Becoming Red and Blue: The Knowledge Economy, Preferences and Votes

Lucy M. Goodhart
Columbia University
lmg2005@columbia.edu

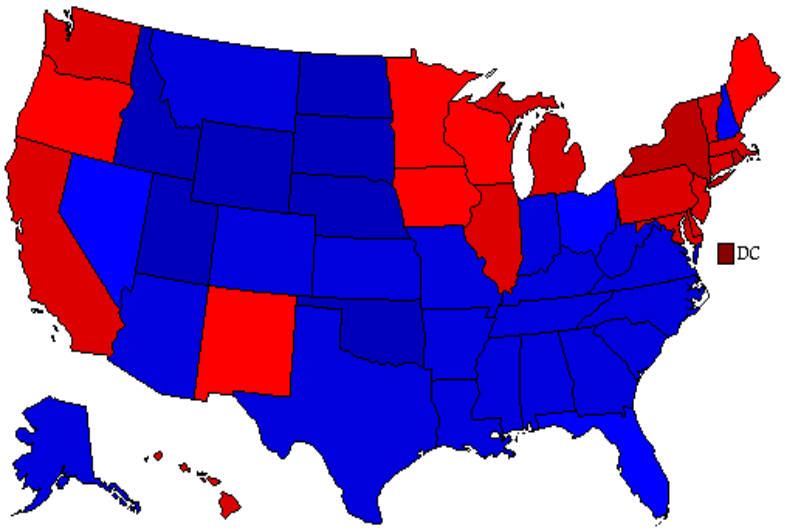
Presentation prepared for the Annual Meetings of the International Political Economy Society, University of Virginia, November 9th -10th, 2012.

How does Information Technology (IT) relate to the Global Economy?

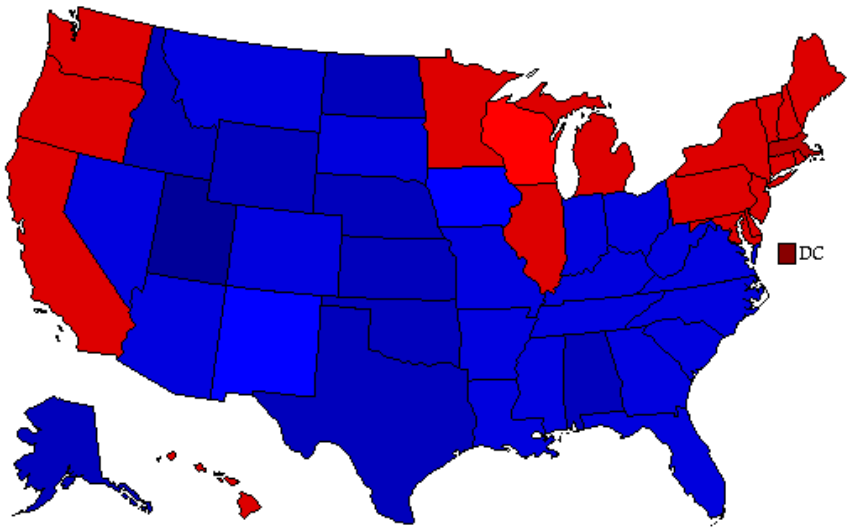
- Links between globalization and egalitarian redistribution are key to IPE scholarship (Bardhan et al, 2006).
- This research examines the effect of changes in earnings by skill group, linked to IT, on policy preferences and voting.
- Recent research stresses that earnings changed as firms invested in IT in response to globalization (Bloom et al, 2011).
- Thus, the research focuses on part of the mechanism linking globalization to preferences for redistribution, in this case through changes in earnings.

And can we also explain this?

