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The Politics of (Anti-)Globalization:
What Do We Learn from Simple Models?

by

David Greenaway and Douglas Nelson

GEP

Leverhulme Centre
for Research on Globalisation and Economic Policy

The Authors

David Greenaway is a Professor in the School of Economics and Director of GEP, University of Nottingham; Doug Nelson is a Professorial Research Fellow in GEP and Professor at Tulane University.

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Abstract

Our focus is a preliminary investigation of the link between democratic politics and the stability of globalization in three steps. First, we briefly develop two key distinctions that provide an analytical framework for our discussion. Specifically, we argue that most of the literature on political economy of trade and immigration fails to distinguish between the average level of a policy (say, a tariff) and the variance of that policy (e.g. the dispersion of the tariff across sectors), and we will distinguish between two very broad classes of political economy model (Weberian models and interest group models). Second, we will consider how well these models account for policy outcomes (both mean and variance) in trade and immigration policies. We conclude that the pattern of successes and failures is difficult to account for within any of the standard political economy frameworks. This will lead us to the third part of the paper in which we propose what, for want of a better label, we call the social values extension of both the Weberian and interest group models.

Outline

Non-Technical Summary

Sometimes lost in the attempts to determine whether current levels of globalization are higher or lower than those in the late-nineteenth century is the fact that the 1930's was a period of 'de-globalizatio'. Simple technological determinism misses the essential role of politics in supporting (or undermining) globalization. Such determinism also distracts from at least one fundamental difference between the late-19th century globalization and the late-20th century version: the former was characterized by far more restricted democratic politics in the core countries than the latter. As we observe an increasingly confident and aggressive anti-globalization movement, proponents of a liberal international order (to say nothing of stable liberal *domestic* political economies) need to think hard about both the roots of anti-globalism and the nature of its politics. In this paper we focus on the latter.

Our focus is a preliminary investigation of the link between democratic politics and the stability of globalization. This is set out in three steps. First, we briefly develop two key distinctions that will provide an analytical framework for our discussion. Specifically, we argue that most of the literature on the political economy of trade and immigration fails to distinguish between the average level of a policy (for example a tariff) and the variance of that policy (for instance the dispersion of the tariff across sectors). In discussing these we distinguish between two very broad classes of political economy models (Weberian models and interest group models). Second, we consider how well these models account for policy outcomes (both mean and variance) in trade and immigration policies. We conclude that the pattern of successes and failures is difficult to account for within any of the standard political economy frameworks. This leads us to the third part of the paper in which we propose what, for want of a better label, we call the *social values extension* of both the Weberian and interest group models.

1. Introduction

Contrary to some of the more overheated rhetoric on globalization, this process is, in fact, quite reversible. Sometimes lost in the attempts to determine whether current levels of globalization are higher or lower than those in the late-nineteenth century is the fact that globalization came to a screaming halt in the 1930's.[1] Simple technological determinism misses the essential role of politics in supporting (or undermining) globalization.[2] Such determinism also distracts from at least one fundamental difference between the late-19th century globalization and the late-20th Century version: the former was characterized by far more restricted democratic politics in the core countries than the latter. As we observe an increasingly confident and aggressive anti-globalization movement, proponents of a liberal international order (to say nothing of stable liberal *domestic* political economies) need to think hard about both the roots of anti-globalism and the nature of its politics. In this paper we focus on the latter.

Our focus is a preliminary investigation of the link between democratic politics and the stability of globalization in three steps. First, we briefly develop two key distinctions that will provide an analytical framework for our discussion. Specifically, we will argue that most of the literature on political economy of trade and immigration fails to distinguish between the average level of a policy (say, a tariff) and the variance of that policy (e.g. the dispersion of the tariff across sectors), and we will distinguish between two very broad classes of political economy model (Weberian models and interest group models). Second, we will consider how well these models account for policy outcomes (both mean and variance) in trade and immigration policies. We conclude that the pattern of successes and failures is difficult to account for within any of the standard political economy frameworks. This will lead us to the third part of the paper in which we propose what, for want of a better label, we call the *social values extension* of both the Weberian and interest group models.

2. Modeling the Domestic Politics of Globalization: Trade and Immigration

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[1] James (2001) is an excellent treatment of the reversal of globalization during the great depression. Bordo, Eichengreen and Irwin (1999) present a useful overview of the data on globalization in the late-19th and late-20th Centuries. On these latter issues, also see the papers collected in Bordo, Taylor, and Williamson (2003).
[2] While much political economy research on globalization focuses on the ways in which globalization constrains democratic politics, in this paper we emphasize the ways in which democratic politics constrains globalization.

At least among economists, there are two broad approaches to the systematic explanation of policy—the Weberian model and the interest group model.[3] In both cases, analysis proceeds by constructing a model of the underlying economy of an essentially neoclassical sort. That is, we assume a given set of households and firms: the former are characterized by preferences over final consumption goods as well as endowments of goods and factors; and the latter by technologies for transforming inputs into outputs. Most research on trade and immigration further simplifies by assuming that: households are endowed only with factors of production and firms produce only final consumption goods; technologies are constant returns to scale; markets for all goods and factors exist and are perfectly competitive; and there are no externalities in production or consumption.[4] Finally, it is quite often assumed that all consumers share the same (generally homothetic) preferences.

With a well-specified model of the economy in place, we can complete the political economy model by identifying the politically relevant agent(s), the policy space, and the institutions that constrain policy choice. In both the Weberian and the interest group model, individual household preferences play a fundamental role. In the former an ideal bureaucrat seeks to choose the policy which is, in some sense, best for society. For the economist, this is an invitation to transform the Samuelsonian social planner of welfare economics into Weber's ideal bureaucrat, thus transforming normative into positive theory. If we are willing to endow the ideal bureaucrat with a utilitarian objective function and assume that preferences are identical and homothetic (thus aggregable), the analysis becomes trivially easy.

The group politics (class of) model is inherently more complex. Where the ideal bureaucrat operates directly on individual welfares and selects an optimal policy based on his or her own objective function, the analysis of group politics proceeds from *individual preferences over policy*. Each of these must be derived relative to household preferences over final consumption, for each household, and then be mapped *somehow* into a final policy choice. It is well-known, at least since Arrow's (1951) pioneering work, that this final

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[3] We abstract from the "stuff happens" approach, according to which all policy acts are specific and require specific explanation involving shifting mixes of ignorance and chance along with the sort of systematic effects on which the Weberian and interest group models focus.

