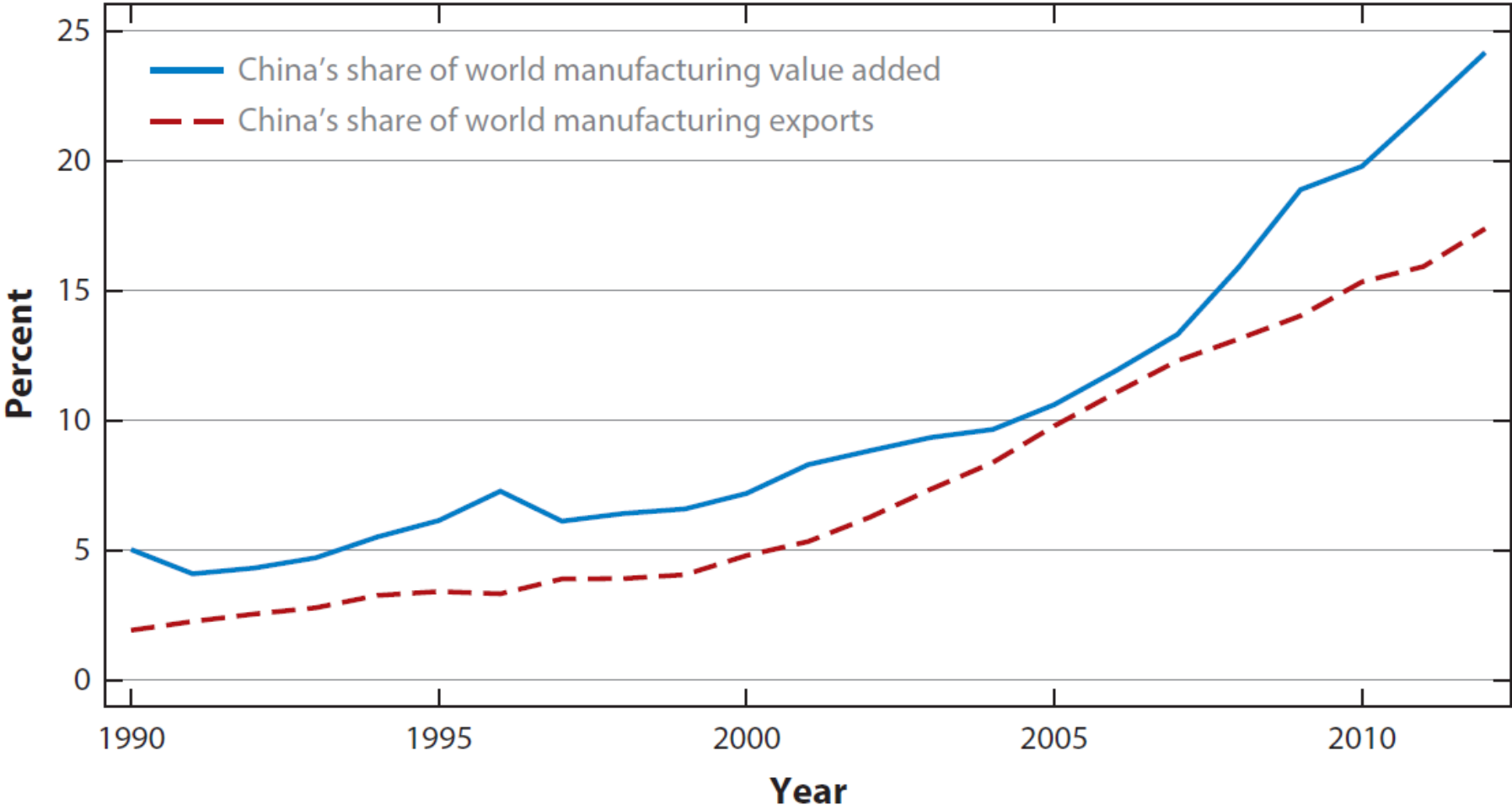


Instrumental Variables and Causal Mechanisms: Unpacking the Effect of Trade on Workers and Voters

Robert Gold (IfW) and Stephan Heblich (Bristol)
with Christian Dippel (UCLA), Rodrigo Pinto (UCLA)

INET Conference
Edinburgh
22nd October 2017

New Patterns of Trade...



