

# **Determinants of Trade Protection in Contemporary Democracies:** Whose interests do elected officials serve through trade protection?

**Su-Hyun Lee**

## **1. Introduction**

This dissertation aims to answer the determinants of trade protection in contemporary democracies. It specifically attempts to answer the following questions. Why do some countries have higher levels of protection whereas others not? Which industrial sectors are more likely to be protected than others? And whose interests do elected officials represent through trade and industrial policy?

Earlier economic studies attribute the presence of trade barriers to the fact that protectionist interest groups better articulate their policy demands due to their greater abilities to overcome collective action problems. Contrary to consumer groups, protectionist interests have strong incentive to influence politicians through lobbying and campaign activities since the benefits of protection are concentrated on a small set of producers but the costs are dispersed to the entire population. Thus, as in the literature on endogenous tariff formation, these studies restrict their focus to analyzing patterns in trade policy outcomes which are generated by societal demands for protection and the relative abilities of industries to get organized to lobby governments. On the other hand, institutional explanations of trade protection concentrate more on clarifying under what circumstances policymakers are insulated from particular interests of protectionist interests and lower levels of trade barriers for diffuse interests. A common argument found in this approach is that the formal design and nature of domestic political institutions generate cross-national variations in trade protection by shaping incentives of representatives to provide public goods (here, free trade) for the general welfare of a society as a whole.

While existing scholarship has accurately found economic and political factors shaping trade protection, there still remain theoretical and empirical issues to be reconsidered. First, despite their emphasis on the nature of free trade as public goods, institutional explanations on trade protection still show considerable disagreement about under what conditions democratic representatives are more likely to provide public goods for a broad, national constituency. Second, the association between domestic political institutions and protectionist measures in democracies is not as clear-cut as previous literature has suggested. Contrary to the prevailing argument that electoral formula and party discipline significantly affect levels of protection, there exist considerable variances across countries which are similar in terms of electoral systems and other institutional arrangements. Especially, if we consider diverse measures of trade protection, the influence of certain features of democratic institutions becomes more ambiguous. Last, due to their concentration on the average level of trade protection, most of the literature on political institutions does not tell us anything about who gets what from trade and industrial policy in contemporary democracies. While the theory of endogenous protection clarifies some factors that generate cross-sectoral variations in trade policy, such as sectoral demands for protection and the relative abilities of industries to take costly political actions, it does not still explain clearly how elected officials determine the beneficiaries of trade protection and why declining industries often receive trade policy benefits without engaging in active lobbying activities.

To redress this, my dissertation aims to offer a theoretical framework for explaining the determinants of trade protection in contemporary democracies. It specifically focuses on answering three questions above by clarifying the bases of representation in trade policy decisions, especially the conditions under which political parties act as a strategic unit and represent the interest of their partisan constituencies. In doing so, this dissertation attempts to explain what induces elected representatives to act more cohesively as

party members in trade policy decisions and how those incentives affect trade policy outcomes, such as the geographical distribution of protectionist measures within a country and variations in levels of protection across countries.

Contrary to previous works, I start with an assumption that the bases of representation in trade policy decisions are fluid, changing with two important factors: first, the structure of trade policy preferences of domestic actors; and second, electoral systems which define the relationship between political parties, individual legislators, and their constituencies. The structures of trade policy preferences delineate the ways in which domestic groups align themselves with others to articulate their demands for trade policy. On the other hand, electoral institutions allow us to infer the extent to which elected officials are committed to partisan platforms rather than to particular demands of geographic constituencies. I argue that parties are more likely to act as a strategic unit in trade policy decisions when voters are divided into broad-based class coalitions which are internally homogeneous and polarized, and also when political prospects of legislators are determined by party labels rather than by their personal reputations in districts. Under these circumstances, parties have strong incentives to align themselves with trade policy coalitions with a clear stance on trade issues and optimize their electoral prospects by targeting their core-partisan groups in policy decisions.

