is a winner or loser from trade.[3] Finally, for those scholars who emphasize noneconomic factors, evidence suggests that values as well as information play an important role in shaping public opinion and the level of support for free trade.

At the aggregate level, however, studies of the mass politics of trade find robust evidence that the economic impacts of trade on workers—including geographic ones—influence outcomes in elections and referenda. Additionally, workers' diffuse and organized interests influence whether legislators vote in favor of free trade or in support of trade protection.

A final area of research seeks to understand variation in trade policy outcomes as a function of how domestic institutions aggregate preferences. Domestic institutions like regime type or partisanship determine the weight placed on (often) competing interests. Consequently, institutions vary in the degree to which workers' interests will be reflected in policy outcomes.

This article reviews the various levels of research and then discusses an important direction for future research, which links theories of workers to those of firms. A number of studies demonstrate that large productive firms are politically active, but those same studies do not incorporate the interests of workers. Thus, it is not clear when the interests of workers and firms are aligned or competing and what the implications are for the domestic politics of trade. It turns out that the changes in the nature of global production over the past 30 years have changed the interests of workers and firms and how they relate to one another in important ways.

Preferences Over Trade

Given the focus of this article on the comparative politics of trade with respect to labor, it is crucial to examine the labor market implications of trade for workers and whether individuals' trade preferences are influenced by the welfare consequences of trade. To the extent that individuals' preferences are shaped by economic considerations, those who benefit from a particular policy (e.g., trade openness) are expected to support it and those who are harmed will oppose it.[4] A central debate in the literature is about who benefits from and who is harmed by trade in different countries, and whether those labor market considerations shape individuals' attitudes toward trade.[5]

Traditionally, open economy politics (OEP) has drawn on neoclassical trade theories that emphasize factors or industries as key determinants of the winners and losers from trade. More recent research suggests that firm and occupation characteristics also shape whether individuals benefit from or are harmed by globalization. A parallel body of work has emerged that examines how noneconomic factors (e.g., values, beliefs, ideas, and information) shape preferences.

The remainder of this section introduces seminal and recent theories of trade before discussing research design and how to evaluate mixed findings in the literature on individual preferences.

Canonical Models

OEP scholars have traditionally derived labor market expectations from factor endowments theories of trade. According to the Hecksher-Ohlin (HO) theorem, countries will have a comparative advantage (disadvantage) in producing goods intensive in the use of factors that are relatively abundant (scarce), where factors are inputs of production like labor and capital. The Stolper-Samuelson theorem predicts that trade will benefit (harm) owners of the abundant (scarce) factors (Stolper & Samuelson, 1941). Also known as the factoral model, HO is one of the most widely used theories of trade preferences. The most important political economy insight from this model is that the distributional consequences of trade will fall along factor lines, thus forming factor-based coalitions (Rogowski, 1989).

The inclusion of different factors of production in the model will generate different expectations about the composition of coalitions that are expected to form in favor of and in opposition to trade. The traditional factoral model assumes two (or three) factors of production: labor, capital (and land). In this specification, advanced economies are abundant in capital and scarce in labor, whereas developing economies are abundant in labor and scarce in capital. Thus, trade liberalization will benefit capital owners (labor) and harm labor (capital) in developed countries (developing countries).[6]

When the underlying model of trade treats labor as a single factor of production, political economy theories stress the relative distribution of gains between labor and capital owners. This type of model generates a discussion of the winners and losers that emphasizes the distribution of profits versus wages (Grossman, 2013, p. 212). This comes at the expense of examining cleavages between workers (Chase, 2008, p. 658).[7] In contrast, when the underlying trade theory treats labor of varying skill levels as distinct factors of production (i.e., high- vs. low-skilled labor), new predictions about the winners and losers from trade, and the associated coalitions, emerge. The most common alternative specification to the traditional model distinguishes between high- and low-skilled labor. Developed countries are abundant in high-skilled labor and scarce in low-skilled labor, and the reverse is true in developing countries. This specification of the factoral model predicts that trade will benefit high-skilled (low-skilled) workers in developed (developing) countries. (For support at the individual level, see, e.g., Baker, 2005; Jäkel & Smolka, 2013, 2017; Mayda & Rodrik, 2005.)

The second prominent theory of the distributional consequences of trade is the Ricardo-Viner (RV) model (also known as the specific-factors model). Trade in this framework is still driven by endowment-driven comparative advantage. In contrast to HO, which has full factor mobility, under RV, some factors are immobile and thus are specific to a given industry. Capital is often treated as specific to a particular industry and labor is treated as mobile between them. This means that capital owners in industry A (e.g., textiles) cannot easily move to industry B (e.g., automobiles), but workers can move between industries A and B. Thus returns to capital would differ between the two industries, whereas wages would be the same across both industries.

The main political insight from the RV model is that owners of the same factor may have heterogeneous preferences, producing coalitions around industry rather than class lines. Industry cleavages form because it is difficult for factors to reallocate, leading to differences in market outcomes across industries. Preferences depend on whether a factor is employed in an industry of comparative advantage or disadvantage. In a developed country abundant in capital and scarce in labor, capital owners in the auto industry (capital-intensive) would be protrade and capital owners in textiles (labor-intensive) would be opposed to free trade. Technically, whether trade benefits or harms the mobile factors depends on the consumption pattern of the imported and exported goods.[8] In applications, however, workers' preferences are expected to align with their industry: those working in industries of comparative advantage (exporting) will benefit from trade and those in industries of comparative disadvantage (import-competing) will be harmed. At the individual level, Mayda and Rodrik (2005) and Hays (2009) find evidence of industry-based preferences.

