



Policymakers' horizon and trade reforms: The protectionist effect of elections[☆]



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ABSTRACT

This paper shows that electoral incentives deter politicians from supporting trade liberalization. We focus on all major trade liberalization bills introduced since the early 1970s in the U.S. Congress, in which House and Senate members serve respectively two- and six-year terms and one third of senators face elections every two years. We show that senators are more likely to support trade liberalization than House representatives. However, this result does not hold for the last generation of senators, who face elections at the same time as House members, suggesting that inter-cameral differences are driven by term length. Considering senators alone, we find that the last generation is less likely to support trade liberalization than the previous two. This result is pervasive and holds both when comparing the behavior of different senators voting on the same bill and that of individual senators voting on different bills. The protectionist effect of election proximity disappears for senators who are retiring or hold safe seats.

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1. Introduction

As pointed out by Rodrik (1995), “no other area of economics displays such a gap between what policymakers practice and what economists

preach as does international trade.” Why do policymakers often fail to support trade liberalization, favoring instead protectionist policies?

Anecdotal evidence suggests that electoral incentives play a key role in answering this question. For instance, during his first presidential campaign in 2008, Barack Obama was accused of pandering to the protectionist sentiments of blue-collar workers when he attacked the North American Free Trade Agreement (NAFTA) as being “devastating on the community” and stated “I don't think NAFTA has been good for America, and I never have”. He later admitted that his campaign rhetoric had been “overheated and amplified”, stressing that “politicians are always guilty of that, and I don't exempt myself”.¹

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¹ See the article “Obama: NAFTA not so bad after all,” *Fortune*, June 18, 2008. Similarly, in 2012, less than two months before facing re-election, and the same day he was campaigning in the crucial swing state of Ohio, President Obama lodged a complaint against China at the World Trade Organization, alleging that it unfairly subsidizes car-part exports. “There was nothing subtle about (the timing of the complaint) — but then subtlety does not win many elections” (The Economist, “Chasing the anti-China vote: a suspiciously timed dispute”, September 22, 2012). Presidential candidate Mitt Romney responded by pledging that, if elected, he would crack down on unfair trade practices (Los Angeles Times, “In Ohio, Obama and Romney fight over China, trade”, September 26, 2012).

In this paper, we provide systematic evidence that electoral incentives lead politicians to take a protectionist stance. In particular, we show that the political horizon of U.S. congressmen – the length of their terms in office and how close they are to facing elections – crucially affects their support for trade liberalization reforms. The focus on the United States is not only due to the availability of roll-call votes, but also to the specific institutional features of the U.S. Congress, in which House and Senate representatives serve respectively two- and six-year terms, and one third of the Senate is up for re-election every two years. Inter-cameral differences in term length and the staggered structure of the Senate make the U.S. Congress an ideal setting to understand how policymakers' horizon shapes their trade policy decisions: at any point in time, it is possible to compare the voting behavior of legislators with mandates of different lengths, as well as the behavior of senators belonging to different “generations”, i.e. facing elections at different times.² Exploiting the fact that many senators cast multiple votes on trade reforms, we can also study whether election proximity affects the stance of individual legislators during their terms in office.³

To carry out our analysis, we collect data on individual roll-call votes on trade liberalization bills introduced in the U.S. Congress since the early 1970s. These include the ratification and implementation of multilateral trade agreements (Tokyo and Uruguay Round of the GATT) and preferential trade agreements (e.g. the Canada–United States Free Trade Agreement, NAFTA) negotiated during this period, as well as the conferral and extension of fast track trade negotiating authority to the President. We have complemented this data with information on many characteristics of the legislators and their constituencies, covering both economic and non-economic drivers of individual voting decisions on trade reforms.

We compare first the voting behavior of House and Senate members. In line with previous studies, we show that senators are more likely to support trade liberalization than House representatives. Crucially, however, we find no significant difference between House members and the last generation of senators, two groups of legislators who are up for re-election at the same time. This result provides an explanation for the observed inter-cameral differences in trade policy votes. Some scholars have argued that senators are less protectionist than House members because they represent larger constituencies (e.g. Magee et al., 1989); however, as already pointed out by Karol (2007), constituency size is actually unrelated to congressmen's votes on trade and cannot explain inter-cameral differences. Our analysis suggests that these are instead driven by differences in term length: senators are generally more supportive of trade liberalization because they serve longer mandates; as they approach the end of their terms, they become as protectionist as House members.

