Why Different Economic Shocks Have Different Political Effects

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This Paper

Motivation & research question:

- Puzzle: Technological change is responsible for greater labor dislocation than offshoring. Still, job losses due to globalization far more politicized than those due to automation
- Research question: Why do some economic shocks generate more severe political effects than others?

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- Experimental evidence combined with observational analysis
- Argument based on heterogeneity along identity lines.

State of the Art

Economic shocks & political behaviour:

Walter 2013; Jensen, Quinn, and Weymouth 2017; Mutz 2018; Norris and Inglehart 2019; Colantone and Stanig 2018a, 2018b; Autor et al. 2020; Di Tella and Rodrik 2020; Broz, Frieden, and Weymouth 2021.

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The role of identity:

Guisinger 2017; Gidron and Hall 2017; Mutz 2018; Jardina 2019; Baccini and Weymouth 2021; Bonomi et al. 2021; Ballard-Rosa, Jensen, et al. 2022; Ballard-Rosa, Goldstein and Rudra 2022.

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Automation:

Im et al. 2019; Owen 2020; Anelli et al. 2021; Milner 2021; Wu 2021, Gallego et al. 2022.

Offshoring vs Automation

Argument

- Individuals perceive economic reality through group identity

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- They care not only about their own material well-being, but also their status within society and the status of their group

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- Offshoring activates identity concerns in ways that automation does not, benefiting an identifiable out-group: foreigners

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- Consequence: Racialized economics (Sides et al 2018), economic reality gets refracted through an identity lens

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- Offshoring activates identity concerns in ways that automation does not, benefiting an identifiable out-group: foreigners
- Consequence: Racialized economics (Sides et al 2018), economic reality gets refracted through an identity lens
- Relevant for white Americans as high-status demographic majority: They believe that the average offshoring layoff affects more white Americans.

Hypotheses

Political consequences:

- Higher demand for populism
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Main empirical implications:

1. Offshoring triggers more demand for radical political action than automation
2. Effect driven by those who perceive the greatest harm to their (racial/ethnic) group as a result from offshoring.

Experimental Design

Data:

- Original survey through the company *Respondi*
- Nationally representative sample – in terms of race, age, employment status, gender, and region
- 3,505 US adult respondents (online panel)
- Conducted from Dec 9, 2021 to Jan 7, 2022
- Pre-analysis plan registered with EGAP (Dec 4, 2021)
- McGill's Research Ethics Board Office approval (Jan 21, 2021).

Vignette Experiment

Imagine the following event: 1,000 employees of a company in your area are being laid off because: *[randomized order, one scenario out of three]*
- the company is moving its production abroad.
- new technology is replacing human workers.
- the company is going bankrupt.

How much do you agree with the following statement (*0 - Completely disagree, 10 - Completely agree*):
It is the role of political leaders to prevent layoffs due to:
- a company moving its production abroad?
- new technology replacing human workers?
- a company going bankrupt?

[one scenario, matching the randomly assigned scenario]

On a scale where 0 means the worst and 10 means the best, which leader would be best at preventing layoffs like these? *[randomized order of the questions]*
- An experienced politician.
- A political outsider.
- A politician who listens to the experts.
- A politician who listens to the people.
- A politician who strictly follows the rules to serve people's needs.
- A politician who does not feel constrained by the rules to serve people's needs.
- A politician who condemns violence under any circumstance.
- A politician who understands that using force is sometimes required to bring about positive change.
- A politician who does everything they can to keep partisan divisions from splitting the nation apart.
- A politician who does whatever it takes to help their local constituents, even if it upsets other people in the country.

Main Model Specification

Independent Variables

- 3 treatments: automation, offshoring, bankruptcy (baseline)
- Questions to elicit prior beliefs about who bears the costs