2000

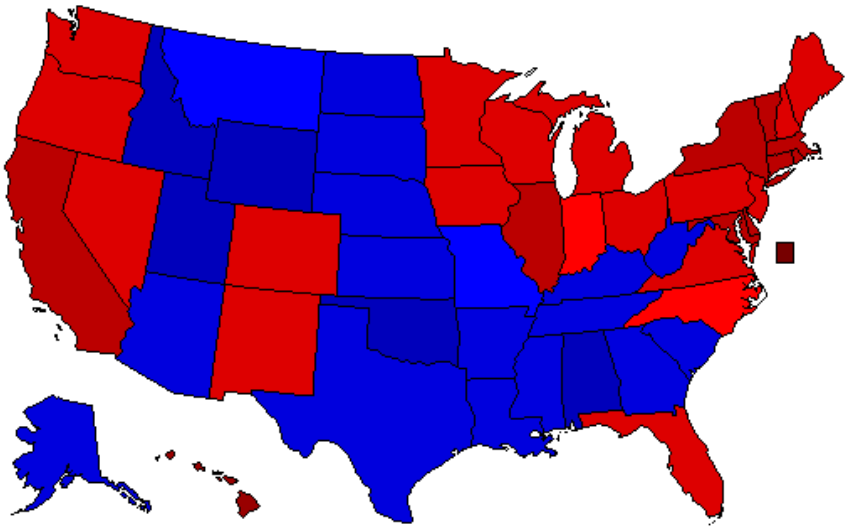


2004

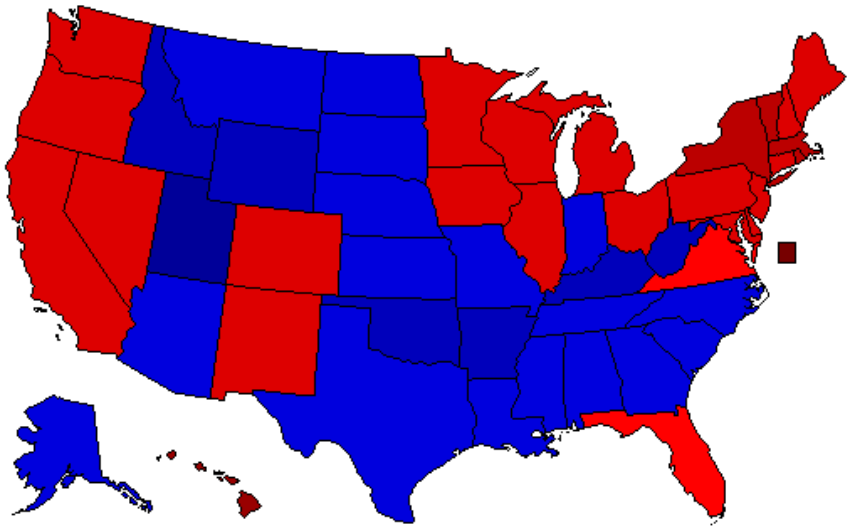


Or this?