We then focus on the role of election proximity, comparing the voting behavior of different generations of senators. We find that the last generation is significantly more protectionist than the previous two. The effect is sizable: members of the Senate who are in the last two years of their mandates are around 10 percentage points less likely to support trade liberalization than senators in the first four years. The results continue to hold when – rather than comparing different individuals voting on the same bill – we study the behavior of the same individual over time. Inter-generational differences are also robust to including a wealth of controls for legislators (e.g. party affiliation and whether it is the same as the executive's, age, gender, campaign contributions received from

labor and corporate groups) and their constituencies (e.g. employment in export/import-competing industries, percentage of high skilled workers, size), focusing on different subsets of trade reforms, and using alternative econometric methodologies. The protectionist effect of election proximity is pervasive: even senators representing export constituencies, in which a majority of the electorate should gain from trade liberalization, become significantly more protectionist at the end of their terms.

To verify whether inter-generational differences are driven by electoral incentives, we carry out two falsification exercises, focusing on senators who are retiring (i.e. have announced that they will not stand for re-election) or hold safe seats (i.e. have been elected with a large margin of victory). We find that election proximity has no impact on the voting behavior of these legislators, suggesting that re-election motives are the key reason behind the cyclical behavior observed among U.S. senators at large.

The observed patterns in the voting behavior of Congress members cannot be readily explained by existing models in the literature on the political economy of trade policy, which do not consider the role of term length and electoral calendars. Our findings suggest that re-election motives deter politicians from supporting trade liberalization reforms and that this effect is stronger at the end of their terms, when their policy decisions have a bigger impact on their chances to retain office.

The remainder of the paper is organized as follows. Section 2 briefly reviews the related literature. Section 3 describes the dataset and variables used in our analysis. Section 4 examines the role of term length, comparing the voting behavior of House and Senate members. Section 5 focuses on the effect of election proximity, comparing the voting behavior of different generations of senators. Section 6 discusses possible mechanisms behind our empirical findings. Section 7 concludes, pointing to avenues for future research.

2. Related literature

Our paper is related to several strands of the literature. First, it contributes to the analysis of the political economy of trade policy. Several studies have focused on voting and elections (e.g. Mayer, 1984; Baldwin, 1989; Magee et al., 1989; Dutt and Mitra, 2002; Grossman and Helpman, 2005). Much attention has also been devoted to the role of lobby groups (e.g. Grossman and Helpman, 1994, 1995; Goldberg and Maggi, 1999; Mitra, 1999; Gawande and Bandyopadhyay, 2000; Mitra et al., 2002). Other studies have focused on different political factors, such as governments' inability to commit to policy choices (Maggi and Rodriguez-Clare, 1998) or ratification rules (Conconi et al., 2012). This is the first paper to emphasize the importance of term length and election proximity.

Our analysis builds also on a large body of work that has studied the political economy obstacles to the adoption of economic reforms, i.e. major policy changes that go beyond regular government decisions, including structural reforms (e.g. trade or labor market liberalization) and stabilization reforms (e.g. important fiscal adjustments to drastically reduce budget deficits and/or inflation). One of the seminal contributions in this area is the paper by Fernandez and Rodrik (1991), which shows that uncertainty about who will enjoy the gains from trade liberalization can lead a rational electorate to oppose a reform *ex ante*, even when welfare is known to increase *ex post* for a majority. Several other papers have examined the political viability of economic reforms in the presence of distributional effects and uncertainty. For example, Alesina and Drazen (1991) show how a stabilization can be delayed due to a “war of attrition” between two groups, each of which is uncertain about the costs being incurred by the other. Dewatripont and Roland (1995) introduce instead aggregate uncertainty in the framework of Fernandez and Rodrik (1991) to analyze the optimal sequencing of economic reforms. None of these papers has examined the role of legislators' political horizon, which is the focus of our analysis.

² In most other countries, even if legislators belonging to the lower and upper house serve terms of different lengths, members of the same house face elections at the same time (e.g. Australia and France). An interesting exception is Argentina, in which both houses of the Congreso Nacional have a staggered structure.

³ For example, during her first mandate as senator from New York state, Hillary Clinton voted on six trade liberalization bills, four times in favor (during the first four years) and twice against (during the last two years).

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