...and New Challenges



...and New Challenges



...and New Challenges



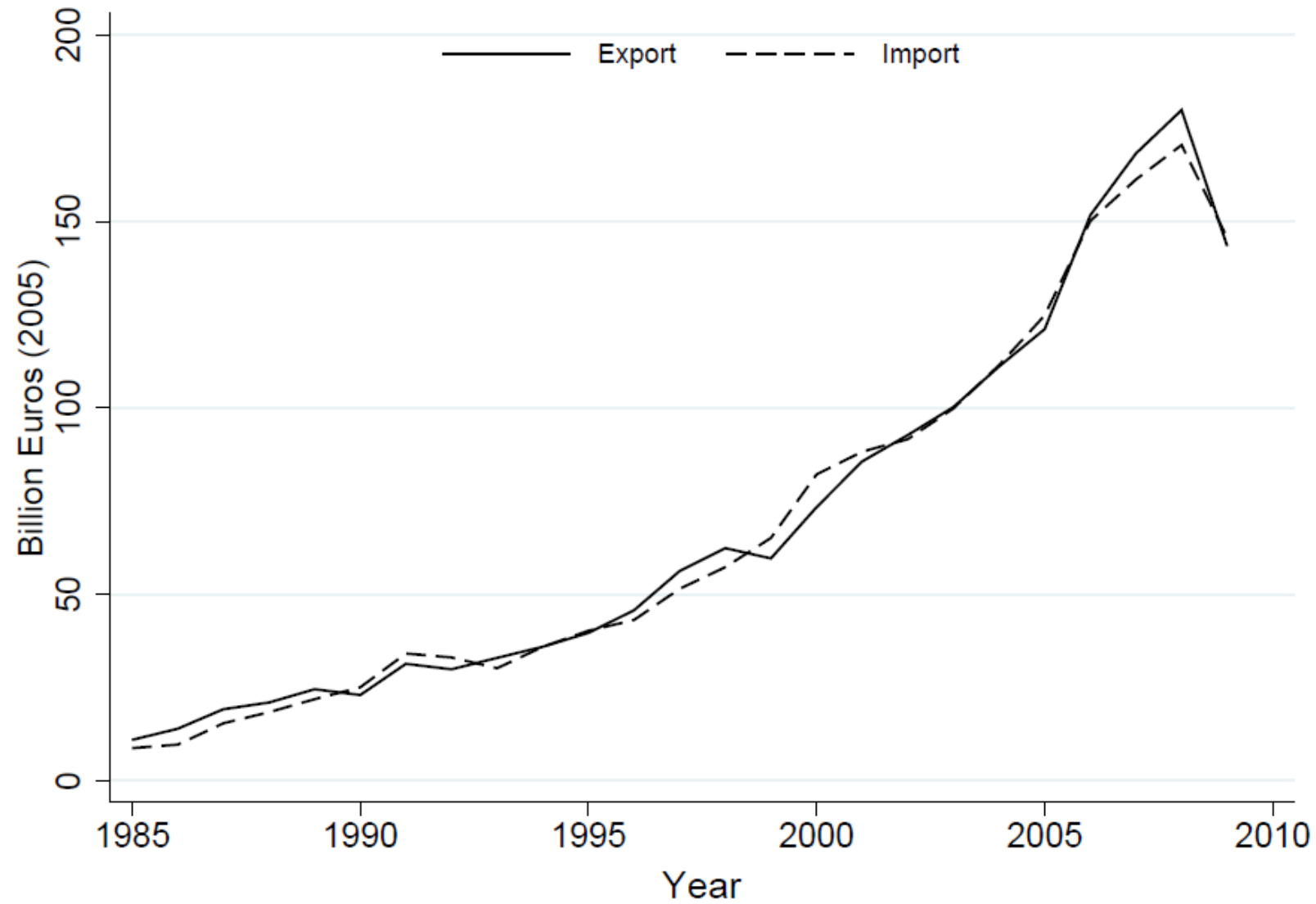
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