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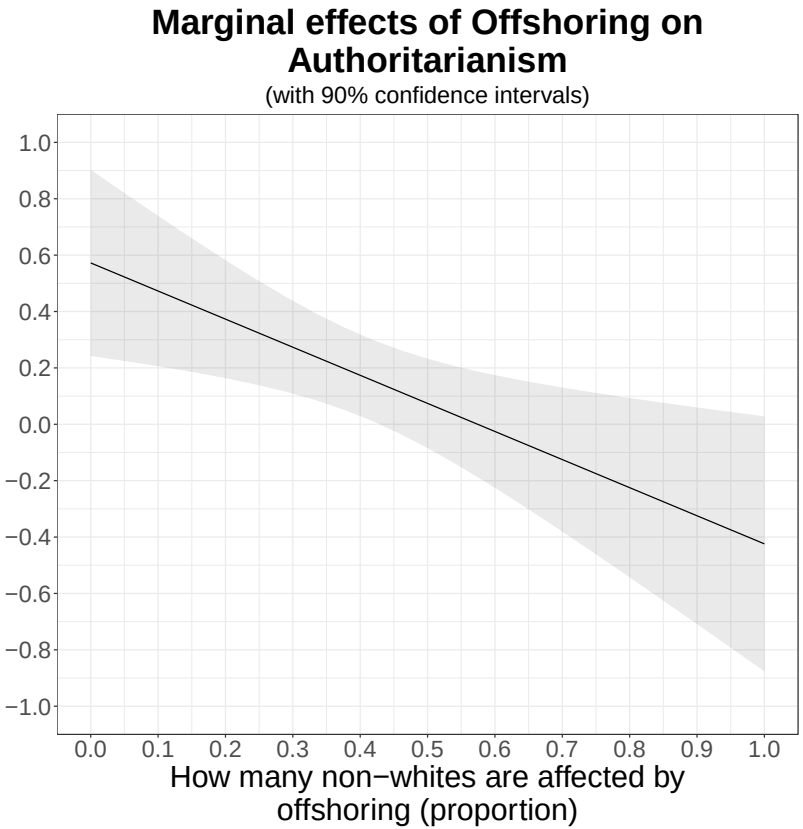
Outcomes

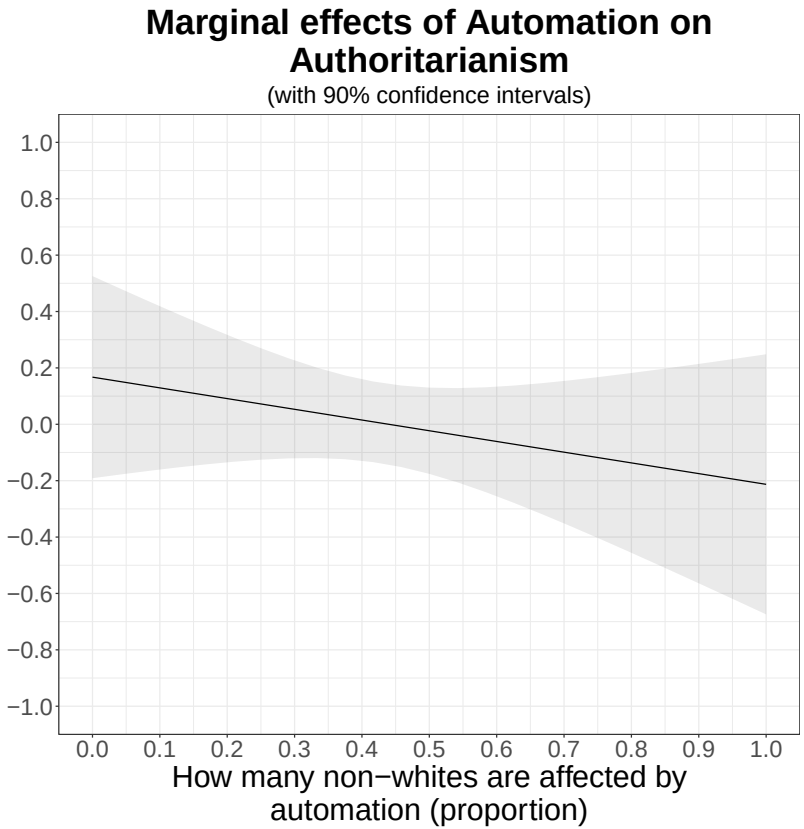
- Should government prevent layoffs?
- Populism: (i) a political outsider; and (ii) a politician who listens to the people
- Authoritarianism: a politician (i) who understands that using force is sometimes required to bring about positive change; (ii) who does not feel constrained by the rules to serve people's needs; (iii) who does whatever it takes to help their local constituents, even if it upsets other people in the country.

Main Findings

	Prevent Layoffs (1)	Populism (2)	Authoritarianism (3)
Offshoring	1.423***	0.066	0.230***
	(0.110)	(0.071)	(0.082)
Automation	0.850***	0.064	0.059
	(0.107)	(0.071)	(0.080)
Constant	5.263***	6.354***	5.296***
	(0.344)	(0.211)	(0.241)
$p(\beta_{\text{Offshoring}} = \beta_{\text{Automation}})$	0.000	0.97	0.03
Controls	Yes	Yes	Yes
Observations	3505	3505	3505

Distributional Consequences of Shocks on Race (Beliefs)





Other Cleavages

	Populism (1)	Authoritarianism (2)
Offshoring * Non-whites affected by offshoring	−0.811**	−0.996**
	(0.392)	(0.441)
Automation * Non-whites affected by automation	−0.229	−0.380
	(0.390)	(0.467)
Offshoring * Women affected by offshoring	0.170	0.543
	(0.453)	(0.530)
Automation * Women affected by automation	0.257	−0.041
	(0.450)	(0.531)
Offshoring * Non-college graduates affected by offshoring	0.242	−0.455
	(0.300)	(0.336)
Automation * Non-college graduates affected by automation	−0.331	0.039
	(0.322)	(0.350)
Offshoring * Service workers affected by offshoring	−0.510*	−0.045
	(0.297)	(0.351)
Automation * Service workers affected by automation	−0.231	−0.026
	(0.309)	(0.373)
Offshoring	0.344	0.586**
	(0.218)	(0.258)
Automation	0.301	0.173
	(0.207)	(0.237)

Additional Evidence

Other tests:

- What predicts racialized economics: Being white, male, old, conservative, living in rural America, and working in manufacturing
- Not driven by pre-treatment attitudes
- Use of force and divisiveness drive authoritarianism
- Observational evidence using ANES restricted data.