Specifically, following the lead of others (Hiscox 2002, Ladewig 2006), I hypothesize that one important condition that determine the size and characteristics of trade policy coalitions is the mobility of factors of production, that is, the ease with which owners of different factors move freely across industrial sectors. Factor mobility, by determining types of dominant political cleavages among the electorate, exerts significant influence on the incentives of parties to optimize their electoral prospects by concentrating trade policy benefits on their supporters. Thus if high levels of factor mobility induce voters to form trade policy coalitions along the line of broad factor classes (e.g. capital and labor), and also if electoral systems moderate incentives of legislators to cultivate personal reputation in their own constituencies, parties have strong incentives and abilities to protect industries and sectors in their partisan strongholds. By doing so, factor mobility indirectly affects trade policy outcomes, such as the geographical distribution of protectionist measures in a given economy and cross-national variations in the average levels of trade protection.

My dissertation differs from previous works on trade protection in three ways. First, it attempts to clarify conditions under which political parties are more likely to act as a strategic unit in trade policy decisions and represent the interest of their supporters, by analyzing cross-national variations in voting unity in the legislation of trade bills. Party unity in trade policy decisions depends not only on electoral institutions that define the relationship between elected representatives and their constituencies, but also is affected by economic forces, which determine types of trade policy coalitions of domestic actors. Thus, contrary to previous literature on the influence of domestic political institutions which are mostly time-invariant, I argue that the bases of representation in trade policy decisions change over time and across countries.

Second, while previous literature on factor mobility has been mostly concerned with measuring the relative influence of class or sectoral variables on congressional votes on trade legislation, I examine how factor mobility and corresponding changes in party unity affect trade policy outcomes, especially the geographical distribution of protectionist measures within a country. By employing data on constituency-level elections, I clarify political and economic conditions under which government parties are motivated to serve the interest of their core-partisan groups by concentrating trade policy benefits on their partisan strongholds. In doing so, my research seeks to answer the questions of whose interest elected officials serve through political manipulation of trade policy and of how electoral competition in democracies create cross-district and cross-sectoral variations in trade policy within a country. Last, drawing on the effective constituency put forward by Franzese et al (2004, 2008), I analyze how party unity and other elements of electoral systems interactively generate variations in levels of protection across democracies.

As will be discussed in detail later, the effective constituency theory allows us to analyze how the relative values of elected officials to partisan- and geographical constituencies determine the average level of protection.

The following section reviews conventional thoughts about trade politics. It points out that previous works on trade policies have been developed in two separate disciplines: earlier economic models that concentrate on trade policy preferences of domestic actors and institutional studies which emphasize the influence of political institutions on the provision of public goods (here, liberalized trade policy). In section III, I address the empirical puzzles of trade policy in democracies which are not fully explained by institutional explanations of protection. Section IV briefly reviews extant models of distributive politics and propose an informal theoretical framework about trade policy decisions in democracies. Following the lead of the literature on factor mobility, I first clarify the conditions under which political parties are motivated to act more cohesively in trade policymaking and serve the interests of their core-supporters. Then I generate several testable hypotheses about how party unity creates variations in trade policy outcomes, such as the geographical allocation of protectionist transfers among constituents and variations in levels of protection across countries. The last section discusses data needed to test suggested hypotheses and research strategies. It concludes with an outline of chapters in the dissertation and a timeline.

## **2. Conventional Thoughts about Trade Policy**

The presence of trade barriers still remains puzzling to both economists and political scientists. Protectionist measures and regulations provide benefits for the specific sectors of production but reduce the welfare of a society as a whole. Despite its well-known inefficiency, however, most trade and industrial policy tend to align against free trade and many countries use trade barriers as an important tool for income redistribution (Rodrik 1994; Dixit and Londregan 1996; Alt et al. 1996; Acemoglu and Robinson 2001). While it is frequently pointed out that multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) have generated the global rush toward free trade, both advanced and less-developed countries still protect domestic industries through the use of trade-remedy laws (e.g. anti-dumping, countervailing duty, and escape clause) and non-tariff barriers (e.g. import quotas, quantitative restrictions, price controls, and voluntary export restraints).

Regarding the protectionist bias existing in political systems, researchers have pointed to the problems of collective actions in trade policymaking. Over eighty years ago, Pareto (1927) accounts for why protectionist interests are better than consumer groups in furthering their interests as follows:

In order to understand how those who champion protection make themselves heard so easily, it is necessary to add the consideration which applies to social movements generally...A protectionist measure provides large benefits to a small number of people and causes a very great number of consumers a slight loss. This circumstance makes it easier to put a protectionist measures into practice (Pareto 1927, p.379).