[4] There are, of course, a number of more technical assumptions that yield sufficient structure to carry out standard comparative static analysis. Virtually any trade theory text develops these assumptions and the fundamental results derivable from such models. Particularly useful texts are: Dixit and Norman (1980); Woodland (1982); and Wong (1995).

selection will not generally satisfy a small set of normative axioms intended to reflect minimally democratic commitments. The positive version of Arrow's theorem is that we cannot generally expect to predict an equilibrium policy based on detailed knowledge of preferences in a minimally complex institutional environment (i.e. we cannot generally expect a *preference-induced equilibrium* to exist).[5] As a result, all analyses make very restrictive assumptions on preferences, economic structure, and political institutions. Standard referendum models, such as Mayer's (1984) classic paper, generally assume identical, homothetic preferences with a key, but little noticed, assumption of single-peakedness over the one-dimensional policy space, and policy determination by direct referendum. Similarly, the currently popular model of Grossman and Helpman (1994) rests on an exceptionally restrictive model of preferences (identical quasi-linear), economic structure (perfect competition in all markets, specific-factors with a freely-traded Ricardian *numeraire*), and political institution (direct sale of clearly delimited policy to a unitary, rational policy-maker with a very simple objective function).[6] While these restrictions render the models highly dubious as frameworks for structural estimation, the clarity they bring makes them extremely useful as loose guides to both research and thinking about the future. It is this latter purpose for which we use them in this paper.

Specifically, we want to use the Weberian and group politics models to look at the ways that domestic politics respond to changes in international trade and immigration. Because we are particularly interested in the potential for transformation in support for globalization, we argue that it is essential to distinguish between change in the *average level* of policy and in the *dispersion of policy* around that average. For example, in the case of international trade policy (considered as level of protection), it is well known that there was a break in the average level of US protection occurring around the time of the Reciprocal Trade Agreements Act of 1934 (RTAA). As Figure 1 shows, the U.S. went

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[5] The logic of this result has been developed in most detail for the case of majority rule in the context of more than one issue, but the point is quite general (as Arrow's theorem suggests). Among the many excellent presentations of this literature, see Riker (1982) for a sophisticated development of the relationship between results of this sort and the theory of democracy. For an admirably clear development of the formal theory, see Austen-Smith and Banks (1999).

[6] This should not be taken as a criticism of the theory. Both the Mayer and Grossman-Helpman models are paragons of political economy theory. Rather, we simply note that the attempt to capture the structure and dynamics of political economy for complex policy areas, like globalization, require radical simplification to get any results at all.

[Figure 1 about here]

from being a country characterized by rather highly variable tariffs around a high average, to quite stably low tariffs. While widely commented upon, this systemic transformation has received very little systematic research. At the same time, the variance of the tariff across sectors has continued to be substantial.[7] Similarly, overall levels of immigration have varied over time, while dispersion across sources of immigrants as well as a wide variety of other immigrant characteristics (skill/education, gender, age, family status) is also substantial.

The distinction between mean and variance in the dependent variable has not generally been made in systematic analysis of the political economy of globalization, so the next two sections consider this issue for trade and immigration policy in both the Weberian and group politics frameworks.

3. Understanding the Politics of Globalization: The Weberian Model

For our purposes, Max Weber's theory of the modern state characterizes the ideal state as autonomous from group pressure, unitary, and legitimate.[8] It is the first attribute that distinguishes the Weberian model from the group politics model. The second attribute (along with the rationality so central to all of Weber's analysis) allows us to treat state decision-making as if it were done by an individual. We will return later to legitimacy, at this point we simply assume that the objective function characterizing the policy preferences of the state is widely accepted as legitimate. In fact, we will assume that the state's objective is to maximize social welfare—that is, we now conceive of the state as an ideal Samuelsonian social planner.

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[7] As a result of formula cuts in the GATT/WTO, the absolute dispersion has almost certainly fallen. However, I know of no research suggesting whether this dispersion has fallen relative to the average (i.e. change in the variance). Furthermore, the domestic factors affecting the dispersion have certainly changed far less than whatever are the factors that determine the average.

[8] See Weber (1978) for the classic treatment and Weber (1921) for a short, but admirably clear, development of key aspects of this theory. Recall that this is an *ideal* type. Actually existing states will possess these properties only to a greater or lesser extent. This is directly parallel to the treatment of individuals in standard microeconomic theory.

It is well-known that, under quite general conditions, free trade can be shown to dominate protection for a small economy. From a comparative static perspective, again for a small country, a liberalizing change is welfare improving.[9] There are, of course, a virtually infinite number of exceptions. The theory of economic policy, as applied to international trade policy, deals with the major cases of such exceptions.[10] For a country like the U.S. it might seem that the optimal tariff argument (application of monopoly power in trade) would be relevant, but there is very little evidence that politicians in the U.S. have ever considered this a credible argument for protection. As a practical matter, the optimal tariff structure of the U.S. would be as complex as the economy itself. Thus, at least when thinking about the average tariff, free trade is probably as good a baseline as any for thinking about the optimal policy. The striking thing about U.S. policy (in common with virtually all major trading countries), as illustrated in Figure 1, is that current policy is strikingly close to this optimum. With an average of tariff of less than 4% in all the main trading countries of the industrial world, the Weberian model would seem to do an excellent job of accounting for current trade policy in the average sense.[11] Furthermore, again as illustrated for the U.S. in Figure 1, the direction of change in the average has been consistently in the direction of the optimum.

When we turn to dispersion of tariff rates, the story would appear to be quite different. While a very small number of countries have a uniform tariff (e.g. Chile), not a single major trading nation has adopted such a policy. Not only are statutory tariff rates highly varied, but administered protection mechanisms generate rates that are sizable multiples of bound rates for very specific imports. While any one of these rates might be justified in terms of the theory of economic policy, the *structures* would appear to be incoherent from an overall perspective. Thus, while the Weberian model seems to provide a coherent account of the average tariff, it

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[9] For the analysis of policy change, one of the essential assumptions, especially from a positive perspective, is the existence of an ideal redistributive mechanism (lump-sum transfers). While such a mechanism does not exist, the presence of a sizable welfare state surely goes a long way toward moving a potential welfare improvement in the direction of an actual welfare improvement. Bordo, Eichengreen and Irwin (1999), among others, argue that the existence of a welfare state has played a role in supporting trade liberalization for precisely this reason.