Conclusion

Key finding:

- "Because the scarring effects of job losses are the same whether imports, robots, or a virus is responsible, responses to the damage should not depend on the identity of the culprit." (G. Hanson, 2021)
- We show that the "identity of the culprit" is crucial to understand the political consequences of economic shocks, because group identity mediates their economic effects.

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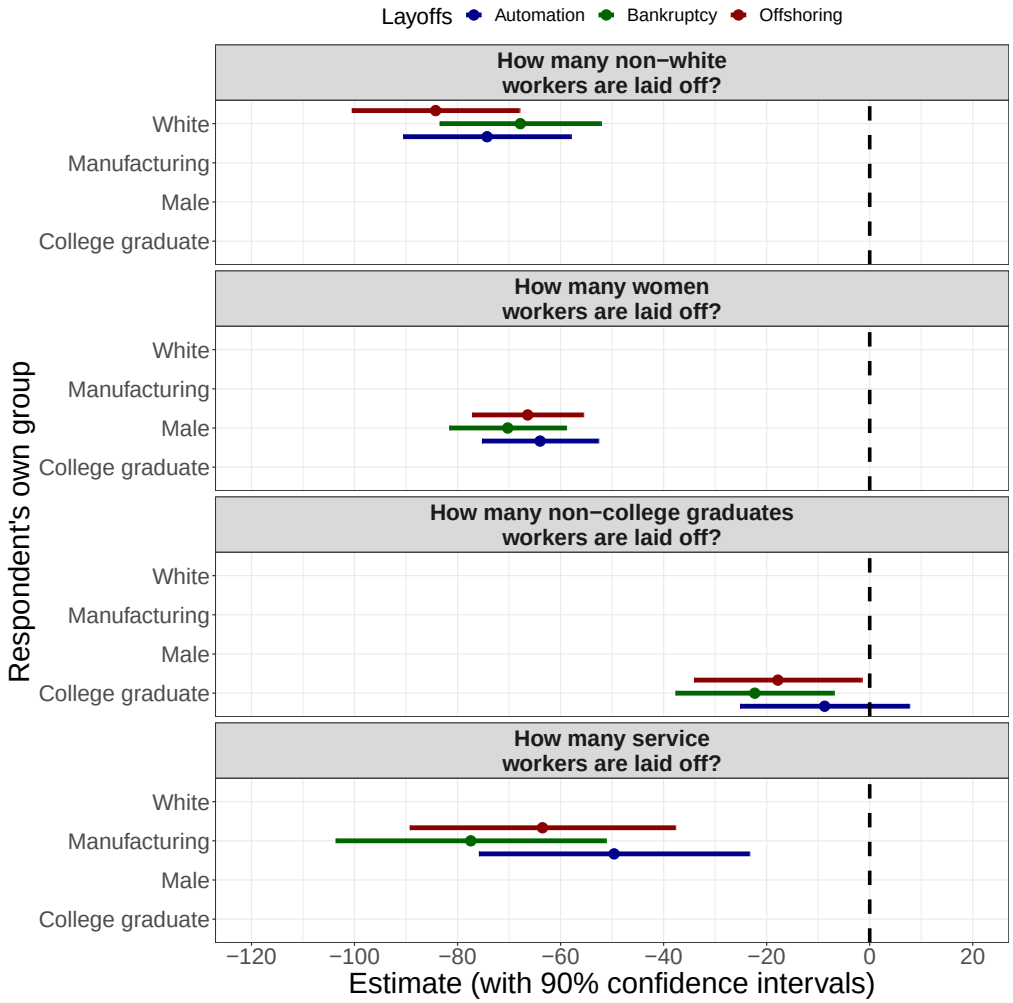
Discussion:

Strong version of our argument: The globalization backlash of the last decade is a white phenomenon. Looking at non-white Americans, there is considerable economic pain, but no backlash to speak of.