2008

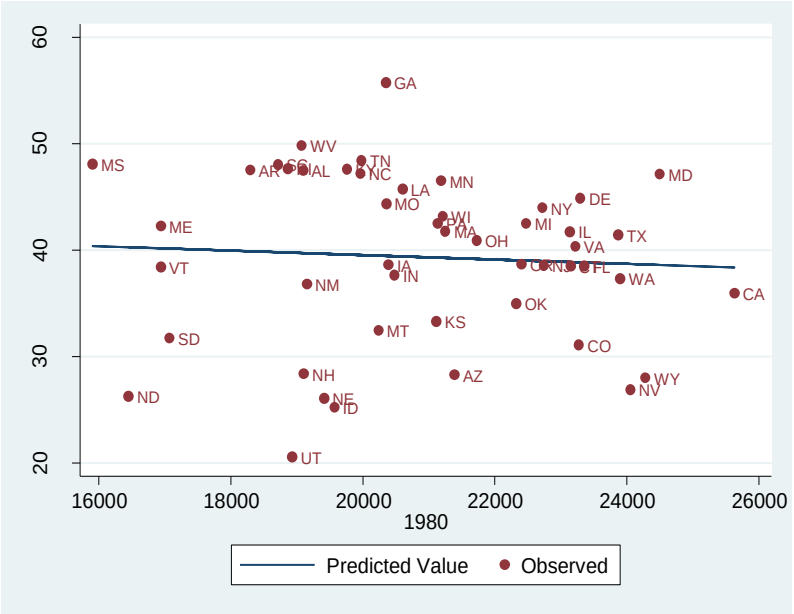


2012

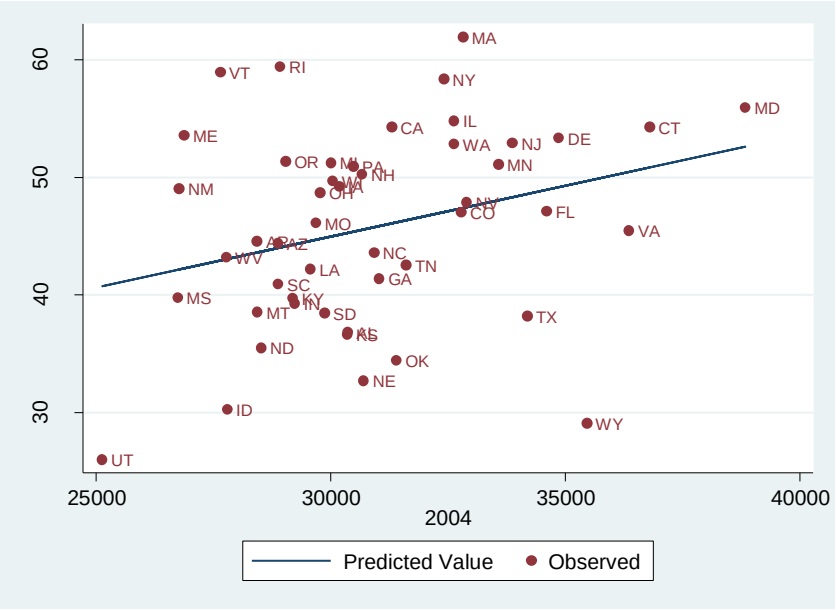


State Income and Voting over Time

1980

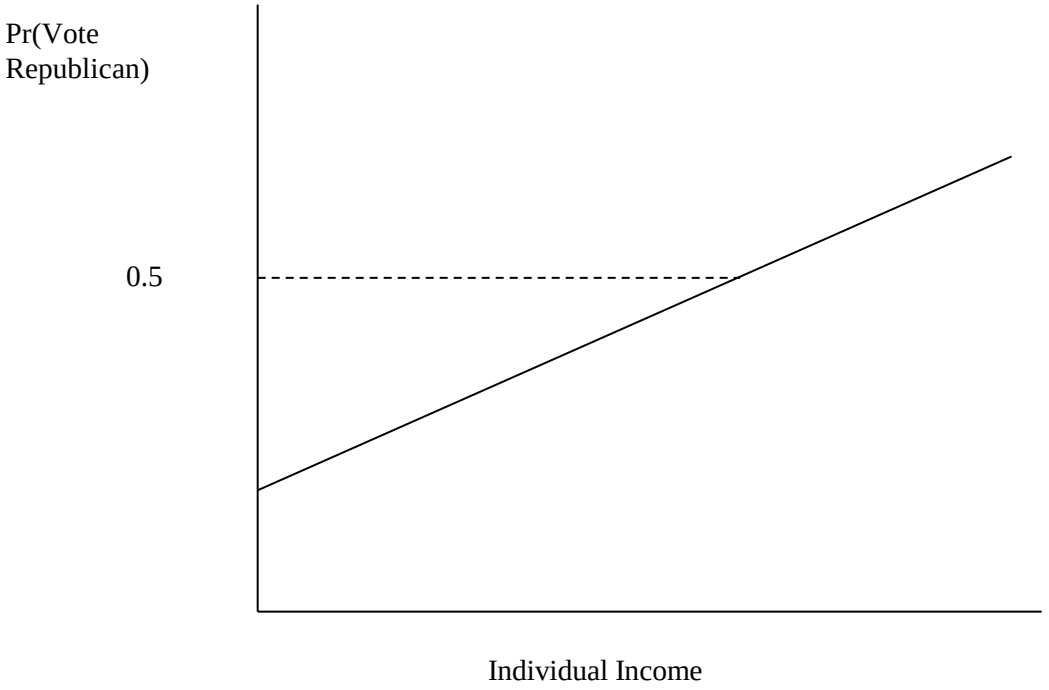


2004

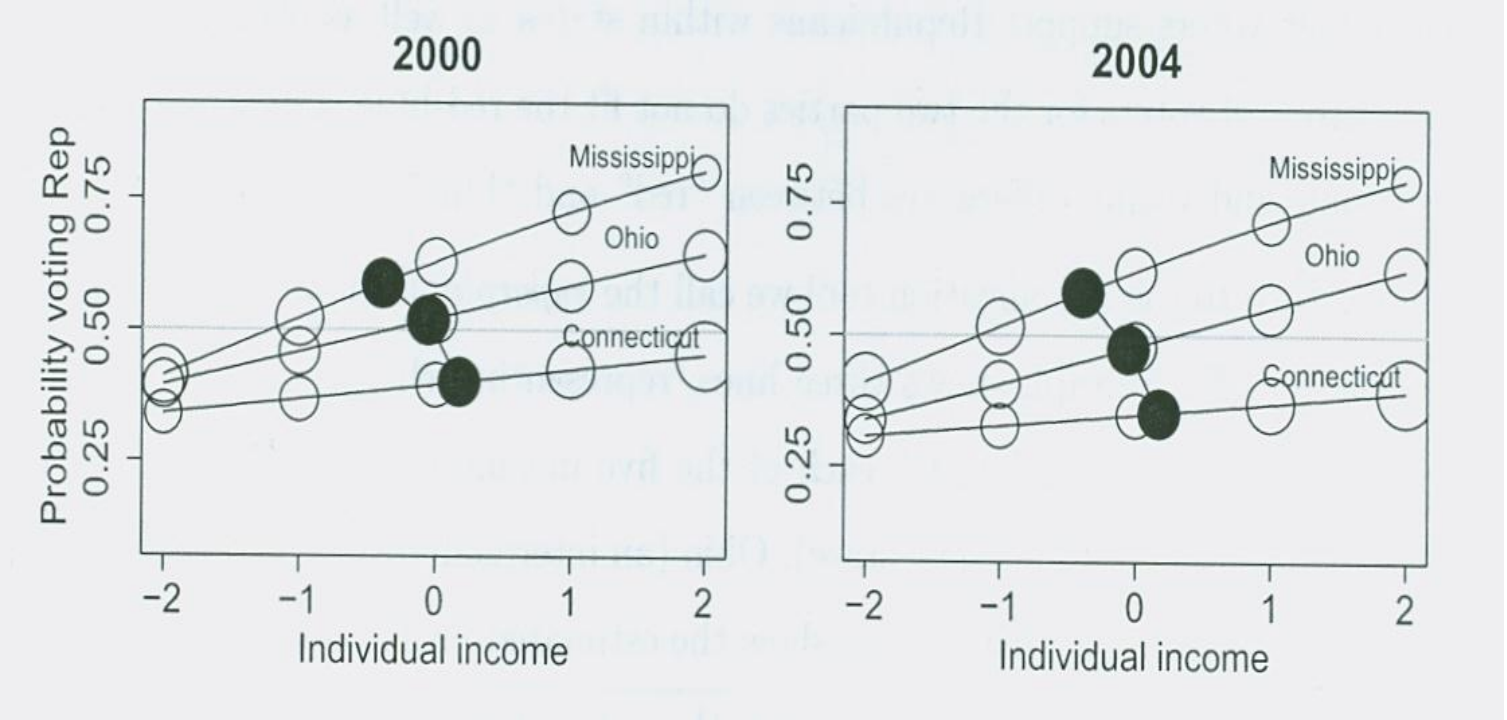


The Red-State Blue-State Finding appears Inconsistent with Meltzer-Richard (1981)

- The expectation is…



Andrew Gelman's 2008 Decomposition of the Red-State Blue-State Paradox