As noted by Hiscox (2002), assumptions about factor mobility are another key determinant that shapes expectations about the political pressures surrounding trade. Hiscox (2002) highlights that the factoral and specific-factors models exist on opposite ends of the spectrum of factor mobility. When factors are mobile, cleavages will fall along factor

lines, and when mobility is low, cleavages will fall along industry lines. Efforts to measure factor mobility include Hiscox (2002) and Mukherjee, Smith, and Li (2009).[9]

Finally, these models assume full employment and a frictionless labor market. When the assumption of full employment is relaxed, other labor market concerns emerge, including concerns about job security and elasticity of labor demand (Rodrik, 1997; Scheve & Slaughter, 2007), the level of unemployment (Helpman & Itskhoki, 2010), and the quality of jobs (Davis & Harrigan, 2011). Whether or not the local labor market is competitive or not also conditions whether these competitive pressures will shape preferences at the individual level (Hays, 2009).[10]

Beyond the Canonical Models

In the 1980s and 1990s, many developments in trade theory focused on intraindustry trade and emphasized the role of product differentiation and imperfect competition.[11] Yet this body of work, with its focus on producer interests, does not include a prominent role for labor and thus has only rarely been used to generate expectations about workers' preferences (cf. Beaulieu, Benarroch, & Gaisford, 2011). Beginning in the 2000s, new lines of research in trade theory emerged to address important stylized facts in the global economy that could not be explained by existing models. This research found that only a very small number of firms trade, more skilled workers are more likely to benefit from and to support free trade in developing countries, and inequality is rising as a function of trade in developing countries. Two theories have been incorporated in the political economy literature—heterogeneous firms and global production—and important implications for labor and the political economy of trade can be drawn from these theories.[12]

First, heterogeneous firms theory, also known as new new trade theory (NNTT) arose from the observation that a very small number of firms actually export; across both import-competing and exporting industries, only a select group of firms engage in trade. In Melitz's (2003) seminal model of heterogeneous firms, only the most productive firms engage in exports, and it is precisely these competitive firms that will benefit from trade liberalization while less productive firms will shrink or be forced to exit the market. Thus, more productive firms will support liberalization and less productive firms will oppose it. Empirical evidence supports the idea that exporting firms differ from nonexporting firms in important ways: they are the largest, most productive firms (Bernard, Jensen, Redding, & Schott, 2007).

NNTT offers two important implications of the distributional consequences of trade for workers. First, because productive and nonproductive firms demand different types of labor, the expansion of the market share of highly productive firms and the contraction of less productive firms alters demands for labor. In particular, exporting firms hire more high-ability workers than nonexporting firms (Helpman et al., 2010) and pay a skill premium (e.g., Helpman, Itskhoki, Muendler, & Redding,2017). Building on this insight, Walter (2017) argues that more skilled workers are likely to benefit from trade in all countries, and the skill premium will be higher among workers exposed to trade. The expectation

that skilled workers in both developed and developing countries will have similar preferences with respect to trade is a big departure from the canonical models. A second important implication of NNTT is that, if mobility across firms is limited, then workers' preferences should be linked to the characteristics of their firm (rather than industry or factor). Thus workers in highly productive firms expect to benefit from trade and therefore support free trade, whereas those in less productive firms expect to be negatively affected and therefore support protection (Kim & Osgood, 2019). This is an ongoing area of research.

A second line of development in trade theory integrates global production into models of trade and provides insight into the increasing amount of trade by multinationals and trade in intermediate goods and services. Whereas traditional trade theory focuses on trade in goods, the ability of firms to split production across borders (i.e., fragmented production) is associated with rising trade in intermediate goods and services and associated offshoring. These structural changes in the nature of global production have fundamentally changed the welfare consequences of trade for workers (e.g., Baldwin, 2006; Blinder, 2009). The tasks approach (Acemoglu & Autor 2011; Grossman & Rossi-Hansberg, 2008) offers a particularly useful way of thinking about the implications of these shifts for workers and highlights how the tasks performed by some occupations are now more easily performed abroad.[13]

Building on the tasks approach, Owen and Johnston (2017) argue that in a world of global production, developed countries will have comparative disadvantage in routine tasks (i.e., tasks characterized by repetition or rule-following procedures). Because mobility is limited across occupations, individuals in occupations intensive in routine tasks will be negatively affected by trade. Exposure to offshoring (offshorability) magnifies the benefits to winners from trade and the costs to losers from trade (see also, Walter, 2017). Therefore, in developed democracies, individuals in occupations intensive in routine tasks (e.g., production workers, bookkeepers, etc.) are likely to be hurt by international trade and are more likely to support trade protection, especially when those individuals are exposed to offshoring. Occupation characteristics of offshorability and routineness can explain why, for instance, a software developer and a software engineer—with similar levels of education, in the same industry, and perhaps even in the same firm—could have different preferences regarding trade openness, with the developer expected to be more protectionist than the engineer. Analysis of survey data suggests that preferences toward trade are based on these occupation characteristics.