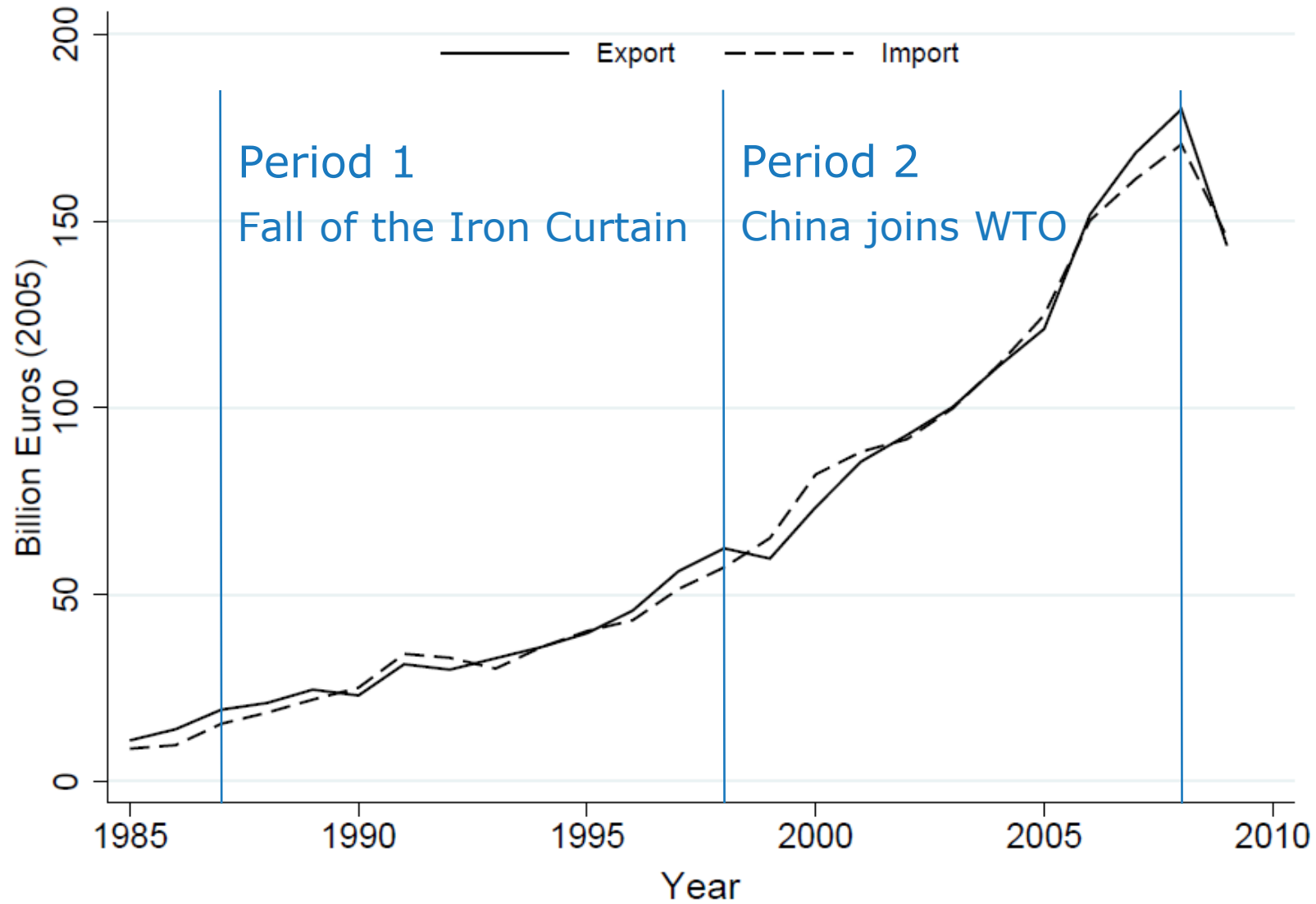
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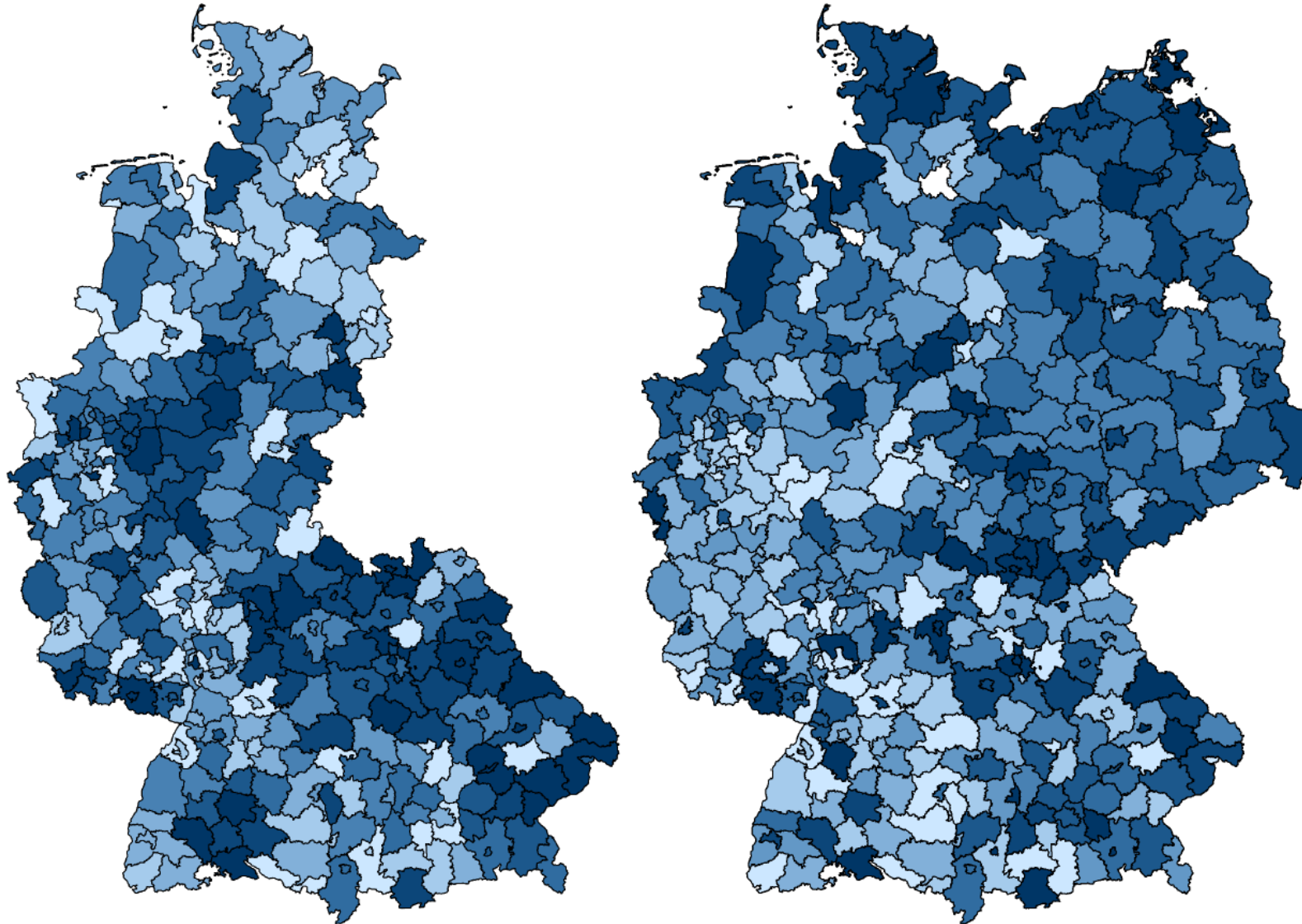
Focus: Increasing German Trade With "the East"