[10] See Bhagwati, Panagariya, and Srinivasan (1998) for an admirably clear presentation of all the issues in this paragraph, and the theory of economic policy in particular.

[11] The Weberian model does not, at least without some additional work, provide an account for why the tariff was so high prior to the change that occurred in the 1930s. It is in some sense correct, but trivial, to say that the content of the state's objective function changed. What is clearly needed is a more general account of the content of state preferences and sources of change in those preferences. We return to this question following our discussion of group politics.

appears to fail completely to account for the variance. This, in fact, is the opening wedge for the group politics model of trade policy-making that we consider in the next section.

When we turn to immigration policy, the content of the state's objective function is considerably less certain. Immigrants carry many traits that enter only very indirectly in economic welfare (usually proxied by income), but may be highly relevant to social welfare more broadly construed. However, if we apply the same objective function that we used for the case of trade policy, in the context of the same sort of underlying economy, the implication is fairly clear. Even in this case, there are tricky issues about where to count the welfare of the immigrants, but if we use the same utilitarian framework and perfectly competitive baseline, something like free migration would seem to be the central policy prediction of the Weberian model.[12] However, where most of the industrial countries that make up the core of the liberal international economy are committed to something approximating free trade, none of them are committed to anything like free immigration.[13] With considerably less confidence than for the case of trade, we conclude that the Weberian model fails to account for average immigration policy.

As with trade, we suppose that the "average" immigration flow (e.g. the annual total) is fixed, and consider the allocation of that number across categories of potential immigrants. Sticking with national income as shorthand for aggregate welfare, Borjas (1999) argues that policy should seek to admit "high quality" immigrants—that is, immigrants with high value of marginal product given the existing technology, tastes and endowment in the host country. Borjas further suggests that this can be implemented by focusing on labor market properties (education or other measures of relevant skills) as well as any directly productive capital that

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[12] One of the earliest treatments of this issue is by Henry Sidgwick (1891). Sidgwick concludes that free immigration is the implication of a thoroughgoing utilitarian position, but ultimately rejects that position on practical political grounds. Borjas (1999) simply asserts that maximizing national income is the obvious objective function for immigration policy. In fact, one is far less able to predict a scholar or activist's position on immigration based on knowledge of the usual predictors (political commitments [left v. right], normative position [utilitarian v. Rawlsian v. libertarian v. communitarian], etc.) than it is to predict their position on trade policy. Most economists are perfectly willing to contemplate a smoothly operating redistributive system when advocating free trade, but see only barriers to such redistribution when considering immigration.
[13] Contemporary levels of immigration are quite high—approaching the extraordinary levels of the 19th Century. These levels, however, only very imperfectly reflect policy. In fact, all countries maintain highly restrictive immigration regimes that tend to be overwhelmed by large illegal flows as well as refugee flows that are only very tangentially related to policies of the sort considered by models of immigration policy. On the evolution of immigration policy, which includes some comparison with trade policy, see the important work reported in Williamson (2004), Hatton (2005), and Hatton and Williamson (2006).

might be brought.[14]   While most industrial countries are constrained by non-economic objectives such family unification to give some weight to these goals, virtually all countries give some considerable weight to such economic considerations. By comparison with trade policy, and again with less confidence than for the case of trade policy, we conclude that the Weberian model does a better job of accounting for variance in immigration policy.[15]

4. Understanding the Politics of Globalization: The Group Politics Model[16]

As we noted above, it is the failure of the Weberian model to account for cross-section variance in protection that is the usual opening wedge for the group politics (class of) model. We are using the phrase "group politics model" to refer to all models in which policy is determined fundamentally by more-or-less organized citizen preferences, where those are determined by selfish preferences defined over bundles of final consumption goods. Based on those, it is straightforward to derive preferences over policy. Under the standard assumptions that fundamental preferences are identical across households and factor markets are perfectly competitive so all factors of a given type earn the same rental in equilibrium, preferences over policy are primarily driven by the effect of policy on factor rentals and any government transfers. That is, representing preferences with the indirect utility function:

$$\mu_h = \upsilon^h\left(\mathbf{p};\gamma^h\right); \text{ where } \gamma^h = \sum_{i \in I} r_i z_i^h + T_h, \qquad \textbf{(1)}$$

z_i is factor i ™ I, r_i is the return to factor i, T_h is the transfer to h, and h ™ H refers to a given household. Since the direct effect of increases in the elements of $\mathbf{p}$ on $\upsilon^h(\bullet)$ is negative for all households, through the effect on cost of consumption, heterogeneity in policy preference comes though endowment and transfer heterogeneity (i.e. $\mathbf{z}^h$ and T_h vary among households).

While the literature on the political economy of trade policy does not make the distinction between average and variance of policy, one approach is to think of low-

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[14] Borjas (1999) also suggests that, as a result of the close correlation between country of origin and labor market properties, country of origin could be used as a proxy for policy orientation.

[15] From a comparative perspective, countries vary considerably in the degree to which such economic objectives figure in the construction of immigration policy. For example, Australia and Canada have explicit point systems with sizable weight assigned to economic factors, while the U.S. system of preferences assigns much higher weight to non-economic factors. As with trade, explaining a shift in preferences, such as that implied by the U.S. Immigration Reform and Control Act of 1986, requires an explicit account of the preference shift from a Weberian perspective.