The relative efficiency of protectionist groups in articulating their policy demands are more clearly conceptualized in Olson's pioneering work (1965). When interest groups need to organize political activities to maximize their interests, each member of a group is strongly motivated to free ride on others' efforts since he can enjoy the benefits of collective activities regardless of their own contributions. Self-interested behaviors of actors consequently yield the sub-optimal provision of collective activities on the part of a group as a whole. Here, Olson emphasizes that the degree to which groups are able to overcome the problems of collective action depends on the size of a group and other characteristics. Given that per person transaction costs are fixed, protectionist interest groups incur smaller costs in organizing collective

political action than a large group of consumer. More importantly, each member in a protectionist group has strong incentives to take costly political actions for the issues at stakes since the probability that they affect policy outcomes is relatively higher.

In this vein, earlier economic studies on trade protection start with the assumption that due to their greater ability to overcome collective action problems, protectionist groups easily and directly translate their preferences into policy outcomes. As in the literature on endogenous tariff formation, these studies commonly focus on the demand-side variables in trade policymaking, such as policy preferences of domestic actors over trade issues and their organizational influences on policy makers. The first line of research infers societal demands for trade protection from macroeconomic proxies, such as economic downturns (Magee 1980; Shapiro and Page 1994), unemployment rates (Nowzad 1978; Hughes and Waelbroeck 1981; Bergsten and Cline 1983), and exchange rate changes (Bergsten and Williamson 1983). On the other hand, the second line more concentrates on delineating how trade policy preferences among domestic actors are associated with lobbying activities (Magee 1980), congressional voting patterns in the legislation of trade bills (Bailey and Brady 1998; Hiscox 2001 and 2002), and the amounts of protections that sectors receive. Especially, this type of research links cross-sectoral variations in trade protection within a given economy, to particular characteristics of industries and sectors; such as trading positions of industries (Magee 1980), sectoral size (Anderson and Baldwin 1986), international competitiveness, firm concentration ratio (Trefler 1993), import penetration and export dependence (Lee and Swagel 1997), geographical and political concentration of industries (Busch and Reinhardt 1999, 2000), and the amounts of lobbying and campaign contributions (Magee, Brock, and Young 1989; Grossman and Helpman 1994; Baldwin and Magee 2000).

Previous research in economics provides a coherent theoretical framework for explaining demand-side variables in trade policymaking. That is, trade protection reflects the structure of trade policy preferences among domestic actors, and also indicates policy equilibrium between self-interested policymakers and policy demands of protectionist interest groups.<sup>1</sup> A large body of literature offers substantial evidence that characteristics of industrial sectors are significantly associated with their lobbying activities as well as the levels of protection that they obtain from governments. The recent cross-national research also finds that macroeconomic indicators exert influence on cross-national variations in levels of protection.<sup>2</sup> Due to their emphasis on micro-foundational basis for trade policy, however, trade economists fail to give explicit answers to important questions in trade politics, such as why some governments are more responsive to protectionist demands than others and why some declining industries often enjoy the benefits of protection without significantly engaging in lobbying activities. This is because economic analysis of protection rarely considers the mechanisms by which particular characteristics of sectors (and industries) are translated into aggregate preference for trade openness at the national level and the extent to which reelection-minded politicians balance protectionist demands of interest groups against the general welfare of a society or other pro-trade interests. Thus, with few exceptions (Lee and Swagel 1997; Dutt and Mitra 2002, 2003), previous works in the endogenous tariff literature are mostly limited to the analysis of cross-sectional variations in trade policy issues in a given economy, especially within the United States.

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<sup>1</sup> In their canonical work, Grossman and Helpman (1994) construct a formal decision making model where re-election minded politicians sell tariff and quotas to protectionist groups to the highest bidders, that is, sectors which conduct significant lobbying activities.

<sup>2</sup> The latest large-n studies provide some evidence that macroeconomic factors matter for cross-national variation in trade barriers, even after controlling differences in political systems (Busch and Mansfield 1995; Henisz and Mansfield 2006). High levels of unemployment, for instance, are regarded as one important source of protectionist demands since the rise of import not only makes it difficult for workers to find alternative jobs but also reduce their wages. Exchange rate changes also generate calls for protection by affecting the competitiveness of exporting and import-competing sectors in domestic industries.