Alternative Maps and Alternative Explanations

Created by G. Web, November 3rd, 2004 and posted on yakyak.org

Possible Explanations for the Puzzle

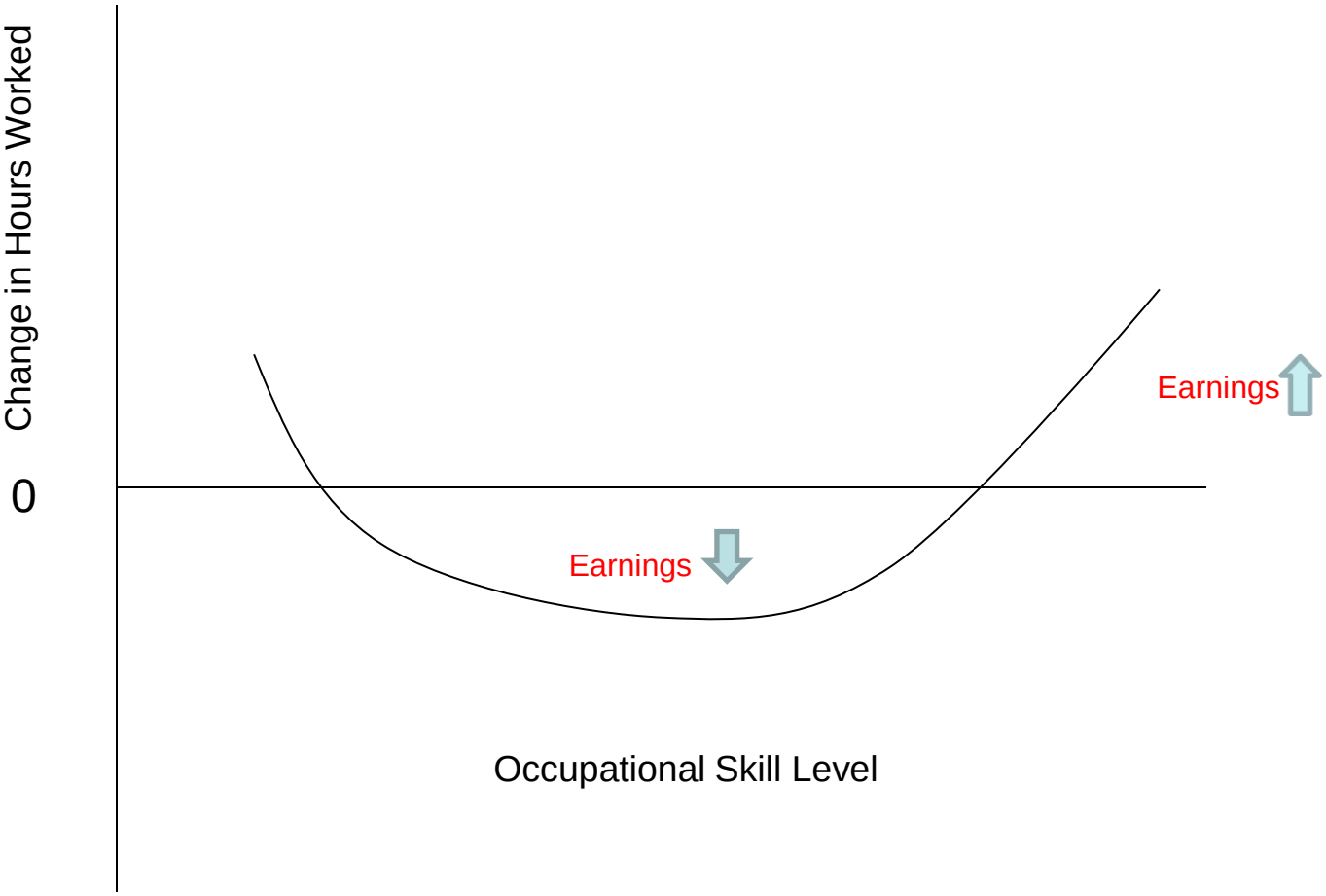
- Culture: Cultural conflicts (Hunter, 1998; but see Fiorina et al 2006) and self-sorting (Bishop, 2008).
- But "pocketbook" issues are still the dominant influence on voting and partisanship (Ansolabehere, Rodden, Snyder, 2006, Baldasarri and Gelman, 2008)