[16] This section provides only representative references. For a more detailed survey of the relevant research see Greenaway and Nelson (2005).

dimensionality models (i.e. models with one importable and one exportable good) as being about the average level of policy and high-dimensionality models (many goods, many factors) as being about its variance. For the low-dimensionality case, the comparative static effects of a change in trade policy are clear: the Stolper-Samuelson theorem yields factor-based preferences for the case of 2 intersectorally mobile factors and 2 goods; while the equivalent result for the case of 2 goods, 2 sector-specific factors and one mobile factor yields sector-based preferences. In terms of the equation above, these results tell us about the r_j, not about household income (or welfare). The way the models are usually used is to assume that each household is endowed with some quantity of a single factor, so that household income can be tied to returns to that factor. When we turn to the high-dimensionality case, things get considerably trickier. Only analytically local effects for single factor households can be determined, and these are unlikely to be very useful in thinking about the sorts of non-marginal changes that characterize the sorts of major change in policy that induce political economy analysis.[17] It is analytically straightforward to derive the effects of a change in the policy vector on household portfolios, but virtually impossible to identify these portfolios in the data.[18] It is probably not surprising that, even in papers that use data with many factors and many goods, the fundamental intuition for interpreting the results runs off low-dimensionality results like Stolper-Samuelson or restrictive economic structures like the specific-factors model.

[Table 1 about here]

For the case of the average level of protection, we can draw on the sizable literature on citizen preferences over trade policy based on public opinion surveys. As columns 2 and 3 in Table 1 (from Mayda and Rodrik, 2005) illustrate, with the exceptions of the Netherlands and Japan, majorities of respondents to questions about support for trade restrictions show majorities in favour.[19] Loosely speaking, in the context of the referendum model, the median

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[17] See Jones and Schienkman's (1977) analysis of friends and enemies for the classic presentation. Ethier (1984) is the industry standard presentation of the results in the high-dimensionality case.
[18] See Cassing (1981) for the first paper that showed how using such portfolios allow identification of determinate household income effects, and thus preferences over policy, in the high dimensional case. For useful generalizations see Lloyd and Schweinberger (1997) and Lloyd (2000).
[19] Based on ISSP question: "(Respondent's country) should limit the import of foreign products in order to protect the national economy". The pro- and anti- categories come from aggregating the "agree" and "strongly" agree, and "disagree" and "strongly disagree" responses.

voter in nearly all countries supports trade restriction. To the extent that we have historical data on such opinions, it would appear that in most industrial countries, for most historical periods (and for the period of dramatic liberalization beginning sometime in the 1930s in particular), the median voter has been a supporter of protection (or at least an opponent of further liberalization).[20] Without reference to the roots of preference, we can already see that the group politics model has trouble accounting for average policy. This is what we have elsewhere called the mystery of missing protection (Nelson, 2003; Greenaway and Nelson, 2005).[21]

Attempts to account for cross-sectional variation in protection (or liberalization) constitutes the core of empirical research on the political economy of trade. This large body of research ranges from essentially *ad hoc* search for correlates of sectoral protection, through work that is loosely motivated by one or another model of group pressure, to putative structural estimates that take a given model very seriously indeed. The results of this large literature, which examines tariff and non-tariff barriers, voting on trade policy by legislators, and implementation of the administered protection mechanism, are consistent with both informed knowledge about the actual politics involved in the making and enforcement of trade policy and (loosely) consistent with standard group pressure models.[22] In particular, variables intended to capture the return to political activity, the ability to organize, access (e.g. representation in key committees, chairmanship of key committees, etc.), and resources invested (e.g. PAC contributions and testimony in hearings on trade legislation) consistently and significantly appear with the signs predicted by the theory. Overall, our judgment is that these models do a rather good job of accounting for cross sectional variance in levels of protection.

The inference in group pressure models of immigration is the same as that for trade: we identify the predicted effect of immigration flows on citizen-agents and then identify an

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[20] Scheve and Slaughter (2001a) provides some of the historical data for the US.

[21] This is revealed most clearly in papers of the Goldberg-Maggi (1999) sort, in which a state 'preference' parameter accounts for the overwhelming majority of (lack of) protection in cross-section. Given that this parameter has no analytical foundation, these results are essentially the same as saying that the average level of protection is unaccounted for by the model.

[22] For surveys with good coverage of the empirical literature, see: Baldwin (1984); Anderson and Baldwin (1987); Rodrik (1995); Magee (1997); and Gawande and Krishna (2003). On administered protection, see Blonigen and Prusa (2003) and Nelson (2005).

equilibrium policy (or comparative static change in policy) based on the distribution of those preferences (or change in the distribution of those preferences). As with trade, for a first cut at explaining the average level of policy, we can examine the distribution of preferences over immigration policy without reference to the underlying determinants of preferences. Like trade (in fact, even more strongly so) the median voter would seem to reject liberalization of the immigration regime. Column 4 of Table 1, drawn from Mayda (2005), shows that in no country is there more than a small proportion of the population willing to support liberalization of a national immigration regime.[23] That is, in all countries polled, the median voter would seem to support a regime no less restrictive than the existing regime. Unlike trade, most of the governments involved have adopted restrictive regimes and, at least in recent years, have tightened up those regimes. Thus, at least with respect to average policy, the group pressure model performs reasonably well.

The situation is different when we turn to cross-section variance in policy. We have already noted that there are a number of possible ways in which immigrants could be differentiated, but we will focus on the one most commonly considered in the political economy literature: labor market characteristics and, specifically, skill. Most political economy research that focuses on direct labor market effects as the basis of policy preferences follows the literature in labour economics in assuming a single final output (GDP) produced by a variety of inputs, with a particular focus on various types of labor. This framework naturally drives all adjustment through the wage and makes the attachment of standard trade-theoretic political economy models particularly easy.[24] That is, for the small open economy (i.e. a country for which the **p** vector is fixed) an increase in the endowment of a factor (say, unskilled labor) reduces the return to that factor and raises the return to all others, while raising aggregate income. In the context of a lobbying model, all citizen-agents should resist

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[23] The question Mayda (2005) focuses on asks: "Do you think the number of immigrants to the country should be a) reduced a lot; b) reduced a little; c) remain the same as it is; d) increased a little; or e) increased a lot." The number reported in the table is the share of the population expressing a "pro-immigration" attitude—i.e. a response of d) or e).

