Revisiting the evidence on trade policy preferences

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ABSTRACT

Past literature has found evidence that labor market attributes affect individuals' trade policy preferences in a manner consistent with theories of international trade. This paper shows that, with the exception of education, the relationships between labor market attributes and trade policy preferences are not robust in US survey data. This suggests that either our proxies of labor market attributes are poor or our theories for what drives trade policy preferences need to be revisited.

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1. Introduction

Trade policy outcomes are fundamentally determined by individuals' preferences for trade policies, which are determined by how trade affects the income and welfare of individuals. While the majority of previous empirical work on trade policy outcomes has examined the position taken by political representatives or lobbies, more recent work has begun to explore individuals' survey responses or votes on trade policies directly. As Rodrik (1995) points out, understanding the formation of individual trade policy preferences is a fundamental input into the modeling of trade policy outcomes.

The recent literature analyzing individual responses has examined whether standard trade models' predictions of who gains and loses from trade protection correspond with individuals' stated preferences regarding trade policies. The main focus has been on whether individuals' endowments (primarily their human capital skills) or their current industry of employment are correlated with their trade policy preferences. If workers are (perfectly) mobile across sectors, then their skill endowment matters for trade policy preferences, not their industry of employment. This corresponds to a two-factor Heckscher–Ohlin framework with associated Stolper–Samuelson effects, whereby workers with less (more) skill residing in a skill-abundant (skill-deficient) country will experience real income declines from freer trade and, thus, favor trade protection. In contrast, if workers cannot move

between industries, then industry characteristics, not the workers' skill levels will determine how their income varies with trade and their resulting trade preferences. This corresponds to what is called a sector-specific or Ricardo–Viner model.

Prior literature has primarily examined these hypotheses using data on stated lobbying groups' positions on trade and votes by elected representatives, and generally concludes that industry characteristics, not human capital endowments, determine trade policies.[1] For our present purposes, a weakness is that these studies are likely capturing determinants of lobbying inputs, which is quite different from the trade policy preferences of voting constituents. Thus, it is not surprising that human capital endowment measures find little support.

A more recent literature has begun to examine these hypotheses using individuals' votes or stated preferences on surveys about free trade and trade protection, including Balistreri (1997), Scheve and Slaughter (2001a and 2001b), Beaulieu (2002a), and Mayda and Rodrik (2005). These individual survey studies generally find support for both human capital endowments and industry characteristics as determinants of individuals' support for trade protection, though the Scheve and

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[1] Examples include Magee (1980) and Irwin (1994, 1996). However, as Beaulieu (2002b) points out, most studies of determinants of trade votes by legislators only explore whether industry characteristics of the legislator's constituents are correlated with trade votes and do not consider human capital (or other) endowments of the legislators' constituents. Kaempfer and Marks (1993), Baldwin and Magee (1998), and Beaulieu (2002b) find some evidence for both human capital endowments and industry composition of representative districts determining votes on trade bills by U. S. and Canadian political representatives.

Slaughter studies find support for only the effects of human capital endowments.[2]

This paper provides evidence that the connection between trade policy preferences and labor market attributes may be more tenuous than previously thought. Like Scheve and Slaughter (2001a and 2001b), I use data on individuals' responses to a question posed by the American National Election Studies (ANES) about whether the US should increase import restrictions or not. The ANES surveys provide much more detailed data on individual characteristics than other surveys used in the literature, including direct information on an individual's occupation and employment industry. My statistical analysis begins by replicating Scheve and Slaughter's results, but then expands their sample significantly to show initial evidence for both human capital endowments and industry trade exposure using their empirical specification. However, from this base specification, it is simple to show that the only robust variable used to proxy for labor market attributes (human capital endowments or industry charac-teristics) is the years of education of an individual.

The rest of the paper proceeds as follows. The next section provides details on the ANES data and base empirical specification I use. Section 3 presents the paper's empirical results, and Section 4 concludes and discusses implications of the results for future work in this area.

2. Data and empirical specification

I create a dataset from the ANES surveys that follows Scheve and Slaughter (2001a) as closely as possible, while expanding beyond year 1992 (which is the only year they examine) to include survey years 1986, 1988, 1996 and 1998.[3] In all these years the ANES asked the same following question:

> "Some people have suggested placing new limits on foreign imports in order to protect American jobs. Others say that such limits would raise consumer prices and hurt American exports. Do you favor or oppose placing new limits on imports, or haven't you thought much about this?"[4]

Following Scheve and Slaughter, I construct a dependent variable that assigns a "1" when the individual responds that they favor new limits on imports, and a "0" when they oppose new limits.[5] A logit regression framework is used to account for the binary nature of the dependent variable.

