Economic Forces Before and After the Election

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Open Classroom Presentation
Issues and causes

• Key economic issues:
  – Jobs
  – Inequality
  – Corporate/financial power

• Shocks that were responsible
  – Trade, especially with China (2000)
First shock: trade

• Standard economic model predicts gains from trade for both countries
  – Bill Clinton’s assurances

• True, but model does not ensure both sides take their gains in the same way
  – US took gains in conventional way: cheaper goods
  – China took them in jobs
What they SAID would happen

“We do nothing. They have to lower tariffs. They open up telecommunications for investment. They allow us to sell cars made in American in China at much lower tariffs. They allow us to put our own distributorships there. They allow us to put our own parts there. We don’t have to transfer technology or do joint manufacturing in China anymore. This a hundred-to-nothing deal for America when it comes to the economic consequences.”

Bill Clinton, March, 2000
What ACTUALLY happened: China-world trade balance
China-US trade balance

U.S. Trade With China
Billions of Dollars

- U.S. Exports to China: 2014 @ $124.0 Billion
- U.S. Imports from China: 2014 @ $466.7 Billion
U.S. manufacturing employment
How did China do it?

- Currency manipulation
- Non-tariff barriers
- State-owned enterprises

Key is that a nonmarket economy makes these strategies possible. China was unlike our traditional trading partners.
Is this causal?

• Studies show that products where China got largest tariff reductions were the same as US industries with the largest employment losses
• US lost 5 million manufacturing jobs, maybe half due to China by itself. Studies show indirect job losses may be 3 times as large
• Huge regional effects within US
Good news: world inequality reduced

• Milanovic study compiles entire world population by income level
  – Measures proportional change from 1988 to 2011
• Two segments have gained
  – Global middle class (China, other growing Asian economies)—point B
  – Top 1 percent worldwide (point D)
• Biggest global losers: those between 80 and 95 percentile worldwide (point C)
  – These are middle and working classes of high-income countries
• “Populism is rooted in the failure of globalization to deliver palpable benefits to its working class”
“Elephant Curve”

Change in real income between 1988 and 2008 at various percentiles of global income distribution (in 2005 international dollars)
Bad news: political polarization rises

• Autor and co-authors have examined voting patterns in congressional districts: 2002-2012
• Find that districts with greatest job losses due to Chinese imports are significantly less likely to elect moderates to Congress
  – Rise of (very) conservative candidates in particular
• Places with non-Hispanic whites more likely to vote conservative Republican
  – Those with white minorities more likely to shift to a liberal Democrat
As imports increase, political center loses elections

Table 4: Import Exposure and Change in Political Position of Election Winner 2002-2010. (Dependent Variables: 100 x Change in Indicators for Election of Politician by Party and Political Position)

<table>
<thead>
<tr>
<th></th>
<th>Moderate</th>
<th>Liberal Democrat</th>
<th>Moderate Democrat</th>
<th>Moderate Republican</th>
<th>Conservative Republican</th>
<th>Tea Party Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Δ CZ Import Penetration</td>
<td>-37.66 **</td>
<td>0.27</td>
<td>-23.69 **</td>
<td>-13.97</td>
<td>37.38 **</td>
<td>24.44</td>
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<tr>
<td></td>
<td>(13.95)</td>
<td>(7.11)</td>
<td>(8.72)</td>
<td>(9.58)</td>
<td>(14.04)</td>
<td>(12.77)</td>
</tr>
</tbody>
</table>

N=3503 County*District cells. "Liberal Democrats", "Moderates" and "Conservative Republicans" are defined as politicians whose Nominates scores would respectively put them into the bottom quintile, middle three quintiles, or top quintile of the Nominates score in the 107th (2001-2003) Congress that preceded the outcome period. A Tea Party Member is defined as a representative who was a member of the Tea Party or Liberty Caucus during the 112th (2011-2013) Congress. These two caucuses, which are often associated with the Tea Party movement, were first established in 2010 and 2011, respectively. All regressions include the full set of control variables from Table 1. Observations are weighted by a cell’s fraction in total votes of its district in 2002, so that each district has an equal weight in the regression, and standard errors are two-way clustered on CZs and Congressional Districts. ~ p ≤ 0.10, * p ≤ 0.05, ** p ≤ 0.01.
Shift of Center by Ethnicity

Table 8: Import Exposure 2002-2010 and Political Position of 2010 Election Winner. (Dependent Variables: \(100 \times \text{Change in Nominate Score of Winner}, 100 \times \text{Change in Indicators for Election of Politician by Party and Political Position}\))

<table>
<thead>
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<th>Conservative Republican</th>
<th>Tea Party Member</th>
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<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
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<tr>
<td>Nominate Score</td>
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<td>(1)</td>
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<tr>
<td>Δ CZ Import Penetration</td>
<td>20.98 *</td>
<td>-0.01</td>
<td>-27.22 **</td>
<td>-15.64</td>
<td>42.87 **</td>
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<tr>
<td></td>
<td>(8.69)</td>
<td>(7.94)</td>
<td>(9.88)</td>
<td>(11.61)</td>
<td>(16.17)</td>
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<td>(15.47)</td>
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A. Counties where >1/2 of Voting Age Pop is Non-Hispanic White

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<td>(6)</td>
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<tr>
<td>Δ CZ Import Penetration</td>
<td>-7.03 *</td>
<td>26.88 *</td>
<td>-25.33 *</td>
<td>11.36</td>
<td>-12.91</td>
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<td>(8.60)</td>
<td>(12.87)</td>
<td>(12.02)</td>
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<td>(12.87)</td>
<td>(12.02)</td>
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<td>(8.10)</td>
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B. Counties where <=1/2 of Voting Age Pop is Non-Hispanic White

N=3241 County*District cells covering 349.8 weighted districts in Panel A, N=262 County*District cells covering 66.5 districts in Panel B. All regression include the full set of control variables from Table 1. Observations are weighted by a cell's fraction in total votes of its district in 2002, so that each district has an equal weight in the regression, and standard errors are two-way clustered on CZs and Congressional Districts. \(-p \leq 0.10, \ast p \leq 0.05, ** p \leq 0.01.\)
Second shock: financial crisis

- Unemployment rose from 5% to 10%
- 8 million home foreclosures
- Housing prices fell 30%
- Stock market fell 50%
- Household net worth fell 20%
- Median earnings fell between 1968 and 2010
Response?

• Banks got bailed out and are now bigger
  – No single banker has been held accountable
• Homeowners’ assistance spotty
• Employment has recovered, but
  – Wages have not recovered
  – Jobs are different, with less upside potential
What do we need?

• More nuanced trade policy
• More assertive posture toward financial sector
• More creative—and determined--approach toward regional, industrial, income disparities
FYI: Readable Summaries

• “Where jobs are squeezed by Chinese trade, voters seek extremes,” NYT, April 25, 2016

• “Global Inequality,” Financial Times, April 14, 2016
FYI: Economic Sources

- David Autor, “Importing Political Polarization,” MIT, April 25, 2106