[24] See Bilal, Grether and de Melo (2003) for a derivation of policy preferences over immigration policy, and for examples of papers that derive equilibrium immigration policy in such an environment see Grether, deMelo and Muller (2001) who use a median voter framework or Facchini and Willmann (2005) who use a menu auction framework.

immigration by factors that compete with their factor and support immigration by others.[25] The problem with this research is that, while there is a certain *prima facie* plausibility to this prediction, the existence of generally restrictive immigration regimes, and occasional outbreaks of aggressive anti-immigrant politics, seems far out of scale relative to estimated labor market effects of immigration.[26] Furthermore, public opinion data suggest that it is precisely those groups for whom there are statistically significant wage effects that are less opposed to immigration. Thus, where average trade policy is characterized by a "mystery of *missing* protection", variance of immigration policy is characterized by a "mystery of *too much* protection".

An alternative channel via which immigration might produce a political response based on material interest recognizes the presence of a redistributive state as an essential part of the political economy of immigration. In terms of equation (1), we need to focus on the T_h terms. In addition to a number of insightful, if informal, analyses of the effect of immigration on the welfare state (e.g. Freeman, 1986) a sizable literature has developed seeking to model

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[25] The theoretical extension to domestic and immigrant households endowed with multiple factors is as straightforward as its empirical implementation is difficult.

[26] With the exception of recent work by George Borjas (e.g. 2003), the overwhelming majority of research on labor market effects agrees that these are small and concentrated on very narrowly defined groups made up primarily of earlier cohorts of immigrants with essentially identical labor market traits. For a recent evaluation of this literature, see Card (2004). Borjas' work proceeds from a fundamental critique of earlier work based on comparison of local labor markets. The key claim is that the U.S. labor market is essentially national, since highly mobile workers will adjust their internal migration decisions to avoid labor markets faced with large immigration shocks. There are two problems with this analysis: first, Card (2001) finds little evidence of such effects on the pattern of migration by native workers; and, more importantly, from a political economy perspective, it is precisely the highly localized nature of public response to immigration that is most striking.

Gaston and Nelson (2000, 2002) argue that the standard trade theoretic model is identical to the standard labor theoretic model in all details but dimensionality. If there are at least as many productive sectors as intersectorally mobile factors of production, then Leamer's (1995) factor-price insensitivity result holds. Intuitively, and without taking factor-price insensitivity as a perfect description of reality, the trade theoretic model emphasizes adjustment on the output margin as an alternative to adjustment on the wage margin. Given that most estimates of wage adjustment are small, the *prima facie* plausibility of the trade model as a basic framework for intuition in this case seems established. As a matter of fact, technological change seems to have played a major role in this case. But that just pushes the analysis back to the issue of how to conceive of technological change. If such change was a random phenomenon, unrelated to the immigration shock, then we might still retain the labor model as our intuition driver. That is, citizen-agents unable to count on an appropriate technological shock, should still be expected to resist immigration based on an expectation of negative wage effects. However, if the technological change was a rational response to the immigration shock, then that is from the perspective of political economy modeling essentially the same as adjustment on the output margin. That is, rational agents should expect adjustments in input mix that will tend to protect the existing wage structure. Recent work by Ethan Lewis (2004a, b, 2005; Card and Lewis, 2005) presents strong evidence that the technological response is endogenous in this latter sense.

interactions between immigration and various aspects of the welfare state.[27]   While this work helps organize thinking about the topic, the results tend to be very model specific and cover a very wide range (with the varying results depending on which redistributive programs are considered [pensions, unemployment, etc.] and what is assumed about the properties of the immigrants and the size and timing of shocks). It is not surprising that there is very little in the way of systematic empirical research based on this theory, and that what there is must be seen as very preliminary. There is a body of empirical research based only loosely on this sort of theory, but seeking to link institutional detail to underlying economics.[28] Most of this work is by political scientists and tends to assume the existence of the sorts of labor market effects that we have already seen are hard to establish. Thus, it is hard to see this work as representing a successful account of existing patterns of policy across categories of immigrant.

In the context of the Federal political system in the US, there are two components of the redistributive system: a Federal welfare state; and a State welfare state.   Simplifying considerably, the former deals with pensions and the latter with health and education. Immigrants tend to be relatively expensive in the state welfare because they tend to: have more school age children; be poorer and thus receive more State funded aid; and have lower incomes and, thus, pay less in property and other State taxes. The National Academy of Sciences study of immigration in the US estimated that, as a result of State welfare expenditures, immigrants in major immigrant gateways resulted in net negative effects, while the effects in the rest of the country were net positive—with an aggregate effect near zero (the members of the commission that produced the report differed on the aggregate effect). In only one gateway was this effect large: in California the central estimate was that the average Californian household paid an additional $1178 (for the 1994/5 tax year) in taxes as a result of immigration (Smith and Edmonston, 1997, Chapter 6).[29]   This makes it relatively easy to understand the highly politicized nature of immigration politics in California, but it is not very useful in understanding the overwhelming rejection of a liberal immigration regime in parts of the US that seem to gain via the welfare state channel. On the other hand, if the Borjas/national labor

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[27] For representative work of this sort, see Razin and Sadka (2001, 2005), Razin, Sadka and Swagel (2002), and Facchini, Razin and Willmann (2005).
[28] For representative work of this sort, see: Gimpel and Edwards (1999) on the US; Lahav (2004) on Europe; and Money (1999) for a very interesting comparative study.
[29] The next largest negative impact was in New Jersey, where the estimated effect was $232.

market model is correct, it is hard to understand why the aggressive public politics of unskilled immigration are so locally focused in California. Overall, and again in contrast to trade policy, it is hard to see that either the direct labor effect models or the indirect redistributive state models provide much explanatory power of variance across categories of immigrant.

[Table 2 about here]

The central mystery this paper sets out to identify is illustrated in Table 2. It is not clear at all why, for either the Weberian or group politics model: the politics of average and variance should differ within either policy domain; or why the pattern of success and failure in accounting for these should differ across policy domains. The core of both the standard Weberian and group pressure models are that citizen preferences, derivable from observable, self-regarding, material conditions, fundamentally determine policies. While we can construct a consistent account for each separate case, looking at the average and variance of policy, for two fundamental components of globalization leads us to the puzzle identified in table 2. In the next section we offer the beginnings of an approach to this puzzle.

