Discussion of
"Labor Market Shocks and the Demand for Trade Protection"
by Di Tella & Rodrik

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Economics, over the years, has become more and more abstract and divorced from events in the real world. Economists, by and large, do not study the workings of the actual economic system. They theorize about it. As Ely Devons, an English economist, once said in a meeting: "If economists wanted to study the horse, they wouldn’t go around and look at horses. They’d sit in their studies and say to themselves, ‘What would I do if I were a horse?’”—Ronald Coase, 1999.

Instead, Di Tella and Rodrik examine American horses in Amazon’s Mechanical Turk pastures.

- They elicit policy choices in response to vignettes (treatments),
- while recording their demographics and political orientation.
Negative employment shocks and demand for protection

- Despite seemingly equivalent employment outcomes, demand for public protection/responses...
  - none, trade restrictions, financial assistance
- ...vary by source of shocks
  - technology, demand/tastes, management, foreign competition, offshoring (with and without concerns for employment conditions),
  - (important, given the ongoing trade vs. technology debate).
- by political orientation, and by education.
- Overwhelming majority: government should do something.
  - variation in what to do—not whether—under different circumstances.
  - while people generally prefer transfers to protectionism,
  - they demand more trade protection in response to trade shocks,
  - more financial assistance in response to technology, demand, management shocks.
"Liberal left" versus "socially sensitive right".

- Clinton voters less reactive compared to Trump voters. Why?
- Maybe "left" is concerned more with protecting groups, identities, in a blanket/social insurance fashion, while "right" focused on cause and effect, while being less inclined towards redistribution in general?
- E.g., Clinton supporters less likely to "do nothing" (Tables 2, 5).

Why do people demand trade protection in response to non-trade shocks?

- In particular, Trump voters and less educated.
- Notice that post-graduates and Clinton voters react similarly: no demand for protectionism in response to non-trade shocks.
Some concerns

- External validity?
  - online survey.
  - 1$ incentive.

- "preferences seem malleable and easy to manipulate: Clinton supporters primed with trade shocks are as protectionist as baseline Trump voters"—somewhat misleading.
  - It is like saying that after treatment sick people become as healthy as others with tendency for the same disease.
  - Need to distinguish preferences from choices (if at all possible).

- Trade policy influenced (bought?) by lobbying by large firms—not just individuals via elections.
  - E.g., Blanga-Gubbay, Conconi & Parenti (2019).
WHY do preferences for public protection differ?

» Americans are a pragmatic people?
  » Tangible trade policy (tariffs) versus ephemeral nature of technology?

» Ability to pin down direct "culprit"? Populism?
  » More complex in an integrated world, global value chains.

» Notions of irreversibility?
  » E.g., permanent loss of production prowess, immigration.

» Variation in social narratives, perceptions? E.g., on
  » whether existing cake is split among agents (rents, short run)?
  » how income is generated (variation in productivity, size of cake)?

» To make progress, we need to understand these fundamentals.
  » E.g., why do Americans "blame" globalization when manufacturing is <10% of employment?
  » Do they see the interactions with the rest of the economy?
Dynamic concerns

- Have choices (preferences) changed over time, empirically
  - with deepening of trade integration?
  - with rate of technological change?
  - with inequality?

- Changes in inequality may affect choices, and thus the political/policy equilibrium.
  - Giordani & Mariani (2019): rise of educated/mobile class.
    - at some point they refuse to "subsidize" the poor/losers so much.
    - the losers understand this, and vote against trade.
    - when losers become sufficiently distant from national average, they sacrifice aggregate gains to align with their group.
    - changes in environment can drastically change voting.
    - losers need to compensated in ways that are linked to their loss.
    - otherwise, they accept compensation but still vote against policies that deliver aggregate gains, with even worse negative dynamic outcomes.
Lingering questions, beyond scope of this paper

- What about intensity of responses?
  - willing to protect in principle, but maybe not so much?
  - what if vignettes include estimates of cost of their choices?

- Other sources of employment shocks and preferences towards them, perhaps no less important:
  - Foreign (domestic?) investment.
  - Immigration.
  - Monetary and fiscal policy.
  - Financial and sovereign debt crises.
  - Interactions:
    - trade-induced technological change (Bloom et al. 2013)
    - technology-induced decline in trade barriers (Malgouyres et al. 2019)

- Other dimensions: labor income distribution, wealth distribution.
Conclusion, take-away messages

- Overwhelming majority: government should do *something*.

- Americans react much more to trade shocks than to technology shocks.

- They prefer trade restriction to financial compensation when
  - source of employment shock is offshoring/import competition,
  - and more so when competition is from Cambodia versus France.
  - If they understand that this is—in principle—inferior to transfers
    (reducing aggregate average gains from trade), this implies willingness to
    shoulder some of the costs.

- Trump voters demand relatively more trade protection in response to
  international competition.
  - Clinton voters primed with international competition are on par with
    baseline Trump voter protectionism.
  - But Trump voters 4 times more responsive to same priming,
    and demand trade protection in response to non-trade shocks.