As in the canonical models, the nature of factor mobility is important. If factor mobility limits movement of workers across firms, preferences of workers can be heterogeneous across firms (i.e., aligned with their firms). If mobility is limited across occupations, then preferences will form along occupation lines. The nature of cleavages has important implications for the ability of workers to act collectively and fundamentally and can reshape the dynamics of the political economy of trade for workers.

Noneconomic Sources of Preferences

Political economy scholars not only debate which model of labor market consequences best explains the economic interests of workers, and thus their preferences, but whether individuals' preferences are driven primarily by the material consequences of trade or by noneconomic factors.[14] In response to lack of empirical support for factoral or sectoral models at the individual level, a substantial body of work has focused on noneconomic factors.

Key themes include ideas and values (e.g., nationalism, ethnocentrism), sociotropic considerations, and the role of information. For example, Mansfield and Mutz (2009) introduce the idea that preferences are formed based on concerns for how the economy as a whole is impacted (sociotropic). They also find evidence that attitudes toward out-groups (e.g., ethnocentrism and nationalism) influence preferences (see also, Mayda & Rodrik 2005). Margalit (2012) finds that more educated (high-skilled) individuals support trade across almost all countries regardless of the nature of factor endowments of the countries, which is inconsistent with predictions driven from the traditional factoral/sectoral models. Rather, he finds that fear of cultural influence through trade plays an important role in shaping individuals' attitudes toward trade, particularly among less-educated individuals. Individual characteristics like attitudes toward risk also shape preferences. Aversion to risk intensifies opposition to trade, and more risk-averse low-skilled individuals are more likely to oppose trade (Ehrlich & Maestas, 2010). National security concerns may also influence trade preferences (DiGiuseppe & Kleinberg, 2019).

Another area of research focuses on how information shapes individuals' preferences toward trade. If people are aware that they are harmed by trade, they are more likely to oppose trade (Guisinger, 2017; Rho & Tomz, 2017). Group membership is an important source of information. Fordham and Kleinberg (2012) argue that individuals' self-interests are shaped by the groups that individuals belong to. In this regard, individuals do not need to know how trade will affect them in order to form preferences toward trade because attitudes are influenced by the groups to which they belong. For workers, labor unions can play an important role in shaping preferences. Even though some individuals can experience an increase in labor demand from imports (e.g., longshore workers), those individuals may oppose trade if they are members of a union, adopting their organization's preference on trade (Ahlquist, Clayton, & Levi, 2014). Despite the constant decline in labor union memberships, labor unions still play a role in shaping workers' political preferences (Kim & Margalit, 2017). Labor unions transmit information on trade policy to their members, although the degree to which labor unions communicate with their members on trade policy varies by industry. Kim and Margalit (2017) find that when a labor union changes its stance on trade policy, its members' attitudes toward the policy also change in ways that adopt the union's new position.

Geography of Trade

The impact of trade on the local economy may also shape individual preferences because trade benefits certain regions and harms others. There are two possible channels through which the regional welfare consequences of trade could shape preferences.[15] In the sociotropic mechanism, individuals' attitudes toward trade correspond to the impact of trade on their community, instead of (or perhaps in addition to) how it affects them personally (e.g., Guisinger, 2017; Mansfield & Mutz, 2009). Thus, individuals that believe their community has been negatively affected by trade are more likely to support protection, regardless of their individual economic self-interest (as measured by industry of employment or skill level).

Alternatively, the real economic impacts of trade on the local labor market may influence individuals' support for free trade or protection. This is because individuals' material interests are shaped not only by how trade affects them personally but also by how trade affects the local economy. For example, Moretti (2012) examines how the growth or decline of particular industries can impact local labor markets. The loss of manufacturing jobs leads to losses in other sectors in the community (e.g., services and construction), contributing to worsened local labor market conditions. Innovation hubs—where high-skilled workers and companies operate—generate job opportunities for low-skilled workers in other industries, benefiting all people living in the region. This dynamic has an important implication for the geography of trade.[16]Autor, Dorn, and Hanson (2013) argue that the China shock—the increase in imports following China's accession to the World Trade Organization—hurt import-competing industries that may be concentrated regionally, which then negatively affects the local labor market. They find that the China shock led to lower employment in exposed industries, and in local labor markets exposed to the shock, unemployment and the share of workers no longer in the workforce was higher, while average wages were lower. Autor et al. (2013) suggest that individuals in regions exposed to the China shock experienced worse labor market outcomes, even if they were not directly exposed to trade competition.

What the first body of work terms "sociotropic effects" may actually be rational economic concerns about the prosperity of a local job market and the implications for individuals' economic well-being. The geographic impact of trade on politics, including the China shock, has largely been examined in the context of mass politics, but Hays, Lim, and Spoon (2019) find that regional exposure to the China shock leads to greater support for the far right in Western Europe in an analysis of the European Social Survey.

Evaluating Competing Theories

How do we evaluate studies that offer competing theories and mixed results about the determinants of trade preferences? A number of reasons for the mixed results have been offered, including poor measures in surveys, incorrect theories of economic interests, conditional effects, and the role of information and elite mobilization. Three important issues

should be considered when evaluating competing theories: measurement issues, survey experiments versus observational data, and more complex theories of the formation of preferences.