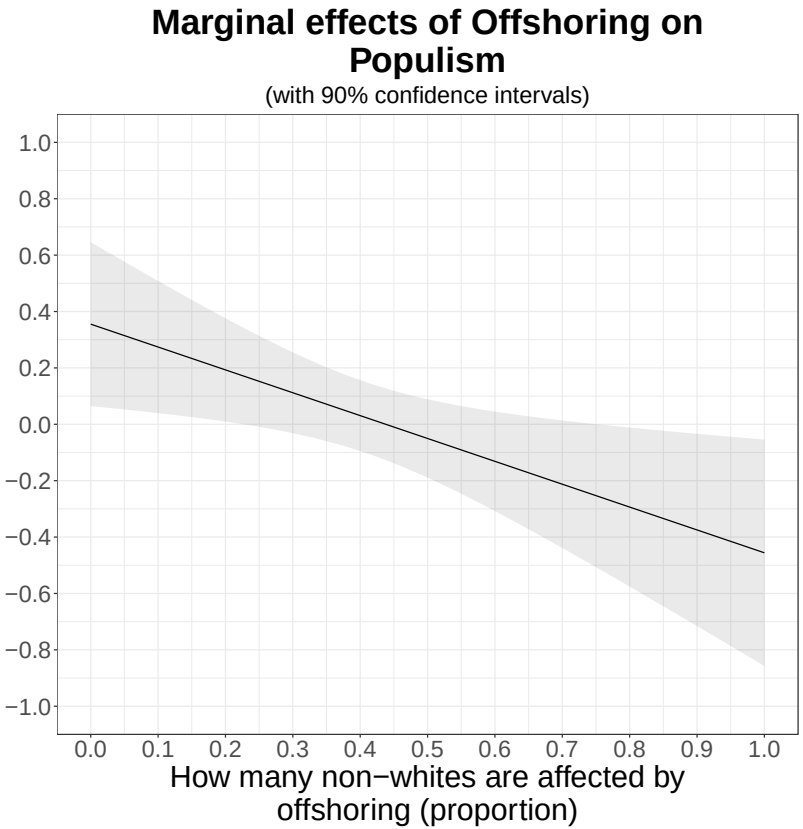
Many thanks!

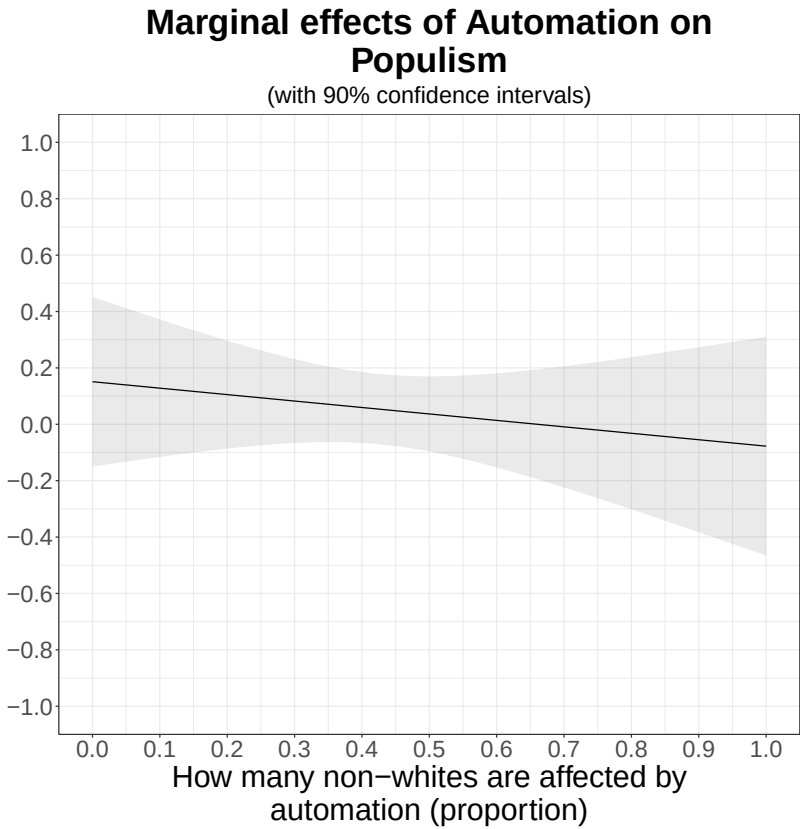
Additional Evidence

In-group Victimization



Distributional Consequences of Shocks on Race (Beliefs)





Racial Beliefs

	Guesses non-whites offshoring layoffs	Guesses non-whites automation layoffs
White	−56.23 (10.57)***	−50.28 (10.55)***
Big city residence	46.65 (8.47)***	44.22 (8.76)***
Female	43.12 (8.38)***	33.63 (8.52)***
Age under 36	31.22 (10.12)***	26.90 (10.19)***
Region (South)	21.48 (8.35)**	17.49 (8.48)**
Liberal ideology	19.35 (11.73)*	40.21 (11.87)***
Manufacturing job	−33.27 (14.13)**	−40.18 (14.82)***
Nationalism	−19.28 (4.28)***	−16.16 (4.30)***
Constant	384.77 (18.91)***	405.01 (19.23)***
Observations	2930	2930