On the other hand, the latest research in political science has paid more attention to the supply-side variables in trade policy decisions, considering the links between domestic political institutions and the average levels of trade openness. While focusing on different layers of political institutions, they typically rely on the common premise that trade protection is a private good for specific interest groups whereas free trade is a public good for the interests of a broad national constituency (Kono 2007). The levels of trade protection are supposed to be lower in systems where politicians have a strong incentive to provide a public good at the national level and maintain policy autonomy from protectionist interests. Most of these studies provide a common framework that cross-national variations in trade protection are attributed to the formal design and nature of political institutions, including types of political regimes (Mansfield, Milner, and Rosendorff 2000, 2002; McGillivray and Smith 2004; Milner and Kubota 2005), the structure of executive-legislative relations (Lohmann and O'Halloran 1994), electoral institutions (Rogowski 1987; Mansfield and Busch 1995; Grossman and Helpman 2005; McGillivray 1997, 2004; Kono 2006; Rosendorff and Doces 2007), the strength of political parties (Hankla 2006), and the number of institutional access points in political systems (Ehrlich 2007).

One important implication of these studies is that political institutional arrangements define the ways in which representatives maximize their chances of retaining power in trade policy decisions. The formal designs and features of political institutions exert influence on the average levels of protection by delineating the size and characteristics of constituency which representatives are motivated to serve. For instance, contrary to representatives serving narrow constituencies, representatives serving broad constituencies are assumed to maintain relative autonomy from protectionist interest groups and thus concentrate on the provision of public good for diffused interests of society as a whole (here, free trade). In this vein, much of the latest research on the influence of regime types draws on the selectorate theory which proposes that the provision of a public good is positively associated with the size of winning coalition, that is, the minimal set of people whose support which representatives should maintain to stay in office. As the size of the winning coalition increases, it becomes more cost-effective for leaders to provide public goods for broad constituencies rather than private goods for a small sector of population.<sup>3</sup> Thus systems with a large winning coalition, such as democracies, are more likely to have stable trade flows (McGillivray and Smith 2004) or lower levels of trade protection (Milner and Kubota 2005). The literature on the effect of executive strength on trade policymaking similarly rests on the assumption that constituency size is inversely related to incentives to pursue protectionism. Executives have a strong motivation and capability to adopt lower levels of protection for general welfare at the national level since their chances of retaining office are rarely affected by specific interest groups. By contrast, rank-and-file legislators who serve narrow geographical constituencies are strongly motivated to build their own support groups by satisfying particular demands of localized groups. In the legislation of trade bills, therefore, particularistic incentives of legislators frequently generate protectionist logrolling as equilibrium where each legislator proposing protectionist policy also supports similar proposals from other legislators. In this vein, Lohmann and O'Halloran (1994) maintain that the Reciprocal Trade Act Agreement (RTAA) of 1934 resulted in a significant reduction of tariff rates in the United States by changing the nature of trade policymaking process. They point out that collective action problems among individual legislators were resolved by the RTAA which delegates authority to the president, "[who] would implement measures to trade off the marginal benefits from protectionist industries in one district against the marginal costs imposed on all other districts" (Lohmann and O'Halloran 1994, p.599).

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<sup>3</sup> In their theory of the selectorate and winning coalition, Bueno de Mesquita et al. (2003) rest on the assumption that an incumbent leader maximizes his chances of retaining power by rewarding the winning coalition – the minimal set of people whose support he should maintain to stay in office. When the size of the winning coalition is small, the incumbent leader retains power by providing private goods that enrich only members in his coalition. As the size of a coalition increases, however, it becomes more cost-effective for leaders to reward his supporters by providing public goods that benefit all members of society as a whole. Given that support from the winning coalition determines the political survival of incumbents, the selectorate theory proposes that a large winning coalition enhances political incentives for leaders to provide public goods.

Likewise, Nielson (2003) argues that presidents who have strong legislative power are more likely to reduce protectionism since the executives, by serving a single national constituency are strongly motivated to pursue policies targeting broad interests.

