



Do local exports impact congressional voting on free trade agreements?

Michael Malcolm

West Chester University, United States



HIGHLIGHTS

- Legislator votes on trade deals are influenced by exports to the subject country.
- This paper explores legislative votes on more recent trade deals.
- This is the first paper to examine local exports to the subject country.

ARTICLE INFO

Article history:

Received 25 October 2016
Received in revised form 27 January 2017
Accepted 8 February 2017
Available online 15 February 2017

JEL classification:

D72
F13
F51

Keywords:

Free trade agreements
Political economy
Protectionism

ABSTRACT

The United States is currently a party to 14 free trade agreements, which cover 20 countries. This paper explores a new aspect of economic-interest models of legislative support for trade openness, using updated data on more recent trade agreements. I show that House and Senate members are more likely to vote in favor of trade agreements when their states have higher exports to the country that is the subject of the agreement.

© 2017 Elsevier B.V. All rights reserved.

1. Introduction

The United States exported \$2.26 trillion of goods and services abroad in 2015, which represented 12.5% of GDP. Nevertheless, despite the importance of trade in the US economy, significant barriers to trade with much of the rest of the world continue to persist. In an effort to promote trade, the United States is currently a party to 14 free trade agreements (FTA), which cover 20 countries. Twelve of these agreements are bilateral, while NAFTA and CAFTA cover multiple trading partners.¹ Table 1 shows all active free trade agreements. Negotiations have been underway for the Transatlantic Trade and Investment Partnership with the European Union and for the Trans-Pacific Partnership with a number of South American and Pacific Rim countries, the latter apparently stalled indefinitely. Each agreement is unique and they are complex, typically covering a whole host of issues, but all the agreements aim to reduce tariffs and other trade barriers.

While trade agreements are negotiated by the executive branch, the House and Senate vote to approve them. Voting on trade agreements is an interesting political economy question because it does not obey traditional partisan fissures. Table 1 shows the percentage of affirmative votes among Democrats and Republicans for all 14 active free trade agreements.² Overall, Republicans are more inclined to support FTA's (even when the president is a Democrat), but Republican support is not universal and a sizeable number of Democrats do support them.

There is a small body of literature that studies the determinants of congressional voting on trade deals. Roughly, these studies fall into two categories. Some studies try to explain free trade votes by appealing to economic models that predict a pattern of winners and losers from free trade, while others attribute voting directly to lobbying and exertion of pressure by special interest groups. Of course, the two may not be independent. Special interest group pressure may be a function of economic considerations of constituents.

E-mail address: mmalcolm@wcupa.edu.

¹ All information on trade agreements is from the Office of the United States Trade Representative.

² Congressional voting data are taken directly from roll calls on the House and Senate websites.

The literature on the impact of constituents' varied economic interests on congressional voting has focused mostly on capital versus labor interests and on labor of varying skill level. However, one consideration that seems to have been missed is the impact of exports to the country that is the subject of the agreement. Even low-skill workers might experience a welfare improvement from trade liberalization if their jobs, or many jobs in the local economy, are supported by exports. While Baldwin and Magee (2000) find that overall exports are a significant determinant of congressional FTA voting, nobody has yet looked at the impact of exports specifically to the country that is the subject of the agreement. This paper attempts to fill the gap. In doing so, we also add to the literature by updating earlier research and examining more recent trade agreements that cover a broader range of partners. While there is a substantial literature on NAFTA, there is very little on the many trade agreements that have followed.

The main result is that House and Senate members are more likely to vote for FTA's when they represent states with large exports to countries that are the subject of the agreements. The result holds overall and for both Democrats and Republicans separately.

2. Related literature

The literature on determinants of congressional voting on FTA's can be roughly sorted into economic models where legislators represent their constituents' economic interests and political economy models where legislators are rent-seekers who respond to lobbying and donations.

For the first category of studies, the Heckscher–Ohlin model and the Stolper–Samuelson theorem assert that relatively abundant factors of production gain from free trade while relatively scarce factors of production lose. For the United States, this implies that relatively scarce low-skill labor will suffer a welfare decline from trade openness (Baldwin and Magee, 2000). It is worth noting that the result is not universally accepted. The most common criticism is that the welfare implications may be industry-specific if factors are not perfectly mobile across industries. Davis and Mishra (2007) argue that the Stolper–Samuelson result does not hold up empirically for the case of Latin America.