Support for Redistribution (pre-treatment)

	Prevent Layoffs (1)
Offshoring	1.114^{***}
	(0.119)
Automation	0.759^{***}
	(0.118)
Offshoring * Low redistribution support	1.069^{***}
	(0.275)
Automation * Low redistribution support	0.346
	(0.244)
Low redistribution support	-2.391^{***}
	(0.181)
$p(\beta_{\text{Offshoring}} = \beta_{\text{Automation}})$	0.002
Controls	Yes
Observations	3505

Support for Globalization (pre-treatment)

	Populism	Authoritarianism
	(1)	(2)
Offshoring	0.079	0.223**
	(0.075)	(0.087)
Automation	0.040	0.045
	(0.074)	(0.086)
Low globalization support	0.231	−0.258
	(0.150)	(0.170)
Low globalization support x Offshoring	−0.041	0.013
	(0.206)	(0.229)
Low globalization support x Automation	0.156	0.050
	(0.207)	(0.224)
$p(\beta_{\text{Offshoring}} = \beta_{\text{Automation}})$	0.61	0.037
Controls	Yes	Yes
Observations	3505	3505

Individual Items

	Listens to People (1)	Political Outsider (2)	Unconstrained by rules (3)	Does not rule out force (4)	Accepts divisiveness (5)
Offshoring	0.110	0.023	0.098	0.207*	0.386***
	(0.084)	(0.105)	(0.121)	(0.112)	(0.105)
Automation	0.042	0.086	0.012	0.003	0.163
	(0.084)	(0.104)	(0.118)	(0.111)	(0.105)
Constant	7.767***	4.941***	5.380***	5.007***	5.501***
	(0.252)	(0.317)	(0.355)	(0.342)	(0.330)
$p(\beta_{\text{Offshoring}} = \beta_{\text{Automation}})$	0.42	0.54	0.47	0.065	0.03
Controls	Yes	Yes	Yes	Yes	Yes
Observations	3505	3505	3505	3505	3505

Other Mechanisms

White sample:

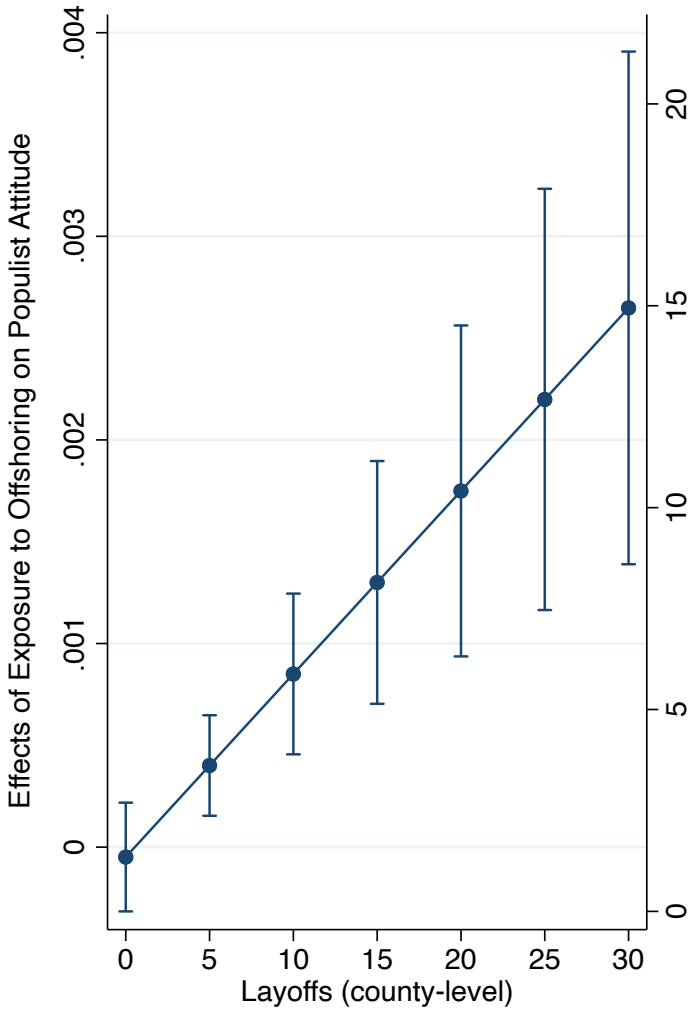
- Whites: Offshoring leads to greater harm to the US position in the world
- Whites: Offshoring worsens US workers' welfare link and improves foreign workers' condition
- Whites: Loss of social status if employed in offshorable occupations
- Whites: Less job identification if employed in offshorable occupations
- Whites: More race identification if employed in offshorable occupations
- Whites not affected by offshoring and automation more than non-whites.