  "Economic issues, not moral issues, have a much greater impact on voters' decisions"
- And why would sorting become so apparent from the early 1990's (Molloy et al, 2011, Chen and Rosenthal, 2008)?
- And why would sorting create a correlation between voting Democrat and wealth?

A Role for Earnings Shifts and Labor Market Polarization

- LMP is the "hollowing out" of the labor market that could happen in response to a reduction in computing cost.
- Autor et al (2006): computing power substitutes for routine tasks and complements the work of highly-skilled workers.
- LMP implies gains for the "creative class" and losses for lower middle class individuals. The process was first manifested in the 1990's, along with the Red/Blue Paradox.
- What if the process was localized and skills were clustered?
- If the "creative class" emerged in wealthy states voters in these locations would have seen gains in earnings and income. How might this affect their preferences?

What does LMP Imply?



Why Should Changes in Earnings Affect Preferences over Gov't Spending?

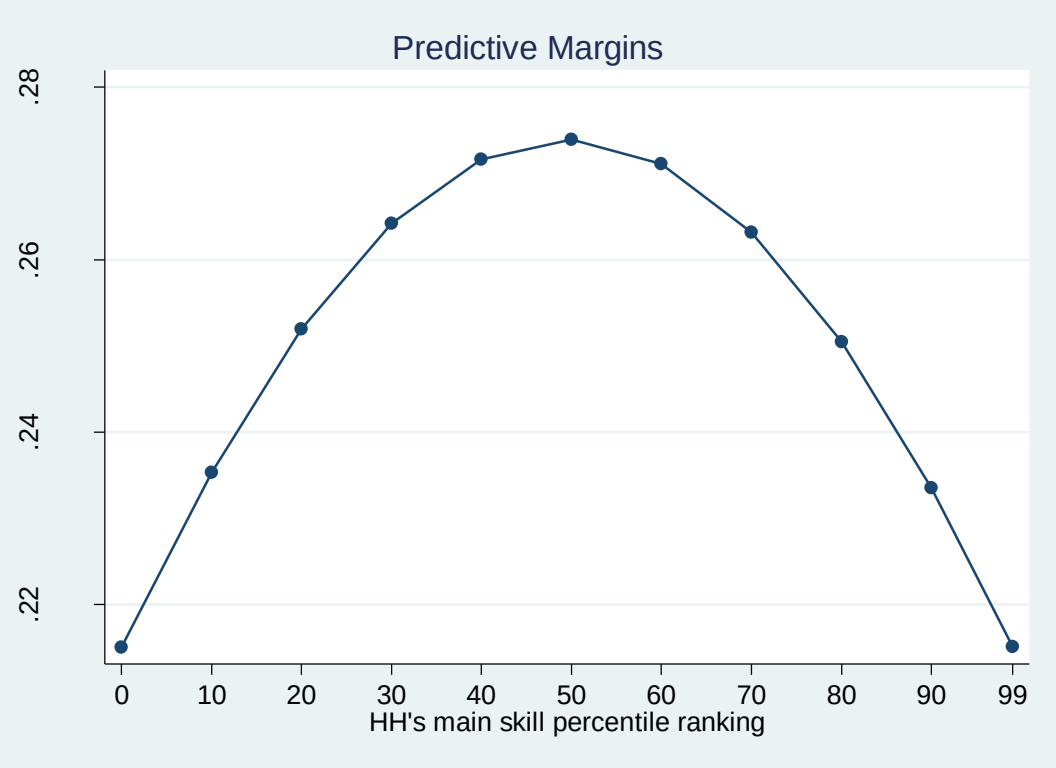
- Public spending funds "insurance" & public goods as well as redistribution (Moene and Wallerstein (2001), Durr (1993)).
- As income rises, the marginal utility of private consumption falls relative to the marginal utility of insurance/public goods, raising the desired level of government spending.
- Policy mood shifts left during booms (Stevenson, 2001).
- For the US, the skilled have seen a rise in earnings and those in "routine" occupations have seen a fall. When the highly-skilled are also well-off, *growth* in earnings will offset the effect of income *level* and vice versa for medium skilled.
- Question: Has skill level started to affect social policy attitudes as skill has become relevant for earnings shifts?