First, measurement of key variables is a significant challenge in empirical testing. Measurement of the dependent variable—trade preferences—often suffers from considerable missing values and "don't know" answers. Scholars have made two main suggestions on how to handle "don't know" answers: (a) treat "don't know answers" as missing values (Rubin, Stern, & Vehovar, 1995) or (b) treat the answers as a separate category (Manisera & Zuccoloto, 2014). Although some scholars have examined how much individuals actually know about trade (e.g., Rho & Tomz, 2017) or their legislator's vote on trade (Guisinger, 2009), the literature on trade preferences has generally ignored this methodological question, treating "don't know" responses as missing.

Measuring economic variables with precision is another challenge. Owen and Walter (2017) describe the inherent difficulty of coding key economic factors (e.g., occupation or industry or firm) in surveys. Education, which is often used as proxy for skill in studies of preferences, is acknowledged to capture differences in values and beliefs as well as self-interest (e.g., Hainmueller & Hiscox, 2006). Moreover, if the competitive pressures of trade are directed at industry or occupation, a model of preferences that includes only skill will be misspecified. In comparison, it is relatively easy to code attitudinal or information factors. If economic interests are not measured accurately (whether due to measurement error or model specification), it should not come as a surprise when economic interests do not emerge as statistically significant determinants of preferences.

Second, evaluating competing arguments is made more difficult by the fact that studies of preferences have traditionally relied on (observational) survey data. As such, it is difficult to evaluate causal relationships.[17] Increasingly, scholars have turned to survey experiments to address the shortcomings of observational data and examine different mechanisms that shape preferences. In a survey experiment, treatments are randomly assigned to rule out confounding effects, allowing researchers to make causal inferences. (For a comprehensive review of the strengths and weaknesses of various experimental and observational approaches in international political economy, see Naoi, 2020). Ardanaz, Murillo, and Pinto (2013) examine whether differences in exposure to the effects of trade (in terms of income and prices) shape sensitivity to framing effects. In a survey experiment in Argentina, they find that those with more pronounced economic interests are less sensitive to framing effects.[18]Mutz and Kim (2017) utilize a two-wave survey experiment to examine the impact of in-group favoritism on support for free trade. Additional examples of survey experiments include those on testing the embedded liberalism hypothesis (Ehrlich & Hearn, 2014), framing effects (Hiscox, 2006; Mansfield & Mutz, 2009), priming of cultural factors (Margalit, 2012) and consumer interests (Naoi & Kume, 2015), provision of information (Rho & Tomz, 2017), and increasingly, conjoint experiments to address multidimensional preferences, including trade partners and types of trade agreements (e.g., DiGiuseppe & Kleinberg, 2019; Spilker, Bernauer, & Umaña,2018). Although survey experiments are one tool that can be used to uncover the mechanisms through which

preferences are formed, survey experiments may be limited in terms of how well they measure objective economic interests (Naoi, 2020).

Finally, scholars have begun to offer and test more complex theories of preference formation, including the intersection of economic and noneconomic factors. For instance, Hays, Lim, and Spoon (2019) find that individuals exposed to import shocks show more negative attitudes toward immigrants and are more likely to vote for right-wing populist parties in advanced democracies in Europe. Thus the China shock also indirectly strengthens support for right-wing parties because it leads to more negative attitudes toward immigrants.[19] The theory of composite preferences offered by Guisinger (2017) is another promising direction for future research. She argues that the link between the impact of trade on personal employment has been severed (due to the decline of manufacturing), leaving space for many other factors to shape voters' preferences on trade such as the impact of trade on family/friends, regional, and national employment. She also highlights the need to consider sources of information (individual, local, and national). In a similar vein, Nguyen (2019) examines the relationship between personal and sociotropic considerations in shaping the salience of trade policy to individuals. Finally, Hicks, Milner, and Tingley (2014) offer insight into the role of the media and elites in shaping preferences.

Before ruling out economic factors, it is worth considering whether and how well the theories of labor market considerations reflect economic realities for workers. To this end, even the most sophisticated analysis of noneconomic factors has not fully considered more nuanced emerging theories of the distributional consequences of trade (e.g., new new trade theory or occupation-based models or geography). Given that there are important links between personal labor market outcomes and the global economy (especially due to rise in trade in tasks and services), an important direction for future research is to explore the channels through which economic interests may shape trade and other preferences, and subsequent political behavior. A promising trend in this regard is the increasing number of observational studies that take care to address concerns of causal identification while at the same time drawing on better measures of economic exposure to trade and exploring the pathways through which trade affects political behavior (e.g., Colantone & Stanig, 2018A).

Workers' Influence on Mass Politics

One important puzzle in the trade literature is that despite mixed findings at the individual level, there is robust evidence that workers' economic interests shape political outcomes as predicted by various theories of labor market–based preferences. Two important questions in mass politics are do voters' interests with respect to trade influence elections, and do politicians consider the trade interests of voters when voting on trade issues? Here the answer is an unequivocal "yes."

