

Identity Politics and Trade Policy

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■ Recent years have witnessed a dramatic reversal of trade policies in some countries.

- Interest groups appear not to be the main driver of this shift.
- Anti-globalization rhetoric appears to be addressed to broad segments of the population.

What drives these political shifts?

"[...] not only their own material self-interests but also concerns for members of those groups in society with whom they identify" (p.1102)

→ Identity politics play a role in shaping voters' preferences over trade policy.

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- The political space is multi-dimensional, with economic and non-economic cleavages impacting economic policy at the same time.
 - Individuals care about the well-being of those they perceive to be similar to themselves.

Why does it matter?

- Individuals compare themselves to a prototypical group member and derive satisfaction from the status that group enjoys in society [Shayo, 2009]

→ Optimal trade policy needs to satisfy a social identity equilibrium.

■ The setting of Grossman and Helpman (2021)'s theory is based on the Heckscher–Ohlin trade model:

- Two factors of production in a small country (price-taker).
- Two goods, an export good and an import-competing good.
- More-skilled labour and less-skilled labour.
 - Identify as "upper-class" and "middle-class".
 - Also potentially identify more broadly with the "nation".
- The polity chooses an ad valorem tariff on the import good.

■ What would one expect from a purely economic calculation?

- The distributional benefits that the less-skilled workers derive from limiting imports result in a preference for higher tariffs.
- On the opposite side, high-skilled workers support a lower tariff.

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■ A bias against trade emerges in political equilibrium when individuals of any skill level identify with the broad nation.

Why?

- People gain utility from group status proportional to the degree of similarity with the group stereotype.
 - The nation needs to be more homogenous.
 - Inequality aversion between less-skilled and high-skilled workers.
 - Mitigates the opposition of high-skilled workers towards low-skilled workers.
 - A small, but potentially significant, upward change in the optimal tariff.

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What role do populists play?

- Populist redefine the nation by excluding the "upper-class"
 - Low-skilled workers are no longer inequality adverse.
 - Low-skilled workers identify only with their economic group, and not the broad nation.
- Assuming the upper-class is sufficiently small:
 - Demand for protectionism increases from low-skilled workers, and there is not opposite trend of sufficient size.
 - A rise in the optimal tariff rate.

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■ Is this the only way non-economic groups affect preferences?

■ Surveys reveal that people misconceive their relative economic position. What could this mean for trade policy?