5. Understanding the Politics of Globalization: Public Politics and Social Values

In this section, we argue that the difference between the politics of international trade and immigration is not due to any underlying material difference between the issues, but rather to the fact that one, international trade, is treated as a technical issue, while the other, immigration, is treated (when it is treated at all) as a public political issue. We will argue that the more private the issue, the more it can approach the pure group theoretic ideal modeled in the endogenous policy framework, while the more public the issue, the more it becomes attached to broad considerations of social values and the less predictable it's outcomes.

The first step in developing this argument is to provide greater clarity by developing a distinction due to Schattschneider (1960) between "group politics" and "democratic politics". For Schattschneider, and as we have used the expression above, *group politics* is about the pursuit of relatively narrowly defined private interests. In US parlance, group politics is "inside the Beltway" politics—the politics of lobbying. Because group politics are solidly

rooted in relatively stable interests, they are predictable and change in predictable ways in response to the, generally marginal, changes in the environment embedding these interests. Not surprisingly, group politics is the focus of virtually all endogenous policy analysis. Early research in the group theoretic tradition (often called "pluralist theory" by political scientists) saw group politics as a natural mechanism for aggregating preferences.[30] Where voting could not convey much information about intensity of preference and, except in the relatively rare case of single-issue referenda, could not convey much specific information about policy, lobbying does both.[31]

While accepting the positive analysis of group politics, critical pluralists rejected group politics as a *normative* basis for democratic theory. Much research by critical pluralists involved detailed case studies of particular policy areas which demonstrated the presence of severe asymmetries in representation, resulting in biased outcomes.[32] One of the earliest, and most influential, of these critical pluralist analyses was Schattschnieder's (1935) classic study of the making of the Hawley-Smoot tariff. Because of the link between group politics and democracy, many saw critical pluralists as making the argument that democracy was a sham.[33] It was in this context that Schattschneider produced his "realist's view of democracy in America" as a response to this line of argument. Specifically, he argued that while democracies, in common with every other form of political organization known to man, were characterized by a group politics system possessing all of the biases identified by the critical pluralists, what distinguished democracies from other systems was the presence of a democratic political system that acted as a check on the group politics system.

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[30] Greenstone (1975) is still an excellent overview of the classic work in the group theoretic tradition, with particular reference to the link between group theory and democratic theory more broadly, both the early work that emphasized the democratic virtues of lobbying and the later critical pluralism emphasizing asymmetries and democratic problems.

[31] We are referring here to actual lobbying on an issue. The data most commonly used to represent this variable in empirical studies, total lobbying expenditure (on any issue) by organization, is really little more informative than voting data. Note that exactly the same data are used in Congressional voting studies on every other issue, so interpretation is bedeviled by exactly the same problem as giving meaning to a vote in a multiple issue referendum or election.

[32] Critical pluralism was given the beginnings of a solid theoretical foundation by Mancur Olson's (1965) *Logic of Collective Action*, which provided a systematic account of asymmetric organization among groups seeking private outcomes from government.

[33] Many Marxists at the time made this claim quite explicitly. More generally, this research was seen as related to results from the early voting studies suggesting that large numbers of citizens had very little detailed knowledge of the candidates or issues on which they were casting votes. Together with the detailed case studies of critical pluralists, this led to something of a crisis in normative democratic theory.

For Schattschneider, *democratic politics* revolves around the *public* attempt to identify collectively satisfactory policies. That is, democratic politics is seen as the public politics through which a democratic civil society constitutes itself and through which it is linked to the policy-making apparatus. It is about the legitimation of policies and the governments that formulate them. While elections are the final defence of democratic politics, as well as the key stimulus to the public discourse, as stressed by theorists of deliberative democracy, the core of democratic politics is the public discourse itself. For our purposes, one of the essential attributes of this discourse is that its terms emphasize public interests/values and downplay private/individual interests. Note that the claim is not that private interests are unimportant in defining one's interpretation of the public interest, or one's position in the public discourse, but only that widely held notions of the public interest (as well as attendant notions like "fairness") constrain that discourse.

One of the main sources for the constraining power of these widely held notions is that they affect the willingness of unengaged citizens to take sides in the public discourse. This is one of the keys to the link between democratic and group politics. Stable group politics depends on the participants being generally satisfied with the outcomes. This does not mean that there are not winners and losers, but that both prefer the outcomes under the group politics regime to their expected outcome from public politics. When this condition fails, the loser(s) in the interaction may seek to change the structure by turning to public politics. Similarly, the emergence of new groups may produce a dynamic in which those groups seek to use democratic politics as a resource in their bid to enter the group politics system, or even to overturn the existing group politics in the interest of more radical goals. In either case, success in such strategies involves recruiting citizens who have not taken strong positions, and that involves explicit attempts to link the issue to broadly held normative commitments. Given the relatively unstable nature of such commitment, these strategies tend to be risky.[34]

At the founding of the Republic, trade was sufficiently central to the definition of the state to be written into the Constitution as a defined responsibility of Congress. In the first Century of Its existence the tariff was primarily about revenue, however with the end of

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[34] Schattschneider (1960) likens this to the process by which a fight is transformed into a brawl as participants in the fight seek allies from the crowd. Riker (1986) develops a more formal analysis of such strategies, which he calls "heresthetic". For case studies, see Baumgartner and Jones (1993, 2002) and Rochefort and Cobb (1994).

Reconstruction (1877) both parties cast about for an issue to replace the "Bloody Shirt" and settled on "The Tariff".[35] The capitalization is appropriate here since the issue was not any specific tariff, but the *system* of high tariffs, often referred to in the period as "the American system". With the emergence of the tariff as a (if not *the*) major basis of continuing electoral contestation between Republicans and Democrats, both parties sought to attach to tariff to a wide range of national goals. Broadly speaking, to the Republicans "The Tariff" was a symbol of national strength, independence, and a strong central government; to the Democrats it was "the mother of trusts", a symbol of the corruption of national government. However, as a number of ethno-cultural studies of 19th Century voting suggest, the meaning of "The Tariff" varied greatly across elections and regions.[36] This is the characteristic of democratic politics in which we are particularly interested.