Impact on Elections

While the traditional economic voting literature in comparative politics focuses on unemployment and inflation, international political economy scholars have asked whether trade-related variables directly influence voting and, more recently, whether they indirectly influence voting through sociotropic, cultural, or racial/ethnic channels.[20]Margalit (2011) examines whether negative trade shocks (in the form of job losses due to import competition or offshoring) affect support for the incumbent party in U.S. presidential elections. He finds that trade-related and especially offshoring-related job loss reduces incumbent vote share, but this effect can be mitigated in the presence of compensation through trade adjustment assistance. Using county-level data, Jensen, Quinn, and Weymouth (2017) find greater incumbent vote share in counties where a large number of high-skilled workers are employed in export industries (tradable services/goods and high-skilled manufacturing) and lower incumbent vote share in counties where low-skilled workers are employed in import-competing industry (low-skilled manufacturing). Autor, Dorn, Hanson, and Majlesi (2019) find that between 2000 and 2016, greater exposure to the China shock led to greater polarization in U.S. congressional races (i.e., more extreme candidates elected) and increase in support for the Republican Party in presidential elections. Outside of the United States, Colantone and Stanig (2018B) find that regions more exposed to the China shock were more likely to support far right parties, including populist ones, in Western Europe.

Economic decline more broadly—whether due to globalization, automation, or both—also impacts elections. Communities impacted by manufacturing decline were more likely to support populism in U.S. presidential elections (Broz, Frieden, & Weymouth, 2019) and to punish the incumbent party in government in Spain (Rickard, 2019).[21]

Economic interests also influence referenda on trade-related issues. In a study of the Costa Rican referendum on the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR), Hicks, Milner, and Tingley (2014) find that those who work in export-oriented industries supported the trade agreement. They also find that although people vote based on their economic self-interests, politicians can influence voters' preferences by pointing out distributional consequences of CAFTA-DR to voters depending on which industry voters work in and how secure they feel about their jobs. Colantone and Stanig (2018A) find that regions exposed to the shock of Chinese imports were more likely to vote in favor of Brexit.[22]

Although this body of work suggests that, in the aggregate, voters behave in a manner consistent with their interests according to economic theory, scholars have begun to investigate the role played by cultural, racial, or ethnic factors in transmitting these effects into political outcomes. Autor et al. (2019) find greater exposure to the China shock generates polarization in terms of campaign contributions and leads to a greater market share for right-leaning Fox News. But this effect varies by the racial composition of the district: majority white districts are more likely to elect conservative Republican members and majority-minority districts are more likely to elect liberal Democratic members.

The authors speculate that the economic hardship of globalization shocks can trigger identity-based or hostility to out-groups. In their analysis of Brexit, Colantone and Stanig (2018A) find that support for Brexit was higher in regions that experienced greater growth in the share of immigrants, although this was independent of the import shock. These findings suggest cultural factors rather than economic self-interests alone drive the response to import competition. (For a discussion of different mechanisms, see Broz et al., 2019.)

Legislator Support for Free Trade

Another aspect of mass politics is the influence of workers on legislators' support for free trade. Legislators' have incentives to consider both the organized and diffuse interests of workers. When workers are organized in labor unions, they share information, facilitate political participation, and make campaign contributions. Building on the protection-for-sale literature (Grossman & Helpman, 1994), collective action by workers in the form of campaign contributions is expected to lead legislators to vote in a protectionist manner.[23] Early studies on the influence of organized labor examine the ratification of the North American Free Trade Agreement and find campaign contributions from labor unions led to an increase in protectionism from legislators (Baldwin & Magee, 2000; Steagall & Jennings, 1996). Later studies of votes on free trade in the United States also find some evidence that labor contributions reduce support for free trade (e.g., Magee, 2010).

Outside of organized interests, workers with similar labor market characteristics form latent interest groups that elected officials may also have incentives to consider.[24]Bailey (2001) shows that diffuse labor interests influence votes on free trade, where high-skilled and low-skilled workers constitute two different latent interest groups. He argues that elected officials fear that the diffuse interests could be mobilized in support of their political rivals if they do not respond to the diffuse interests promptly. Bailey (2001) finds that representatives from districts with higher levels of skilled workers are more likely to support free trade. Many additional studies also find a similar relationship (e.g. Milner & Tingley, 2011). Other models of latent interests have also been shown to shape votes on free trade in the U.S. context. For instance, representatives from districts that are more exposed to China shock are less likely to support free trade (Feigenbaum & Hall, 2015) as are those from districts with greater exposure to offshoring (Owen, 2017). Again, the constituents' economic interests will depend on the underlying trade theory.

Overall, research on mass politics suggests that although individuals may not articulate systematic preferences over trade, the distributional consequences of trade influence mass political behavior in a number of ways. There are several opportunities for further research. In addition to more work in the non-U.S. context, research into the causal pathways is needed, including the role of political parties and political elites. Existing work on the impact of trade on elections in particular combines cutting edge theory with greater emphasis on causal identification.

Domestic Institutions and the Political Influence of Workers

Variations in domestic political institutions also shape the extent to which workers' interests are reflected in policy outcomes. To that end, much OEP research considers how domestic institutions aggregate preferences to produce different policies governing trade. All leaders require the support of some segment of societal actors, but domestic political institutions shape the incentives of politicians to place more weight on some constituents' demands than others. Thus, different institutions, even those with the same underlying set of interests, create incentives for governments to supply certain types of policies. This section focuses on three features of domestic political institutions that shape the degree to which labor interests influence policy outcomes: regime type, partisanship, and labor rights.