Despite theoretical ambiguity, organized labor vociferously opposes free trade agreements, and a number of studies present evidence that legislators respond to Stolper–Samuelson considerations in their votes on trade openness. Beaulieu (2002) finds that district-level relative skill endowment is correlated with House voting on NAFTA; results are mixed on the industry-specific hypothesis. Conconi et al. (2012) find that representatives from more skill-abundant districts are more inclined to support both trade and immigration liberalization. Going back in history, Epstein (2014) finds that voting on the 1913 Underwood tariff was strongly associated with state-level relative factor endowments.³ The basic result seems to hold internationally. Dutt and Mitra (2002) find that inequality is associated with stronger trade barriers in capital-rich economies. At a micro level, across many countries, individuals who are more educated and who work in industries not susceptible to import competition are more inclined to support free trade (Mayda and Rodrik, 2005).

A second strain of literature examines the impact of lobbying and special interests on congressional trade votes. Baldwin and Magee (2000) find for NAFTA that labor and business campaign contributions were significant predictors of negative and positive

votes, respectively. Wang et al. (2013) also find that business and labor contributions were important in explaining congressional voting on Permanent Normal Trade Relations with China – much more important than Heckscher–Ohlin type considerations of constituent welfare. Gilbert and Oladi (2012) find that agricultural contributions were particularly salient with respect to the same agreement. Matschke and Sherlund (2006) find that labor lobbying raises trade barriers while lobbying by capital owners reduces them. If we think about the association in the other direction, Beaulieu and Magee (2004) show that labor groups favor representatives who back protectionism and capital owners support representatives who back trade liberalization.⁴

The analysis in this paper falls more along the lines of economic considerations, although of course lobbying influences may intermediate the impact of economic welfare on politicians' positions. In addition to exploring a new and economically relevant determinant of free trade voting, this paper also contributes to the literature generally by leveraging more data and examining a wider swath of trade agreements.

3. Data

The data cover every active Free Trade Agreement to which the US is a party with the exception of NAFTA, which has been well-studied and which was signed a decade prior to any of the other FTA's used in the study. The dataset includes both the House and the Senate, and each observation is an individual legislator's recorded vote on an FTA. Unanimous votes passed without a roll call are excluded, as are abstentions. Combined, the sample size is 5558 legislator votes on 11 different FTA's. Table 1 presents summary statistics on congressional voting for each FTA, broken down by chamber and by party.

The dependent variable is binary: equal to 1 if the legislator voted for the FTA and equal to 0 if the legislator voted against the FTA. These data were obtained from House and Senate voting records. The primary independent variable of interest is the exports of the legislator's home state to the country that is the subject of the FTA.⁵ These data are available for each year since 1999 from the International Trade Administration of the US Department of Commerce.⁶ We examine both the total volume of relevant exports and the share of relevant exports in the state's GDP. The control variables are the same economic controls as in Baldwin and Magee (2000) and that have become standard in the literature: income per capita, the unemployment rate, union membership, percentage of population with a high school diploma and percentage of population with a bachelor's degree, again measured at the level of the state that the voting legislator represents.

4. Results

Table 2 shows the results of a probit regression of a legislator's FTA vote on exports to the subject country and on the other controls described in the previous section. Marginal effects evaluated at the mean are given in brackets.

Local exports to the FTA subject country are a significant determinant of a legislator's vote on the FTA. Each 0.1% increase in the share of such exports in the state's GDP is associated with a 0.01-unit increase in the probability of an affirmative vote. With respect to volume, each additional \$1 billion in relevant exports is associated with a 0.01-unit increase in the probability of an

³ Facchini et al. (2013) argue that there is an important interaction effect with media coverage, and that heightened exposure makes legislators more responsive to their citizens' preferences on immigration. In a similar vein, Ito (2015) finds for Japan that legislators are more inclined to support trade liberalization when they do not face close races.

⁴ However, Magee (2002) argues that the free-rider problem can make financing such lobbying operations difficult in practice.

⁵ In the case of the Central American Free Trade Agreement (CAFTA), exports to all countries involved are included.

⁶ Unfortunately, import data are only available from 2011 onwards.

Download English Version:

<https://daneshyari.com/en/article/5057788>

Download Persian Version:

<https://daneshyari.com/article/5057788>

[Daneshyari.com](https://daneshyari.com)