For reasons that are still far from clear, "The Tariff" disappears as a public issue sometime between the writing of the Hawley-Smoot tariff (when classic tariff politics were very much on display) and the Trade Expansion Act of 1962 (when the structure of new trade politics were firmly established).[37] Given the suspicion with which the general public treats trade liberalization (as reflected in the poll data) it seems clear that this transition was more-or-less independent of public preference and fundamental to the long period of general trade liberalization. However, while the democratic politics of "The Tariff" disappear, individual tariffs continued to be determined by group politics.[38] Even while the Executive branch negotiated steady reductions in the average level of protection, the lobbying system surrounding both the legislation setting the rules under which protection is given (administered protection) and the quasi-judicial process actually granting that protection has become even more well-established. Part of the reason that standard political economy models do such a good job of accounting for cross-sector dispersion of protection is the isolation of the group

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[35] "The Bloody Shirt" refers to the wounds suffered by the Union soldiers in the Civil War. The transition to the use of trade as the most important ongoing issue between Republicans and Democrats is well described in Reitano (1994).

[36] McCormick (1974) is an excellent overview of this research.

[37] The literature on the transformation of US trade politics in this period is large and has produced no compelling account of the transformation. Among such accounts are those stressing: elite learning; domestic institutional change (specifically adoption of an income tax and the Reciprocal Trade Agreements Act of 1934); international institutional change (mainly the General Agreement on Tariffs and Trade); female franchise; and change in the mobility of factors of production. Reviews of these accounts can be found in Hiscox (1999) and Nelson (2003).

[38] In addition to Schattschneider's (1935) classic, which we have already mentioned, the importance of group politics to the determination of in early tariff politics is made clear in Taussig (1931).

politics of trade from democratic politics. On the other hand, the failure of such models to account for the average is a result of the decoupling of the setting of the average from democratic politics.[39]

Unlike trade policy, the early Republic of the US was essentially unconcerned with immigration. The basic immigration law of the US simply asserted that free, white males were free to enter and become citizens. This remained the basic law until the late 19th Century when immigration of Chinese and then Japanese became a major public issue in California—resulting in the first major change in the immigration law (the Chinese Exclusion Act of 1882). Even before this, however, nativism (i.e. anti-immigrant political activity) had occasionally been a feature of public politics. Like the public politics of trade, and like contemporary anti-globalisation politics, there appears to have been a strong link between poor macroeconomic conditions and the attractiveness of restrictive policies. Also like the public politics of trade, the presence of direct economic foundations (i.e. factor-market foundations) of anti-immigrant politics is hard to identify.[40] As with contemporary anti-immigrant politics, these public politics tended to be local, episodic, and intense. That is, unlike the politics of trade, immigration tended not to be a continuing issue of national political competition. Rather, anti-immigrant politics tended to emerge in what are now called "gateway" communities, and to emerge primarily in times of economic and/or political stress. Because there was an obvious target, these moments of anti-immigrant politics were often characterized by violence.

Perhaps most strikingly, to the extent that group politics grew up around the immigration issue, it did not bear nearly the strong relationship to underlying material interests that characterize the group politics of trade. One of the most telling facts is that there is no equivalent, long-lived, group-based politics surrounding immigration. Following the establishment of the national origin quotas in the Johnson-Reed Act (1924), immigration more

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[39] This is also why poll data on general public preferences over trade data are of very little use in understanding the politics of trade policy: they have essentially nothing to do with the average level of protection because of this decoupling; and they tell us very little about the politics of dispersion because dispersion is set by lobbying, not by public politics. That is, the great majority of citizens, whose preferences may be well-measured by the polls, are simply unrepresented in the politics of trade.

[40] The literature on public opinion on immigration is large and suggests strongly that broad social values have a major impact on preferences for immigration policy. A number of recent studies have identified a significant element of material interest (Scheve and Slaughter, 2001b; O'Rourke and Sinnott, 2002; Mayda, 2004; Hatton, 2005). However, recent work by Hainmueller and Hiscox (2004) successfully shows that these results, which use education to identify labor market position, are more likely to be identifying general values.

or less disappears as a political issue (democratic or group) for forty years—not because it is taken off the table, as with trade, but because the public seems to have no particular interest in the issue. Interestingly, the Immigration and Nationality Act of 1965, which ended the quota system, reflected neither the emergence of new public pressure nor the operation of group politics, but rather derived from its attachment to civil rights issues and, to some extent, to a liberal framing of US international obligations (Gimpel and Edwards, 1999). By the time of the landmark Immigration Reform and Control Act of 1986, while there was a more established set of groups in play: these groups do not have the long history that groups on trade do (i.e. most of the established groups go back no further than the politics surrounding the 1965 Act); and, more importantly, there is not the same straightforward material foundation, or broad base, in immigration-related groups.[41] It is interesting that, although there is interest based organisation on the immigration issue, this organisation does not cover the wide range of economic interests that organisation on trade does, and, as we have just noted, much of it focuses on issues that are essentially orthogonal to economic issues in general, and distributive issues in particular. Comparing the lack of both broad interest based organisation and sustained interest based politics on immigration, to the presence of both on trade would seem to provide strong evidence in favor of our central claim.[42] Thus, to the extent that standard political economy models account well for average immigration policy it is because these politics are

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[41]The best treatment of the politics of this period is Schuck (1992). A couple of exceptions require careful consideration. On the one hand, there are a small number of groups with clear material interests that have been involved in immigration politics on more-or-less the same terms as trade-related groups. Southwestern farmers, orchard owners, and ranchers have been actively involved in immigration politics. More recently are employers in the computer industry that have aggressively sought liberalization of entry for skilled labor. However, the narrowness of these interests relative to the wide base of economic interests makes the immigration groups exceptions that prove the rule. On the other hand, immigration lawyers have played an important role in the politics of immigration policy. In understanding their role, however, it is useful to compare the immigration bar with the trade bar. Both have an obvious interest in the details of the law regulating their areas of practice, but these two groups of lawyers do very different things: the trade bar is essentially in the lobbying business, they represent broad parts of American industry and labor; the immigration bar represents a much less obviously material interest and what they do seems different. In addition, a range of humanitarian, religious, and other groups play large roles that they do not play in the trade context.