First, scholars examine whether and how regimes differ in their trade policy as a result of the relative influence of different latent interest groups (i.e., labor vs. capital), asking the question of whether democracies are more open to trade than nondemocracies. Most research in this area builds on factoral models of trade in which trade is expected to benefit labor in developing countries and harm labor in developed countries. Milner and Kubota (2005) argue that the preferences of labor are more likely to be reflected in policy outcomes in democracies than in nondemocracies because democratic leaders must satisfy the needs of the median voter (typically a person who derives their living from labor rather than capital), whereas in autocracies, the leader must satisfy the needs of a small group of elites who are likely to own capital. In a study of developing countries, Milner and Kubota (2005) find that democratic countries support more open trade policy, whereas autocratic governments adopt more protectionist policy. Extending this argument to include both developed and developing countries, Tavares (2008) argues that the effect of democracy on trade openness depends on whether trade is expected to benefit labor (developing countries) or harm labor (developed countries). Thus, he finds that countries with greater political rights—a proxy for labor owners' influence—are more likely to be open to trade in capital-scarce, labor-rich countries, and less likely to be open in capital-abundant, labor-scarce countries. Kono (2008) introduces trading partners into the discussion about variation in trade policy across democracies and nondemocracies. He points out that a country often trades with both rich and poor countries, importing capital-intensive goods from developed countries and labor-intensive goods from developing ones. Thus labor should oppose trade with poor countries, whereas capital owners should oppose trade with rich countries. He argues that since democratic institutions increase the influence of labor, democracies are less open to trade with poorer countries and more open to trade with richer ones. Allowing for high- and low-skilled labor, Milner and Mukherjee (2019) argue that developing countries liberalize low-skill-intensive goods and protect high-skill-intensive ones. They find support for this claim in an analysis of industry-level tariffs.[25]

Among democracies, there is systematic variation in the degree to which workers' preferences are reflected in policy outcomes. Most important for workers, partisanship shapes the influence of workers on trade. Dutt and Mitra (2005) find that left-wing governments support more free trade policies in capital-scarce countries and support more protectionist trade policies in capital-abundant countries, while Milner and Judkins (2004) focus on developed democracies and find that right-wing parties support free trade policies more than left-wing parties do. Another area of research examines whether and how electoral rules shape the politics of trade. This work has primarily focused on producer versus consumer interests (Rogowski & Kayser, 2002) or competing producer interests (e.g., Betz, 2017; Kono, 2009), and as such it does not consider how workers may be heterogeneous in their preferences or have preferences separate from general producer interests.

Among autocracies, different institutional arrangements will privilege the interests of labor or capital, and again those that require broader support are more likely to implement policies favorable to workers. For example, Hankla and Kuthy (2013) find that more institutionalized and stable autocracies (e.g., multiparty autocracies) are more likely to open up to trade. Another implication of factor endowments theory is that trade will mitigate inequality in labor-abundant countries. Therefore, Wu (2015) argues that autocratic leaders in labor-abundant countries will open up to trade as a way to reduce inequality (with the goal of reducing democratization pressures). Other accounts (e.g., Chow & Kono, 2017) draw on consumer interests to explain variation in trade policy among autocracies.[26] (For a review, see Kono, 2015).

In the literature on trade and regimes, Ahlquist and Wibbels (2012) are among the few that explicitly consider the possible endogeneity between trade and regime type. In the factor endowments model, trade reduces inequality by raising returns to labor (in developing countries), creating less need for the rich to redistribute after democratization. However, they find no evidence that trade affects democratization, even after accounting for spatial dependence. Reexamining this question through the lens of NNTT, which predicts that trade will increase inequality even in developing countries, is an important topic for future research.

Domestic institutions governing labor market activities can also be an important factor shaping the influence of workers on policy outcomes. As Dean (2015, 2016) argues, profit-sharing institutions are an important factor in determining whether workers' preferences are aligned with their employers. Profit-sharing institutions include labor rights like the right

to organize and bargain collectively. In the absence of profit-sharing institutions, a policy (like trade protection) that leads to increased profits may not translate into increased wages. When profit-sharing institutions are present, an increase in profits is more likely to lead to an increase in wages. As a result, workers' interests are aligned with capital owners and this coalition is more likely to see their interests represented in policy outcomes, as suggested by analysis of U.S. trade politics and cross-country analysis (Dean, 2016). Thus, it is not simply that organized labor (i.e., unions) is better able to act collec-

tively and influence elected officials, as in the discussion on legislative voting, but that the presence of certain policies such labor rights influences the nature of coalitions surrounding trade.

This research demonstrates that domestic institutions influence politicians' decisions on which factor groups—labor or capital—to satisfy. Across all levels of development, democracies tend to adopt trade policies in favor of the median voter (labor), whereas autocracies tend to pursue policies favorable to capital owners (which are expected to be elites). Similarly, the parties on the left tend to favor labor, whereas the parties on the right tend to support capital owners, and depending on the level of growth of a country, each party supports trade policy in favor of the group it cares about.

The evolution of trade theory has important implications for the coalitions expected in favor of trade that differ from those predicted by factor endowments theory, especially in developing countries. Reconsidering the role of domestic institutions in shaping trade policy in light of these new distributional consequences has implications for how we think about the impact of trade on democracy.

Moving Forward: Bringing Together Firms and Workers

The world economy has changed in fundamental ways since the 1990s. The rapid pace of technological innovation (e.g., automation and digital communication technology) in combination with economic openness has changed the way firms do business, offering new strategies for reducing the costs of production. These developments have made outsourcing or offshoring of jobs to other countries easier and more efficient. Thus, we see that fragmented production is increasingly common as firms split up and spread the production of goods or services across countries. Researchers have focused on the role of firms (Kim, 2017; Osgood, 2017) or the impact on workers (e.g., Owen, 2017), but have yet to fully consider the changing relationship between firms and workers. It is important to ask whether (and under what conditions) the interests of workers and firms are aligned, where conflicts exist, and which interests are likely to be represented in policy outcomes.