I also follow Scheve and Slaughter in specifying my covariates and base specification. Scheve and Slaughter use two alternative measures of an individual's skill and two alternative measures of the trade exposure of the industry in which the individual works. Their measures of skill are years of education and wage levels. *Education Years* are directly asked of the individual in the ANES surveys across all years. Wage levels are not asked of ANES respondents, but instead they are asked to identify their occupation. Following Scheve and Slaughter, I take U.S. Bureau of Labor Statistics (BLS) data on average weekly wages by occupation to assign wage levels to individuals in the surveys based on their stated occupation. Because I have multiple years of surveys in my sample, I construct my wage data as a *Relative Occupation Wage* variable that is defined as an occupation's average wage relative to the average wage across all occupations in a given survey year. Scheve and Slaughter (2001a) simply used wage levels, which is appropriate (and equivalent to my construction) because they only examine a single survey year.

Like Scheve and Slaughter, the two measures of industry trade exposure I construct are the *Sector Tariff* and *Sector Net Export Share* of output (or sales) for a survey respondent's industry of employment. The ANES asks respondent's to identify the industry they work in, which are classified into 3-digit Census of Industry Codes (CIC). For tariff levels, I use the applied tariffs (duties collected divided by customs value of imports) found in U.S. trade data, available through the Schott and Feenstra datasets at the National Bureau of Economic Research (NBER) website. I construct the weighted average tariff by 4-digit Standard Industrial Classification (SIC) codes from the NBER data and then concord to 3-digit CIC codes. Non-traded sectors, as well as all service sectors, are assigned an import tariff of zero.[6] Net export shares for manufacturing are straightforward to construct using the NBER data for the trade flows (exports and imports by sector), and U.S. Census data for value of shipments. These data are constructed by SIC codes and then concorded to the CIC codes. Constructing net export shares for non-manufacturing sectors relied on a variety of sources, primarily U.S. Census data for shipments, NBER trade data for tradeable agriculture and mining sectors, and BEA data for tradeable service sectors. An Appendix describes the construction of this variable (and all my variables) in more detail. Non-tradeable sectors were assigned a net export share of zero. I expect a positive correlation between average tariffs in an individual's employment industry and their preference for import protection, and a negative correlation between their employment industry's net export share and their preference for import protection.

A secondary focus of Scheve and Slaughter is examination of the hypothesis that home-owners in trade-sensitive locations will be more likely to prefer trade protection. This is because homes are often an important asset for individuals and home values depend on economic activity in the immediate location. Following Scheve and Slaughter, I use Census data to calculate the share of the individual's county's employment in two-digit SIC sectors with above-median tariffs (called *County Trade Exposure*).[7] I interact this county exposure share variable with a binary variable indicating whether the individual owns a house, which is asked directly by the ANES survey in all my sample years, and denote this variable as *County Trade*

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[2] A related piece is Hanson et al. (2007), which examines the differential impact that the local public finance environment can have on an individual's stated preferences for trade and immigration policies. Immigration views depend significantly on how exposed an individual is to immigrant fiscal pressure (i.e., a location with a significant immigration population and generous redistributive income policies), especially for highly skilled individuals, whereas there is no similar effect of such immigrant fiscal pressures on trade policy preferences.

[3] Scheve and Slaughter (2001b) also includes analysis of data from the year 1996, but finds quite similar evidence and comes to the same conclusions as Scheve and Slaughter (2001a); namely, that the evidence for the connection between the skill variables and trade policy preferences is strong and robust statistically, whereas the evidence for any industry trade exposure effect is quite weak.

[4] In 1990, the ANES survey asked a similar, but not identical, question that asked respondents to rank their preferences for new import limits over a range from 1 to 7, where "1" indicated "increase limits a lot", while "7" indicated "decrease limits a lot." Since it is not obvious on how to correspond these responses into a binary variable in an analogous fashion to my other survey years, I do not include this survey year. In 1986, the ANES survey first asked respondents if they had thought about import issues. Then, if they responded that they had, they were asked the same question about whether they favored or opposed new limits. I include respondents from this year in my sample as it is easy to construct a dependent variable in analogous fashion to my other survey years. Finally, I exclude the year 2000, the final year the question was asked, because the individual's county of residence is not reported in this year's survey. County residence is necessary for construction of a couple key independent variables discussed below.

[5] This excludes individuals who respond that they haven't thought much about the issue, as did Scheve and Slaughter (2001a and 2001b). Blonigen (2008) and Scheve and Slaughter (2001b) find that empirical estimates are qualitatively very similar when one includes these individuals and employs a sample selection correction.

[6] Pooling individuals in non-tradeable sectors with those in tradeable ones may be a concern if these groups systematically differ in their views of trade policy. However, my results are qualitatively identical when I exclude individuals from non-traded sectors.

[7] The county location of an individual is identified by the ANES survey through 1998. Scheve and Slaughter alternatively proxy for the trade exposure of an individual's county with the share of county employment in two-digit SIC sectors with above-median net-import balances (which they label as *County 2 Exposure*). Both they and I get qualitatively identical results regardless of whether one uses the county exposure variable tied to high tariff industries (which they label *County 1 Exposure*) or to high net-import balance industries (*County 2 Exposure*). Thus, for brevity, I only report results using the *County 1 Exposure* variable. I use the same 2-digit SIC industries as used by Scheve and Slaughter (2001a, 2001b) for these variables based on 1992 data.