[42]It may be that part of the reason the group politics of immigration appear so different from those of trade is that the opportunities to engage in group based politics are so few. In addition to fairly regular legislation on trade issues, there are anti-dumping, countervailing duty, escape clause, unfair trade practices (301), (a few) national security cases, etc. In all of these the plaintiff is an industry. This is also, indirectly, true in the Court of International Trade cases. And we shouldn't forget that there is virtually always Geneva-based action of one kind or another. All of these induce broad sector-based, and, since unions are actively involved, factor-based organization on the issue. There do not appear to be nearly the range of opportunities for group-based politics on immigration.

public politics; while their failure to account for dispersion reflects the lack of a clear material basis for those politics.

6. Conclusions

Overall, then, the peculiar pattern of success and failure of the group theoretic model across dependent variables (average and variance) and issue domains (trade and immigration) does not seem to rely on any obvious material basis. Thus, it seems unlikely that it will be compellingly accounted for by reference to standard political economy models. So, what *do* we learn from simple political economy models about the coming politics of globalisation? It seems likely that, to the extent that globalisation becomes a public issue, group theoretic models (especially those with a strong analytical link to lobbying) will be of very limited use. Globalisation politics seem much more likely to be like the politics of immigration than the politics of trade. General public attitudes will play an important role in setting the terms of the democratic politics of globalisation, but those terms will be highly contestable. The terms of the public discourse will not be set by economists, and will not likely be identifiable in any simple way from economic self-interest of identifiable groups. At least as important will be how globalisation is related to widely, but loosely, held notions like "fairness". Some steps in the direction of a more systematic understanding of such notions have been taken by scholars working in behavioral economics, but we need much more systematic research on how these work in aggregate in the political economy.[43] This is an area where new work on public opinion would be useful—but the emphasis needs to be less on the material foundations of policy attitudes (since these seem weakly held in any event), but on how citizens see globalisation attaching to broader social values.

As we noted above, there have been a number of studies of the ways in which the public discourse of democratic politics works, but similar studies on the evolution of trade policy would be very useful. Specifically, the transition in the political economy of trade that we mentioned above is an ideal laboratory for understanding the interaction between insiders, outsiders, institutions, and policy equilibrium. We know too little about how elite attitudes on trade changed so dramatically at a time when citizen attitudes appear not to have changed to

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[43] For a very preliminary effort in this direction, with some related references, see Davidson, Matusz and Nelson (2005).

the same degree. We still know too little about which institutional changes were essential to the transition, and which less so. And we know too little about how immigration remained a public issue, when trade did not. There is clearly a major agenda for research on the domestic political foundations of a Liberal international political economy, but we will make little headway if we continue to focus exclusively on the political economy of protection.

Chart 1: U.S. Average Tariff[44]
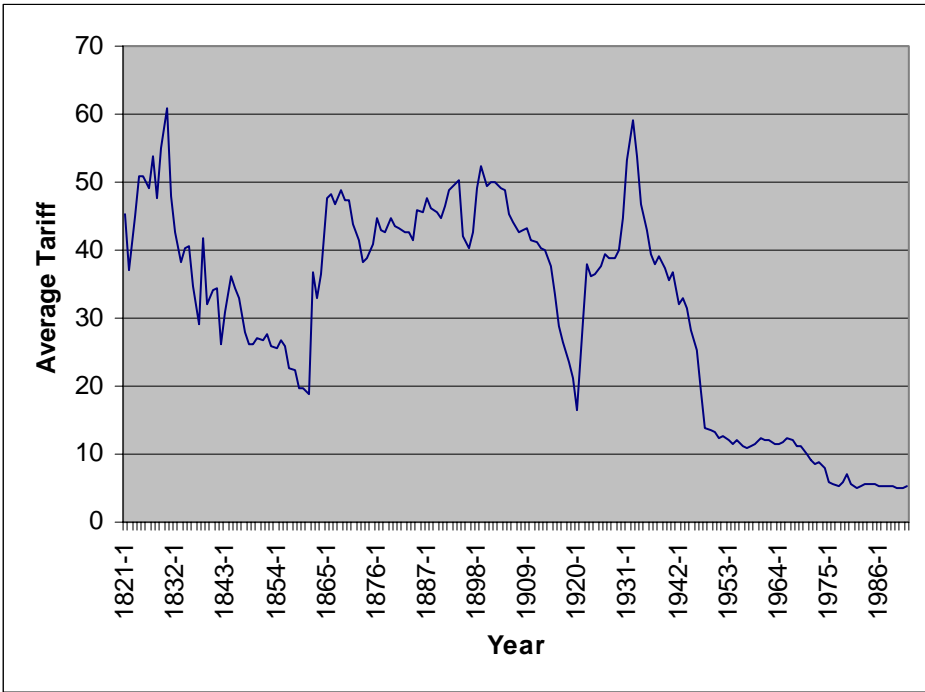
Table 1: Average Opinion on Trade and Immigration[45]

	Pro-Trade	Anti-Trade	Pro-Immig
Germany West	0.36	0.39	0.03
Germany East	0.22	0.56	0.02
Great Britain	0.14	0.63	0.04
USA	0.13	0.64	0.08
Austria	0.16	0.70	0.04
Hungary	0.09	0.71	0.01
Italy	0.23	0.60	0.04
Ireland	0.22	0.66	0.20
Netherlands	0.37	0.29	0.05
Norway	0.28	0.38	0.07
Sweden	0.24	0.41	0.07
Czech Republic	0.27	0.52	0.02
Slovenia	0.24	0.51	0.02
Poland	0.14	0.65	0.09
Bulgaria	0.08	0.77	0.06
Russia	0.22	0.60	0.08
New Zealand	0.25	0.52	0.11
Canada	0.28	0.46	0.20
Philippines	0.16	0.66	0.11
Japan	0.34	0.31	0.16
Spain	0.10	0.71	0.08
Latvia	0.13	0.71	0.00
Slovak Republic	0.25	0.55	0.03
Mean	0.22	0.54	0.07
Standard Deviation	0.41	0.50	0.26

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[45] Source: for trade question: Mayda and Rodrik (2005); for immigration question: Mayda (2005).

Table 2: Summary of Argument

		Policy Domain is:	
		Trade	**Immigration**
Dependent variable is	**Average**	Fails	Works (?)
	Dispersion	Works	Fails

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