Does Compensating the Losers Increase Support for Trade? An Experimental Test of the Embedded Liberalism Thesis

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Embedded Liberalism and Compensation

- Policymakers can increase support for trade by compensating those harmed
- Compensation mechanisms are present in all advanced industrial countries
- Main compensation mechanism in U.S. is Trade Adjustment Assistance (TAA) which provides expanded unemployment insurance and job retraining

Existing findings

- Relationship between openness and government size (Cameron 1978; Rodrik 1998)
- Those who will receive more in benefits more likely to support open trade (Hays et al 2005)
- Trade losers want compensation and getting compensation can increase support for left parties (Walter 2010)
- Trade losers support compensation while trade winners oppose it (Ehrlich 2010, Rickard 2008)

Hypotheses

- Embedded Liberalism Hypothesis: compensation should increase support among losers and have no effect on support among winners
- Altruism Hypothesis: compensation should increase support unconditionally (Lu et al 2010; Hearn 2010)
- Costs Hypothesis: compensation should increase support among losers but decrease support among winners

Experimental Design I

- Half of sample asked question about TAA:
- *Trade Adjustment Assistance is a federal government program which provides expanded unemployment insurance and job retraining programs to workers who lose their jobs as a result of increased imports or from outsourcing. The program costs about one billion dollars. Do you think the program should be expanded, cut back, or kept the same?*
- Entire sample asked question about trade:
- *How much do you agree or disagree with each of the following statements? The United States should limit the imports of foreign products in order to protect the U.S. national economy.*

Experimental Design II

- Treatment question exposes half of respondents to information about compensation
- If we assume that not all respondents were previously aware of TAA, treatment group should be more knowledgeable about compensation than control group
- Experiment thus tests effects of knowledge about compensation
- Treatment also primes respondents to think of compensation when answering trade question

Analysis

$$\textit{Trade Support} = \beta_0 + \beta_1 TAA + \beta_2 Exposure + \beta_3 TAA*Exposure + B_4 Age + \beta_5 Female + \beta_6 Married + \beta_7 Conservative + \beta_8 UE + \beta_9 Risk\ Aversion + \varepsilon$$

- TAA is treatment variable
- Exposure (to risks of trade) measured by income or education

Table 1: Effect of TAA Treatment on Support for Free Trade.

	Model 1	Model 2	Model 3	Model 4	Model 5
TAA	.026	.797***	-.150	.048	.096
	(.075)	(.225)	(.112)	(.094)	(.113)
Income		.075***	_	_	_
		(.018)			
TAA X Income		-.086***	_	_	_
		(.025)			
Low Income(2)			-428***	_	_
			(.117)		
TAA X Low Income(2)			.428***	_	_
			(.162)		
College Grad.				.485	_
				(.118)***	
TAA X Coll. Grad.				-.031	_
High Income(3)					.200
					(.130)
TAA X High Income(3)					-.325*
					(.184)
Low Income(3)					-.354**
					(.156)
TAA X Low Income(3)					.366*
					(.222)
Observations	791	694	694	744	694
Psuedo-R2	.000	.033	.031	.039	.030
Chi-Squared	.12	68.33	63.23	82.82	61.42

Table 2: Predicted Probability of Supporting Free Trade

	Probability of Supporting Trade (Low Income)		
Trade Support	Control	Treatment	Difference
Strongly Oppose	.364	.265	-.099***
			(.039)
Oppose	.363	.362	-.001
			(.010)
Neutral	.189	.237	.048***
			(.019)
Support	.075	.022	.042***
			(.018)
Strongly Support	.009	.018	.009***
			(.005)

Table 3: Predicted Probability of Supporting Free Trade

	Probability of Supporting Trade (High Income)		
Trade Support	Control	Treatment	Difference
Strongly Oppose	.220	.267	.046
			(.035)
Oppose	.352	.363	.011
			(.010)
Neutral	.259	.236	-.023
			(.017)
Support	.143	.116	-.027
			(.021)
Strongly Support	.026	.018	-.008
			(.006)

Conclusions

- Compensation increases support for trade amongst those exposed to the risks of trade
- Compensation has no effect (and possibly negative effect) on support amongst those who are expected to benefit from trade
- Support for the underlying causal mechanism of Embedded Liberalism

Table 4: Effect of TAA Treatment on Support for Free Trade (Full).

	Model 1	Model 2	Model 3	Model 4	Model 5
TAA	.026	.797***	-.150	.048	.096
	(.075)	(.225)	(.112)	(.094)	(.113)
Income		.075***	_	_	_
		(.018)			
TAA X Income		-.086***	_	_	_
		(.025)			
Low Income(2)			-428***	_	_
			(.117)		
TAA X Low Income(2)			.428***	_	_
			(.162)		
College Grad.			_	.485	_
				(.118)***	
TAA X Coll. Grad.			_	-.031	_
				(.167)	
Control Variables					
Age		.001	.002	.001	.001
		(.003)	(.003)	(.003)	(.003)
Female		-.444***	-.451***	-.451***	-.457***
		(.085)	(.086)	(.082)	(.086)
Married		-.116	-.113	-.033	-.087
		(.091)	(.090)	(.082)	(.089)
Conservative		.001	.001	.002*	.001
		(.002)	(.002)	(.001)	(.002)
Unemployed		-.086	-.104	-.110	-.097
		(.092)	(.091)	(.087)	(.092)
Risk Aversion		-.037	-.045*	-.033	-.039
		(.025)	(.025)	(.024)	(.025)
Trichotomous Income					
High Income(3)					.200
					(.130)
TAA X High Income(3)					-.325*
					(.184)
Low Income(3)					-.354**
					(.156)
TAA X Low Income(3)					.366*
					(.222)
Observations	791	694	694	744	694
Psuedo-R2	.000	.033	.031	.039	.030
Chi-Squared	.12	68.33	63.23	82.82	61.42