One of the most significant changes brought about by the increase in global production is that the interests of workers have become increasingly delinked from the interests of their employers. As firms are able to offshore parts of the production process, the interests of workers and firms diverges. Crucially, this means that policies that benefit a particular firm may not benefit the employees of that firm.[27] For example, Carrier, after receiving $7 million in state tax breaks to keep 800 jobs onshore for 10 years, offshored close to 600 other jobs the following year, while also investing heavily in automation ($16 million) to save on labor costs at the same plant. A large multinational firm that is able to benefit from the conclusion of a free trade agreement and expand its market share

abroad (Baccini, Pinto, & Weymouth, 2017) may still engage in offshoring and fragmentation of production that negatively affects some of its employees.

This is a difficult problem to address directly with policy because the production strategies of firms are difficult to govern. Firms can move abroad or automate to reduce labor costs. As the Carrier example demonstrates, a firm that is faced with incentives to keep jobs onshore may move toward more capital- and skill-intensive production methods, but those capital- and skill-intensive jobs will probably not improve the welfare of workers facing competition from trade or automation. While the Trump administration seeks to generate U.S. employment in the auto industry through provisions in the U.S.-Mexico-Canada-Agreement, such policies are unlikely to be effective at boosting the welfare of workers we typically think of as globalization losers, because U.S. production is likely to be heavily automated.

How can workers make their demands politically relevant? Large productive firms are often politically active, and workers are likely at a disadvantage in terms of influence when their interests do not align with those of their employers. Technological innovation and fragmented production make it more difficult for workers to influence the policy-making process because workers' interests are more fragmented and firms are mobile or can automate, which reduces the bargaining power of labor relative to firms. Collective action becomes more difficult because workers employed in the same industry or even in the same firm may face different pressures from global competition (Owen & Johnston, 2017). Occupation winners and losers do not map neatly onto factors like high- and low-skilled labor, industry, or firms, which makes it more difficult to identify those with shared interests. It is also difficult for politicians to identify latent shared interests, particularly if workers harmed by globalization are spread across districts.

Second, mobility of firms limits the bargaining power of workers. As firms spread their production activities in search of cheaper production across other countries, they can easily find workers at lower costs in labor-intensive countries. This decreases the leverage that domestic workers can use when negotiating with the firms. Furthermore, the decline of labor unions tilts the playing field in favor of firms. Labor unions can mobilize workers and thus reduce the collective action problem, increasing the bargaining power of workers relative to capital owners (Kristal, 2010; Olson, 1971). Simply put, through unions, workers can demand higher wages from capital owners. Thus, the decline of unions decreases labor compensation (e.g., Sung, Owen, & Li, 2019). Given the rise of fragmented production, the decline of labor unions puts workers at a disadvantage.

This shift in the political and economic power of workers vis-à-vis firms has implications beyond trade policy when firms try to influence broader economic globalization issues by increasing their lobbying activities on immigration and foreign relations. It is important to understand workers' preferences on broader issues and whether their preferences diverge from those of the firms for which they work.

Conclusion

At a time when trade has become more salient and more controversial, particularly in the advanced economies, it is important for theories of the political economy of trade to reflect how international economic activity has changed and the consequences of those changes for workers, firms, and ultimately domestic politics. Recent research on heterogeneous firms and global production offers new insights into the pressures of globalization. What is needed now are political theories that rigorously examine the tensions between the interests of firms, especially large multinational corporations, and the interests of workers. Governments in democratic countries face the challenge of offering firms attractive policies that are expected to generate growth, while at the same time remain responsive to the demands of workers who are negatively affected by globalization. In this regard, it is important to recognize the ways in which policies that govern different aspects of globalization, including immigration, trade, and investment, are interconnected, either as complements or as substitutes.

More broadly, new theories, methodologies, and data can shed light on fundamental questions relating to labor and the political economy of trade. For example, studies on the impact of various domestic institutions on trade policy would benefit from careful consideration of competing mechanisms (e.g., consumer interests, inequality, voters as labor) that link citizens' interests to policy outcomes.[28] In terms of methodology and research design, there has been an increase in attention to causal identification. While some questions in the field are not amenable to causal identification, there are opportunities to expand our understanding and increase confidence in findings based observational analysis. For instance, the literature on domestic institutions has relied primarily on time-series cross-sectional analysis. But, how much more can we learn from another regression of some measure of regime type on some measure of trade policy? It is difficult to evaluate different measures, samples, and so on, to say nothing of competing mechanisms that influence the specification of regression models. But there is an opportunity to move the literature forward through testing underlying mechanisms or empirical implications of our theories using new data or techniques. New measures of the geographic impacts of trade or measures of trade that better capture the nature of global production (product- or firm-level transactions, trade in value added) have the potential to change our understanding of the relationship between institutions and trade outcomes (see Linsi & Mügge, 2019). Finally, there is the possibility of combining broad country-level analysis with regression discontinuity or difference-in-differences analysis of, for example, firms in one country based on a policy threshold or policy change.