In fact, the idea that representatives serving a larger constituency are more likely to liberalize trade can be traced back to Rogowski's insightful work (1987) on the link between political institutions in democracies and trade. He argues that for trade dependent countries, the optimal form of democratic institutions is closed-list proportional representation (PR) systems which are characterized by a few larger electoral constituencies and political parties with strong disciplines. Specifically, Rogowski emphasizes the importance of constituency size on policy autonomy of elected officials as follows.

Insulation from regional and sectoral pressure in a democracy, I claim, is most easily achieved with large electoral district.....When automakers or dairy farmers entirely dominate twenty small constituencies and are a powerful minority in fifty more, their voice will certainly be heard in the nation's councils. Where they constitute but one or two percent of an enormous district's electorate, representatives may defy them more freely (Rogowski 1987, p. 208).

While Rogowski primarily focuses on the institutional choice of European countries that heavily rely on international trade, researchers explain the affinity between PR systems and trade openness the other way around. Mansfield and Busch (1995) maintain that PR systems tend to have lower levels of protectionism because the diversity of trade policy preferences in large districts moderates protectionist pressures, and prevent logrolling among legislators in the legislation of protectionist bills. Relying on Rogowski's work, they provide evidence that advanced industrial countries with more parliamentary constituencies (hence smaller electoral districts) tend to have higher levels of non-tariff barriers. On the other hand, Grossman and Helpman (2005) claim that systems with strong party discipline make PR systems more amenable to liberalized trade policy. Their formal model rests on the assumption political parties are more likely to maximize chances of winning the majority of seats in the legislature by serving heterogeneous constituencies. Their formal model rests on the assumption that political parties are more likely to make policy decisions for heterogeneous constituencies in order to maximize their chances of winning a legislative majority. In systems with low party discipline, such as majoritarian systems, parties do not effectively prevent individual legislators from deviating from pre-announced policy platforms and pursuing protectionist policy for the interests of their own constituencies.

### **3. The Empirical Puzzles of Trade Protection in Democracies**

Although institutional studies reviewed above offer a comprehensive theoretical framework for analyzing cross-national variations in levels of protection, there remain some theoretical and empirical problems to be solved. First and foremost, existing studies of institutions have not provided consistent evidence for the influence of electoral systems on the levels of protection. In his earlier work (1987), Rogowski only addresses the correlation between trade dependency, proportional representation, and party centralization in Western European countries. Mansfield and Busch (1995) find that when the number of electoral constituencies is controlled, proportional representation itself is positively associated with the levels of non-tariff barriers (NTBs). On the other hand, the recent research presents evidence that majoritarian dyads tend to have larger volumes of bilateral trade than proportional ones (Doces and Rosendorff 2007) and that the liberalizing effect of constituency size is greater in majoritarian systems than proportional representation (Kono 2007).

Once we consider various indicators for protection to trade, a dichotomous distinction of electoral systems generates more anomalies. Table 1 reports the levels of tariff and non-tariff barriers, based on the dataset of trade control measures compiled by the United Nations Conference on Trade and Development

(UNCTAD).<sup>4</sup> In Table 1, countries are categorized into four groups according to electoral formula and economic development. Except for tariff rates in less developed countries (LDCs), the average levels of protection in proportional systems are relatively higher than those in single-member district with plurality rules (SMDP). In both OECD countries and LDCs, the NTB coverage ratios are greater in PR systems than majoritarian ones. Similarly, Figure 1 also presents cross-national variations in protection to trade which are derived from the same data. Production weighted tariff rate is the highest in Greece, a PR country, but significantly lower in Japan which is considered a semi-PR country and the United States, a pure SMDP system. Likewise, the NTB coverage ratio is also the highest in Greece, but the lowest in Japan and in Canada, a SMDP country. But our data does not suggest that SMDP systems make free trade more likely. With the least coverage of NTBs, Canada maintains a relatively high level of tariff protection like other PR countries. The United States has the second-lowest tariff rate among all OECD countries, but the NTB coverage in the U.S. is greater than those in most PR systems. The data for LDCs also do not clearly show the effects of proportional representation on the levels of protection. If we exclude India from the sample, the levels of tariff and non-tariff protection are lower in SMDP than PR systems.