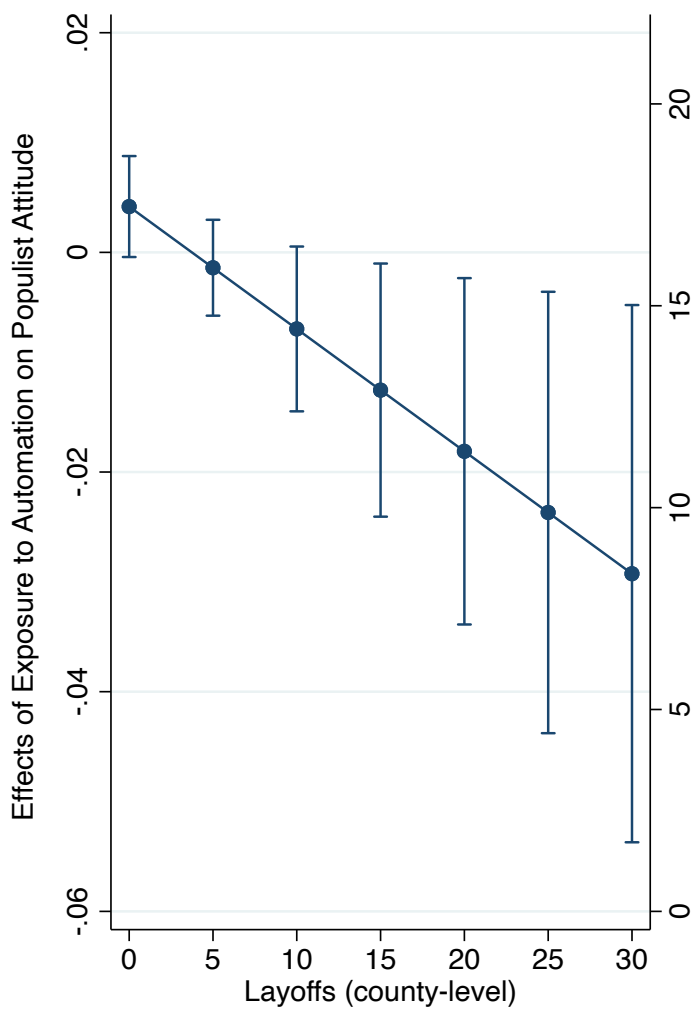
Observational Analysis

Equation

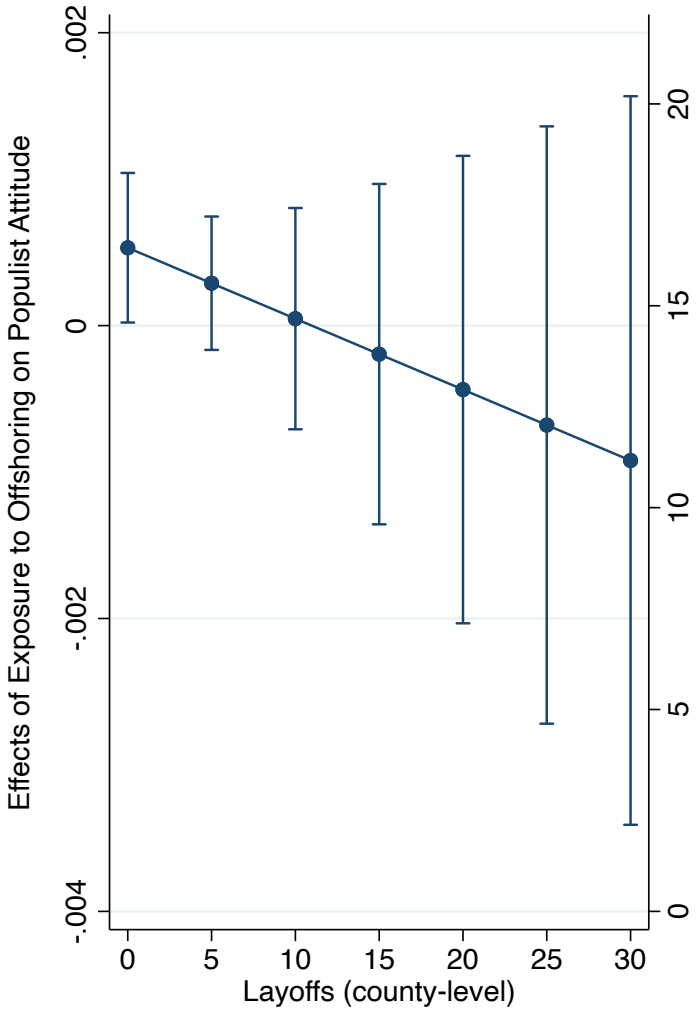
$$
\begin{aligned}
Y_{ic,t} = \alpha + \gamma_{ct} + \beta_1 Exposure\ Off_{i,t} + \beta_2 White_{i,t} \\
+ \beta_3 Exposure\ Off_{i,t} \times White_{i,t} + \beta_4 Layoffs_{c,t} + \beta_2 White_{i,t} \\
+ \beta_5 Exposure\ Off_{i,t} \times Layoffs_{c,t} \\
+ \beta_6 Exposure\ Off_{i,t} \times White_{i,t} \times Layoffs_{c,t} \\
+ \beta_7 X_{i,t} + \beta_8 Exposure\ Off_{i,t} \times X_{i,t} + \beta_9 Layoffs_{c,t} \times X_{i,t} \\
+ \beta_{10} Exposure\ Off_{i,t} \times X_{i,t} \times Layoffs_{c,t} + \epsilon_{ic,t}.
\end{aligned}
$$