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Notes:

(1.) This approach draws from the open economic politics model of trade (Lake, 2009).

(2.) Indeed there are a number of scholars writing on populist backlash and the threat to the liberal world order (for reviews, see Frieden, 2019; Owen, 2019).

(3.) For other takes on the of political economy of global production, see Pandya (2016) and Mosley (2017).

(4.) Of course, another important source of material interests is consumer interests (Baker, 2003, 2005).

(5.) For another review of the nature of preferences, see Kuo and Naoi (2015).

(6.) In Rogowski's (1989) seminal work, developed and developing countries could also be abundant or scarce in land.

(7.) Indeed Midford (1993) argues that a more nuanced delineation of factors is needed to better understand the political economy of trade, a point that Rogowski (1989) also acknowledges.

(8.) For discussion, see Alt and Gilligan (1994).

(9.) Hiscox (2002) uses interindustry wage differentials in which low (high) interindustry wage difference means high (low) labor mobility. Mukherjee, Smith, and Li (2009) use the changes in the share of labor in each industry to measure labor (im)mobility.

(10.) For instance, Hays (2009) argues that, in flexible liberal market economies, there will be greater demand for protection among those in import-competing industries than among similar workers in corporatist economies where workers are less directly exposed to globalization pressures.

(11.) Unlike factor endowments theory, which predicts interindustry trade between countries, new trade theory predicts intraindustry trade. See Helpman (1999) for a review of new trade theory. For applications of intraindustry trade models to political economy, see Gilligan (1997) and Kono (2009).

(12.) Another key development in trade theory involves trade-induced technological change (Acemoglu, 2003). Such work also offers support of a material explanation for the finding that more skilled workers in less developed countries are more likely to support trade. See also Feenstra and Hanson (1996).

(13.) Acemoglu and Autor (2011), who examine the labor market implications of this type of trade, assume that factors are fully mobile and thus anticipate coalitions based on level of skill (low-, medium-, and high-skilled labor).

(14.) Two primary material factors are also considered by the literature. First, domestic compensation for those harmed by trade can mitigate opposition to trade (Hays Ehrlich & Peinhardt, 2005). Second, individuals are affected by trade not only as workers but also as consumers (e.g., Baker, 2005). Whether or not there is evidence at the micro level in favor of material preferences is often viewed as the hard core of OEP (Lake, 2013).

(15.) We also note that geography of trade in terms of producer interests and influence is a major stream of research (e.g., Busch & Reinhardt. Rickard, 2018).

(16.) In a similar vein, Rodden (2016) and Glaeser (2010) also focus on gradual changes in production patterns and residents' demographics within cities and across geography as information technology becomes the engine of the economy. Rodden (2019) in particular links this to changes in political polarization.

(17.) Surveys are not designed to identify a causal relationship to begin with, and respondents are not the same across the waves of surveys, which makes it hard to track treatment and control groups.

(18.) It is also worth noting that they find evidence that more skilled workers support free trade, in support of explanations of the skill premium and contrary to the expectations of HO.

(19.) An important implication of this line of theory is that if economic variables shape "noneconomic" attitudes, which in term shape preferences over trade, then it is problem-

atic to test those economic and noneconomic factors alongside one another in a regression.

(20.) The economic voting literature traditionally treats globalization as a contextual variable that influences clarity of responsibility or the room of governments to maneuver, and thus expects globalization to condition the presence of economic voting based on domestic economic indicators like inflation and unemployment. For a review, see Kayser (2014).

(21.) Measured as the difference in the vote share between Romney in 2012 and Trump in 2016.

(22.) Note that they interpret their findings at the individual level as supporting sociotropic effects because the China shock impacts votes for Leave across almost all individuals in regions affected by the import shock, regardless of industry.

(23.) Grossman and Helpman (1994) offer a protection-for-sale model in which the government weights the benefits it gets from two groups—lobbies from special interests (for protection) and the welfare of its citizens. The government is willing to adopt trade policy in favor of one group at the expense of the other. See also Gawande and Magee (2012).

(24.) Studies of mass public opinion also show evidence of systematic preferences, reiterating the importance of latent shared interests. For instance, Owen and Quinn (2016) find that imports, especially imports from nonmultinationals, lead to liberal shifts in aggregate public opinion in the United States, indicating an increase in demand for government spending, and that these shifts in public opinion influence actual social spending levels.

(25.) Consumer interests also play an important role as suggested by the literature on protection for sale. Work by Kono (2006) finds that democracies have lower tariffs, but higher nontariff barriers. Betz and Pond (2019) find no evidence that consumer interests explain overall lower tariffs in democracies than in nondemocracies.

(26.) Chow and Kono (2017) argue that how autocratic leaders achieve power affects trade policies. The leaders who enter power illegally are vulnerable and thus need more public support. Thus, they adopt more free trade policies that lower the prices of the necessary goods (e.g., food). However, as the leaders become more legitimized over time, they adopt more restrictive trade policies.

(27.) Of course, as discussed, protectionist policies that benefit employers may not necessarily benefit their employees if profit-sharing institutions are absent per Dean (2015).

(28.) For an example based on the democracy-FDI literature, see the metaregression analysis by Li, Owen, and Mitchel (2018).

Erica Owen

Department of Political Science, University of Pittsburgh

Rena Sung

Department of Political Science, University of Pittsburgh