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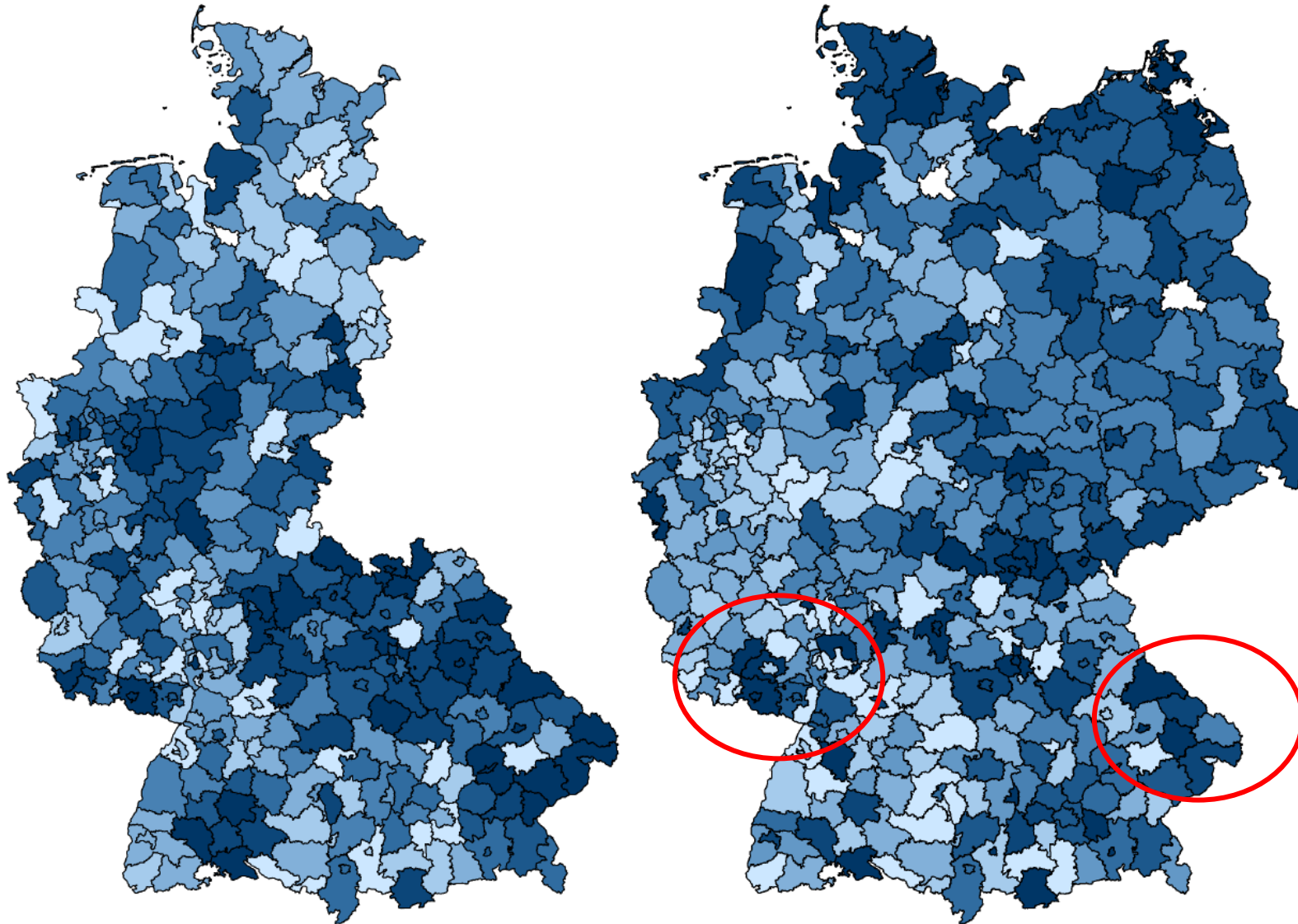
Regional Exposure to Increasing International Trade



