

What's at Stake in the Egocentrism vs. Sociotropism Debate?

Scholars have used untested egocentric microfoundations to explain cross-national differences in monetary/exchange rate policy.

Hard to explain democratic vs. non-democratic differences without reference to voter participation in democracies

So we need to know what voters want re: monetary/exchange rate policy.

But if voters only have sociotropic preferences, then it's also hard to explain policy differences among democracies.

Egocentric Monetary Policy Preferences?

Focus on tradeoff between using monetary policy for domestic or international goals.

Monetary policy
directed towards:

Domestic goals

International goals

Sectoral model:

domestically-oriented
producers

internationally-oriented
producers

2- Factor (L, K) model:

immobile Labor

mobile Capital

Skepticism that Monetary Policy Preferences would be Egocentric

1. Little egocentric evidence in other issue areas.

Mansfield and Mutz (2009) on trade

Hainmueller and Hiscox (2007, 2010) on immigration

2. Not clear that citizens even have strong opinions about monetary policy.

helps explain why there are few, if any, direct tests on individuals attitudes about monetary policy.

but also suggests why egocentric preferences might emerge on monetary policy:
lack of socialization necessary to produce sociotropic preferences.

Mechanical Turk Survey Aug. 2012

600+ American respondents

Asked to read 4-paragraph vignette about the tradeoff between using monetary policy for domestic vs. international purposes.

Then asked 2 opinion questions about how monetary policy should be used.

When the domestic economy is not growing and the U.S. dollar's value is weakening in the international marketplace, use the sliding scale below to indicate which policy goal the government should prioritize using its monetary policy.

promoting domestic economy growth 0 ----- 100 strengthening the U.S. dollar internationally

When the U.S. dollar is becoming too strong in the international marketplace (hurting US exports) and prices are rising in the domestic economy (inflation), use the sliding scale below to indicate which policy goal the government should prioritize using its monetary policy.

making U.S. exports more internationally price-competitive 0 -----100 reducing domestic inflation

Questions combined (with answers to the 2nd question inverted) to create our DV:
International Monetary Preference (0-100) mean=40, SD=19, min=0, max=100

Independent Variables

Objective Egocentric measures with expected positive (+) signs:

1st sectoral measure: *Industry Exports*

with higher values indicating more internationally- oriented production.

1st factoral measure: *Income* category

with higher values indicating more Capital (less Labor)

Sociotropic measures with expected negative (-) signs:

Nationalism measure using Mansfield and Mutz battery.

Isolationism measure also using Mansfield and Mutz battery.

Controls:

Age, gender, race dummies, education, and party id.

Estimates of *International Monetary Preference*

Independent Variable (Expected Sign)	B (SE)
<i>Industry Exports</i> (+)	-0.22 (0.17)
<i>Income</i> (+)	0.51 (0.41)
<i>Nationalism</i> (-)	-1.44 (0.93)
<i>Isolationism</i> (-)	0.88 (1.11)
F	3.15***
N	601

Estimated OLS with robust SEs.

Control variables not reported.

*** $p < .01$, ** $p < .05$, * $p < .10$

No sociotropic action, but also no egocentric action.

But do these egocentric variables really measure what we want?

New (Subjective) Measures of Sectoral and Factoral Orientation

2nd Sectoral measure: *Firm Overseas*

To what extent does your business/employer export their production to or do business in overseas markets?

none/some/most/all

Stat. sig. positive correlation with *Industry Exports*, but surprisingly weak (0.13)

2nd Factoral measure: *Capital ID*

American politicians and other national leaders sometimes engage in ‘class warfare’ either praising certain economic classes or criticizing other economic classes. Use the sliding scale below to indicate whether you identify more strongly with either the working class or the business class.

workers/working class 0-----100 capitalists/business class

Stat. sig. positive correlation with *Income*, but also relatively weak (0.25)

Additional Estimates of *International Monetary Preference*

Ind. Var.	2.1	2.2	2.3	2.4	2.5	2.6
<i>Firm Overseas</i> (+)	2.7** (1.2)	2.4** (1.1)	3.2*** (1.1)		2.9** (1.1)	
<i>Capital ID</i> (+)	0.07** (0.03)	0.08** (0.03)		0.08*** (0.03)		0.09*** (0.03)
<i>Industry Exports</i> (+)	-0.26 (0.18)		-0.28 (0.18)	-0.20 (0.18)		
<i>Income</i> (+)	0.36 (0.41)		0.36 (0.41)	0.27 (0.41)		
<i>Nationalism</i> (-)	-1.37 (0.94)	-1.39 (0.94)	-1.43 (0.93)	-1.37 (0.94)	-1.47 (0.94)	-1.38 (0.94)
<i>Isolationism</i> (-)	0.47 (1.12)	0.45 (1.13)	0.72 (1.11)	0.55 (1.13)	0.73 (1.12)	0.54 (1.13)
F	4.31***	4.94***	3.73***	3.88***	4.20***	4.54***
N	601	602	601	601	602	602

Estimated OLS with robust SEs. Control variables not reported. *** p<.01, ** p<.05, * p<.10

Tentative Conclusions

Using subjective measures, it is possible to find egocentric monetary policy preferences.

Both sectoral and factoral

Not surprising if a business's international/domestic orientation is based on its use of abundant/scarce mobile/immobile factors of production.

Would we find egocentric preferences using these more subjective measures for trade and immigration?

Maybe not because there is more socialization in these issue areas, leading to sociotropic preferences.

Next Steps

1. Similar questions in US Cooperative Congressional Election Study

Expect to find egocentric preferences in a better sample.

2. Similar survey in Western Europe where more monetary socialization has occurred.

Expect to find more sociotropic preferences than in the US.

3. Survey experiments to test fragility of egocentric monetary policy preferences

Vignette/no vignette

Self interest prompt/no self interest prompt

Vignette

The term “monetary policy” refers to the government’s use of interest rates to address different economic problems. When the domestic economy falls into a recession, the government could lower interest rates to stimulate economic growth. Alternatively, when prices are rising in the domestic economy, the government might raise interest rates in order to fight inflation (rising prices).

The government can also use its monetary policy to stabilize or change the U.S. dollar’s value in the international marketplace. When the dollar’s value is falling, the government could raise interest rates in an effort to strengthen the dollar internationally. Alternatively, when the dollar becomes too strong, it hurts U.S. exports by making American products seem more expensive in international markets. Thus, the government might lower interest rates in order to make U.S. exports more internationally price-competitive.

While all of these economic problems may be important, monetary policy cannot be used to address them all at the same time. Consider the following scenario: the domestic economy is not growing and the dollar’s value is falling in the international marketplace. If the government wants to stimulate economic growth, then it would need to lower interest rates. But if it lowers interest rates, then the dollar will only fall further in the international marketplace. In order to strengthen the dollar, the government would need to raise interest rates, but this would hurt U.S. economic growth.

To further illustrate this point, consider another scenario: prices are rising in the domestic economy (inflation), but the U.S. dollar is becoming too strong in the international marketplace, hurting US exports. If the government wants to fight inflation, then it would need to raise interest rates. But if the government wants to make U.S. exports more price-competitive, then it would need to lower interest rates. Once again, the government cannot address both of these economic problems using monetary policy because it cannot both lower and raise interest rates at the same time.