Results for Individual Level Preferences

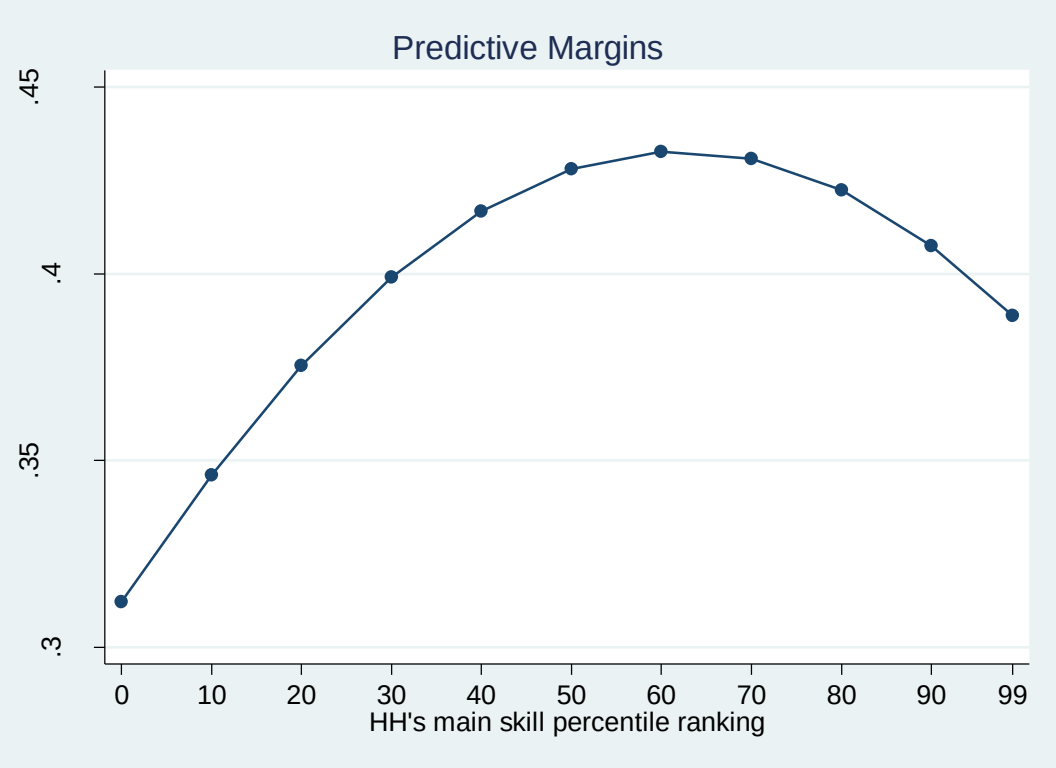
- Estimating the model: $Attitude = \beta_0 + \beta_1 Skill + \beta_2 Skill^2 + \varphi Controls + \varepsilon$

2000's (GSS data)	Taxes Too High	Welfare Too High
Skill Percentile	0.0134***	0.0174***
	(0.003)	(0.004)
Skill Percentile Sq.	-0.000135***	-0.00014***
	(0.00003)	(0.00004)
N	10963	4757
Chi-Squared	371.4	227.5
Pseudo-R Squared	0.03	0.04

Effects of Skill on Predicted Probability of saying “Amount Fed Inc Tax I pay is too high”



Effects of Skill on Predicted Probability of saying “We are spending too much on Welfare”