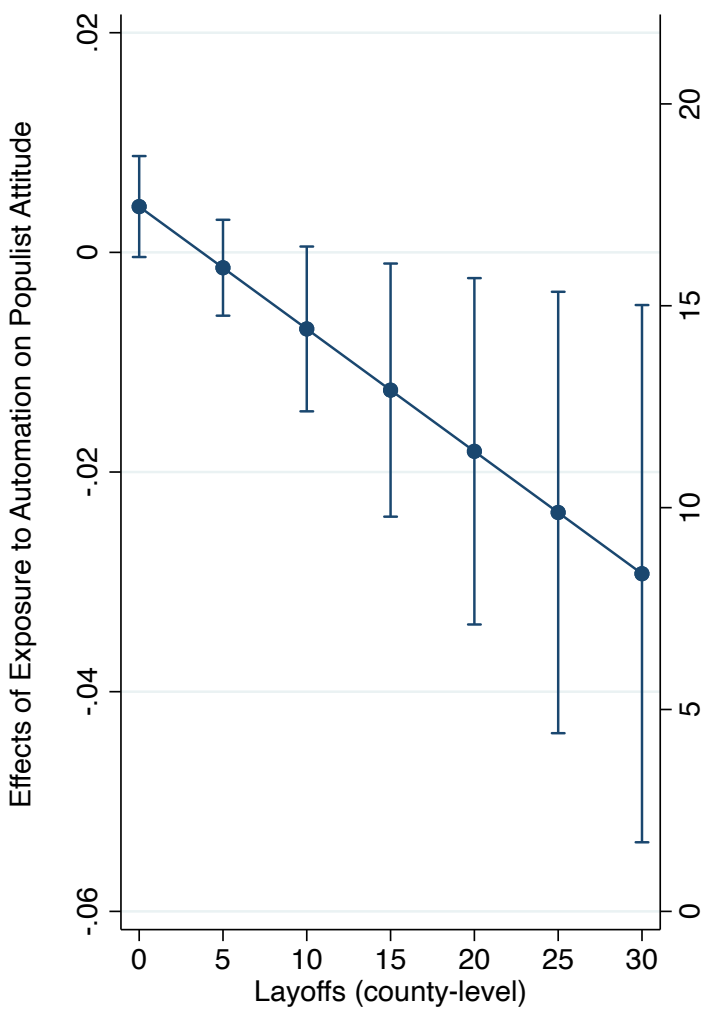
The White Sample (ANES analysis)





The Non-white Sample (ANES analysis)





Main results (county level, ANES)

	(1)	(2)	(3)	(4)	(5)
	OLS				
	Populist Attitude				
	White	Nonwhite	Full	White	Nonwhite
White			0.02968		
			(0.022)		
Layoff	0.00073	0.00009	0.00187	-0.00714	0.00319
	(0.001)	(0.002)	(0.001)	(0.007)	(0.010)
Exposure to offshoring	-0.00005	0.00053*	0.00079	-0.00048	0.00081
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Exposure to automation	0.00417	-0.00128	-0.00658	0.00389	-0.00140
	(0.003)	(0.005)	(0.004)	(0.005)	(0.011)
White*Layoffs			-0.00178		
			(0.002)		
White*Exposure to offshoring			-0.00097		
			(0.001)		
White*Exposure to automation			0.01281**		
			(0.004)		
Layoffs*Exposure to offshoring	**0.00009***	**-0.00005**	-0.00005	0.00023	0.00009
	(0.000)	**(0.000)**	(0.000)	(0.000)	(0.001)
Layoffs*Exposure to automation	**-0.00111****	**-0.00047**	-0.00060	0.00003	-0.00037
	(0.001)	**(0.001)**	(0.000)	(0.002)	(0.006)
White*Layoffs*Exposure to offshoring			**0.00014****		
			(0.000)		
White*Layoffs*Exposure to automation			**-0.00080**		
			(0.001)		
Layoffs*Exposure to offshoring*Post2004				**-0.00016**	**-0.00012**
				(0.000)	**(0.001)**
Layoffs*Exposure to automation*Post2004				**-0.00114**	**-0.00008**
				(0.002)	**(0.006)**
Constant	0.45268***	0.29542***	0.37600***	0.45541***	0.29494***
	(0.028)	(0.039)	(0.048)	(0.028)	(0.039)
Observations	6,507	2,664	9,369	6,507	2,664
R-squared	0.166	0.161	0.132	0.167	0.163
Controls	Yes	Yes	Yes	Yes	Yes
County FE	Yes	Yes	Yes	Yes	Yes
Wave	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Model Specification

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- ANES Restricted Data Access (1996-2016)

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Indipendent Variables

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- Layoffs (QWI) (county level)
- Dummy for whites (excluding Latinos).