Period 1: 1987-1998

Period 2: 1998-2009

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Trade Effect on Voting Behavior

	(5) +Socio IV	(6) Standard. IV
Δ Turnout	0.002 (1.223)	0.036 (1.223)
Δ Vote Share CDU/CSU	-0.066 (-0.501)	-0.016 (-0.501)
Δ Vote Share SPD	-0.009 (-0.073)	-0.001 (-0.073)
Δ Vote Share FDP	0.119 (1.583)	0.022 (1.583)
Δ Vote Share Green Party	-0.018 (-0.413)	-0.006 (-0.413)
Δ Vote Share Extreme-Right Parties	0.089** (2.055)	0.044** (2.055)
Δ Vote Share Far-Left Parties	-0.092 (-0.859)	-0.024 (-0.859)
Δ Vote Share Other Small Parties	-0.024 (-0.564)	-0.018 (-0.564)
FS: Z_{it}^{IM}	0.220*** (7.971)	0.220*** (7.971)
FS: Z_{it}^{EX}	-0.202*** (-7.568)	-0.202*** (-7.568)
F-Stat. of excluded Instruments	38.21	38.21
Period-by-region F.E.	Yes	Yes
Observations	730	730

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- Nationalist parties gain with increasing trade exposure
 - Import competition turns voters to the fringe
 - Nationalist parties lose with better export opportunities
- Effect is driven by low-skilled manufacturing workers
 - Do economic mechanisms explain the effect on voting?