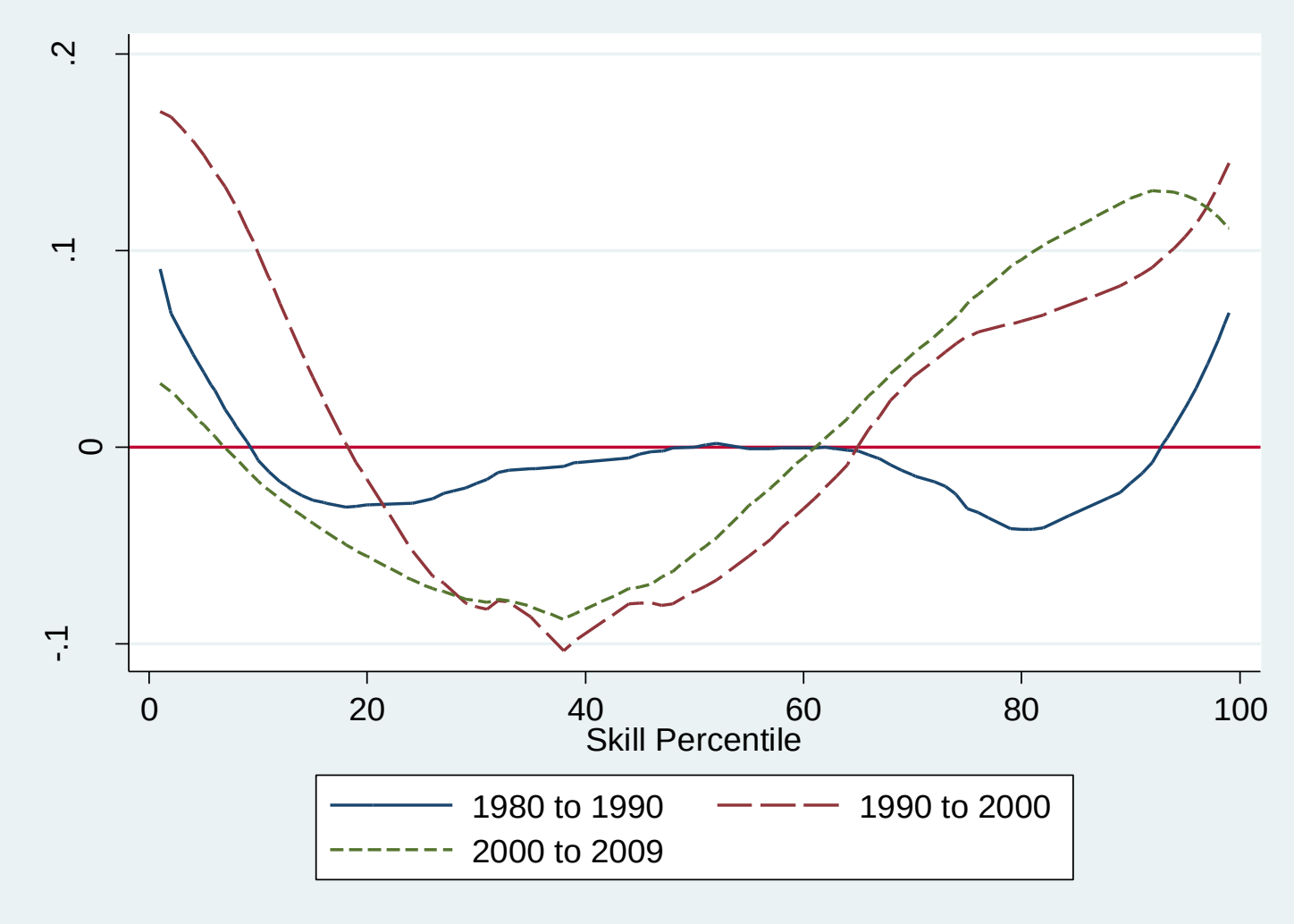


Estimating LMP

- Data on consistent, over-time occupational coding, labor shares and mean log wage by occupation for censii from 1980, 1990, and 2000 and ACS for 2009.
- Data are ranked by mean hourly log wage and mean years of education by occupation in 1980 to assign each occupation a percentile in the skill ranking.
- For later years, I examine how the percentage of hours worked by that occupational percentile has changed.
- Show LMP graphically, as in Autor et al (2006) but also provide a numeric measure related to an auxilliary regression:

$$Change\,in\,Share = \beta_0 + \beta_1 Skill + \beta_2 Skill^2 + \varepsilon$$

Estimated National LMP



Least and Most Polarization at State Level, 1990 - 2000

Most

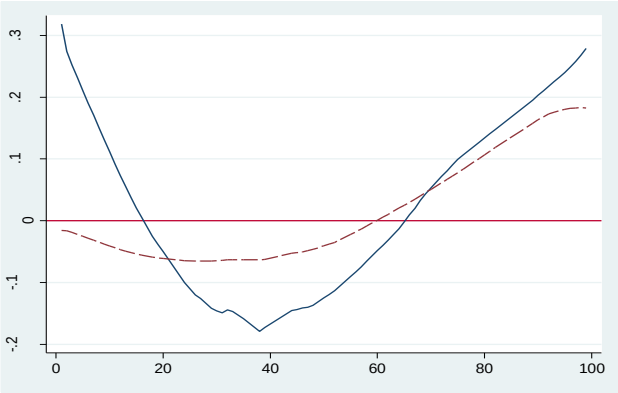
- Delaware
- Maryland
- New Jersey
- Massachusetts
- Connecticut
- District of Columbia
- Rhode Island
- Washington
- Hawaii
- California
- Oregon
- New York