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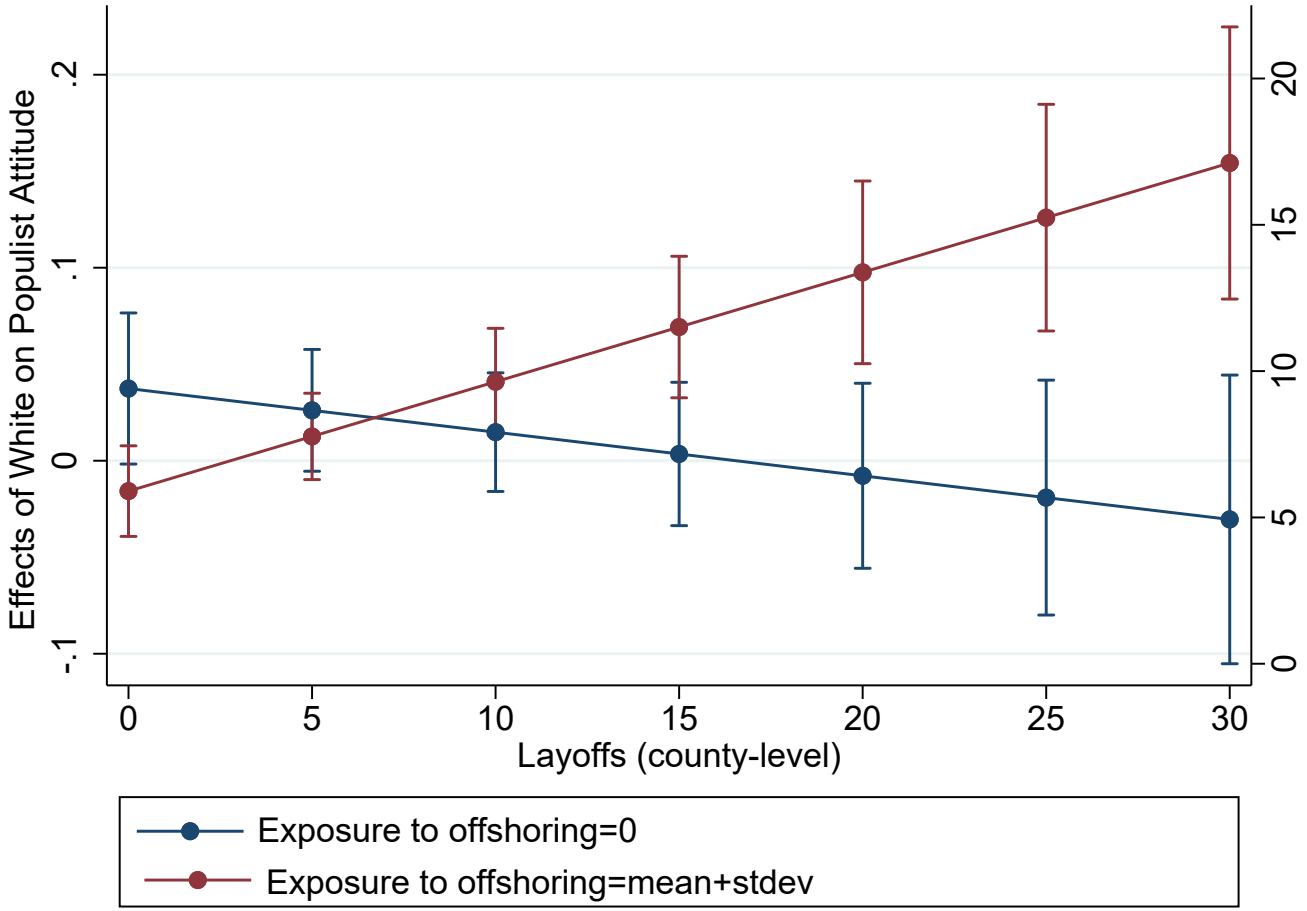
Outcomes

- 1) Government's trust; 2) Public officials don't care much what people like me think; 3) People running the government are crooked; and 4) Government is pretty much run by a few big interests looking out for themselves.

Observational Analysis (county-level): Offshoring



Observational Analysis: Automation