Trade Effect on Local Labor Markets

	(5)	(6)
	+Socio IV	Standard. IV
1st Labor Market Component: LMC₁	-0.021 (-0.679)	-0.011 (-0.679)
2nd Labor Market Component: LMC₂	-0.322*** (-3.755)	-0.271*** (-3.755)
Δ Share Manufacturing Employment	-0.755*** (-3.745)	-0.247*** (-3.745)
Δ log(Mean Manufacturing Wage)	-0.006*** (-2.592)	-0.083*** (-2.592)
Δ log(Mean Non-Manufacturing Wage)	-0.001 (-0.808)	-0.015 (-0.808)
Δ log(Total Employment)	-0.024*** (-3.295)	-0.207*** (-3.295)
Δ Share Unemployment	0.110* (1.694)	0.060* (1.694)
Δ log(Total Population)	-0.004* (-1.852)	-0.050* (-1.852)
<i>First Stage:</i>		
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- Increasing trade exposure causes labor market turmoil
 - This effect has already been documented in the literature (Autor, Dorn, Hanson, 2013; Dauth, Findeisen, Suedekum, 2014; Pierce and Schott, 2016)

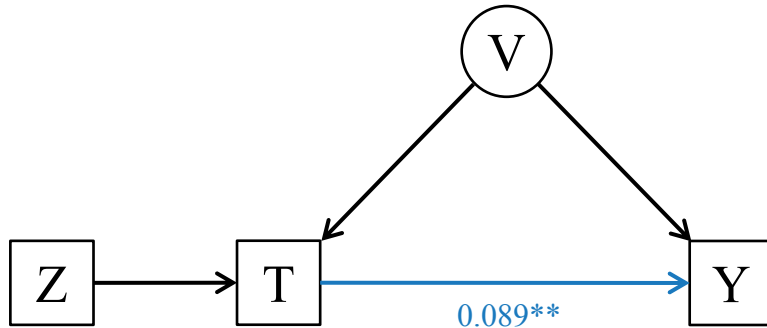
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 - This effect has already been documented in the literature
(Autor, Dorn, Hanson, 2013; Dauth, Findeisen, Suedekum, 2014; Pierce and Schott, 2016)
- We aggregate labor market adjustments
 - Do trade-induced labor market adjustments explain the effect on voting?

Trade Effects in Context

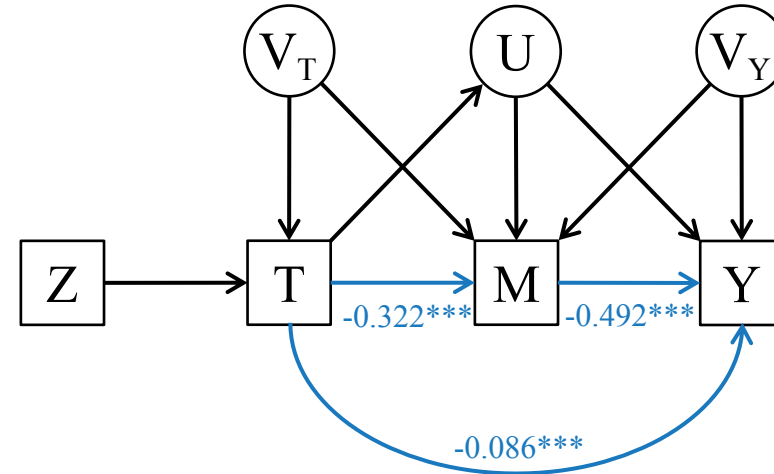
- Trade Effect on Voting



→ *Total Effect*

1 SD increase in trade exposure increases right-wing vote share by 0.120 pp.

- Underlying mechanism



→ *Direct Effect*

1 SD increase in trade exposure decreases right-wing vote share by 0.116 pp.

→ *Indirect Effect*

1 SD increase in trade exposure causes labor market turmoil which increases right-wing vote share by 0.213 pp.

Conclusion

- Trade shocks causally affect voting behavior
 - Trade shocks exclusively affect right-fringe party votes
 - Right-fringe parties gain with increasing import competition
 - Effect is driven by low-skilled manufacturing workers turning to the fringe
- Labor market adjustments are the underlying cause
 - Trade causes labor market turmoil
 - Trade-induced labor market frictions radicalize voters
 - This effect is even larger than the total effect
 - Net of labor market effects, trade would have a moderating

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“Perhaps most of all, politicians need a different mindset. For progressives, alleviating poverty has demanded welfare; for libertarians, freeing up the economy. Both have focused on people. But the complex interaction of demography, welfare and globalisation means that is insufficient. Assuaging the anger of the left-behind means realising that places matter, too.”



Thank you!

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