Least

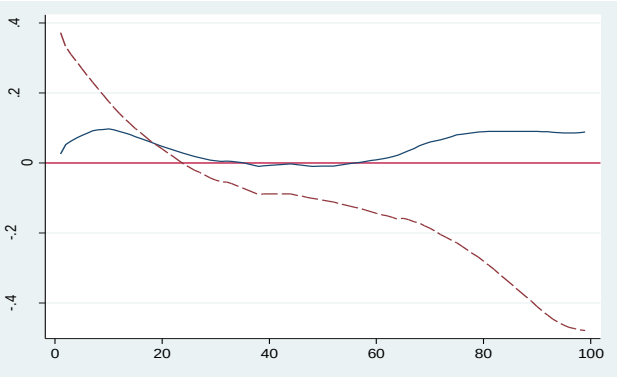
- South Dakota
- Mississippi
- North Dakota
- Wisconsin
- Iowa
- Alabama
- Utah
- Tennessee
- Missouri
- Nebraska
- Kentucky
- Idaho

LMP Graphically in the States

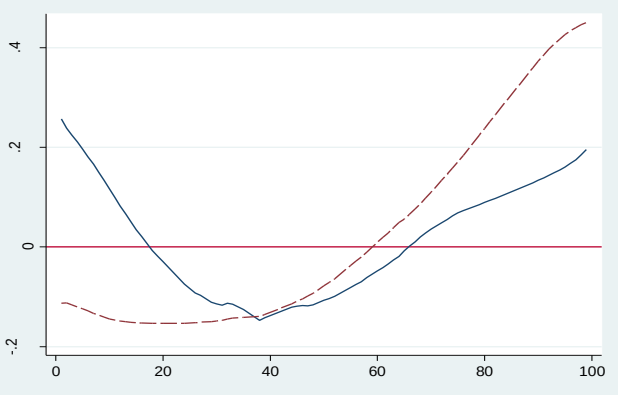
(Solid line is change over time – dashed is different from national share)



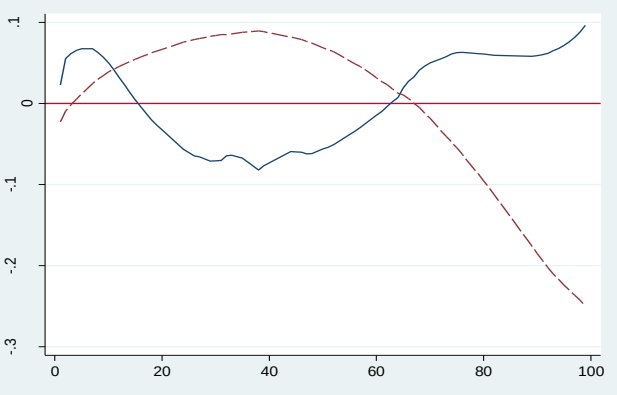
Delaware



North Dakota



Massachusetts



Alabama

Skill Endowments and State Income

- More polarized, skilled states are also richer. The correlation between polarization and real state pci is 0.60 in 2000. The correlation between over-abundance in skilled labor in 2000 and real per capita income is higher at 0.75.
- Rich households, on average, have greater occupational skills in richer, more polarized, more skill abundant states and there are more of these rich households in skill abundant states.
- The average occupational skill percentile for households in the upper-third of the US HH income distribution is 72.8 in MA, 69.4 in DE, 67.0 in AL and 55.7 in ND.

Do Skills or Education of Well-off Households Explain the Paradox better than Income?

- After 1992, both occupational skill or educational attainment of well-off households are more significant in explaining vote share and have higher R^2 than state per capita income.
- Future work will look directly at the effect of a state's overall skill endowments and estimated earnings growth on the responsiveness of vote to income.

Explanatory Variable in bivariate reg for 2004	***t statistic***	***Adjusted R^2***
State per capita income	2.08	0.07
Occupational Skill	3.33	0.18
Educational Attainment	5.55	0.39

Conclusion

- The explanation advanced here opens new lines of research on the *economic* origins of the Red/Blue paradox and changes in US voting behavior.
- Skill level affects attitudes independent of income. HH's reliant on medium skills are more likely to be "fiscally conflicted."
- There is a growing divergence across American states in labor markets polarization and skill endowments.
- The knowledge economy and the clustering of the "creative class" has a political effect and re-opens the US to the geographic localism of preferences.