**Table 1: The Levels of Protectionism in 1988**

Country	Electoral Formula	Trade Protection	Mean	Standard Deviation
OECD	PR	Production Weighted Tariff Rates	6.96	1.26
	SMDP		5.94	1.81
	PR	Coverage of Non-Tariff Barriers	22.28	7.53
	SMDP		15.3	8.73
LDC	PR	Production Weighted Tariff Rates	40.85	13.97
	SMDP		53.62	50.62
	PR	Coverage of Non-Tariff Barriers	54.65	30.01
	SMDP		44.77	39.61

*Source: Trade Control Measures (UNCTAD, 1991)*

[Insert Figure 1]

This simple comparison of trade barriers indicates that, contrary to the prevailing argument, proportional representation systems are more likely to raise levels of trade barriers. How can we explain the gap between theory and empirical findings? First, institutional studies of trade policy have not paid enough attention to the countervailing effects of electoral systems on policy decisions. Several studies note that some proportional systems have factors that yield particularism and inefficiency in government policy. Both Cox (1990) and Myerson (1993) maintain that PR systems, by having large district magnitude, increase the number of competitors in electoral contests and promote their centrifugal incentives on a unidimensional policy space. As district magnitude gets larger, parties (and individual candidates) are more likely to optimize their electoral prospect by taking non-centrist position for a small sector of population rather than by converging toward the median voter's preference. Interestingly, the latest research of Rogowski and his collaborators (Rogowski and Kayser 2002; Rogowski, Kayser and Chang 2008) advances an argument that proportional systems tend to yield higher consumer prices which reflect policy decisions targeting particular interests of producers. Greater seat-vote proportionality in proportional systems induces politicians to favor those who provide money (producers) over those who provide votes (consumers). On the other hand, some research points to fragmented electoral accountability in proportional systems as a reason for inefficient consequences in policy decisions. While a single-party government in SMDPs holds responsibility for the collective interest of broad

<sup>4</sup> Data is culled from Lee and Swagel (1997). The original data is compiled by the United Nations Conference on Trade and Development (UNCTAD 1991).

constituencies, parties participating in coalition governments in PRs each represent only a small set of population. Thus PR systems, especially those have more parties, are more likely to generate multi-party logrolling in policy decisions with less efficient outcomes (Scartascini and Crain 2002; Bawn and Rosenbluth 2006; Mukherjee 2003).

Second, it should also be pointed out that the PR literature often equates the influence of other institutional features on trade policy decisions to those of electoral formula. Previous works argue that strong party discipline and large constituencies promote trade liberalization in proportional systems by reducing electoral incentives of legislators to target specific policy demands of narrow, geographical constituencies (Rogowski 1987; Busch and Mansfield 1997; Grossmann and Helpman 2004 and 2005). The personal vote literature, however, suggests that the extent to which elected officials cultivate personal reputation for their electoral success is not determined by electoral formula alone, but other components of electoral institutions as well, such as district magnitude, party leadership control over the ballot, the degree of pooling votes across co-partisans, and the number of votes that voters cast (Carey and Shugart 1995; Wallack, Gavia, Panizza, and Stein 2003).<sup>5</sup>

Another important problem with institutional research on trade protection lies in its way to address causality among electoral institutions, the provision of public goods, and trade policy. The current literature on the influence of electoral systems rests on the following common premises: first, free trade is a public good that benefits the interest of broad national constituency whereas protectionist policy is a private good for a small sector of population; and hence second, certain features of electoral institutions determine the incentive for elected officials to provide public goods and hence adopt lower, more efficient levels of protection. While it seems reasonable to think that trade protection reflects particularism in policy decisions, these two premises leave some empirical regularities unexplained. First, if we consider public goods in terms of nonexcludability, there are certain circumstances where protectionist policies hold the characteristics of public goods for diffused interests. According to Mayer (1984) and Dutt and Mitra (2002, 2003), the median voters' preference over trade openness is significantly affected by relative factor endowments in a given country as well as equity in the distribution of factor ownership. For instance, if capital is concentrated in a few hands in a capital abundant country, a majority voting is more likely to generate protectionist trade policy in this country since trade openness negatively affects a large proportion of the population which owns labor.<sup>6</sup> Kono (2007) similarly exemplifies the situation where a majority of voters prefers higher protection by saying that "the reduction of protection on goods that is consumed by the half of the population is the same as the increase in protection for sectors that employ half of the population in terms of the size of beneficiaries." Thus he argues that particularistic incentives in electoral systems are associated with the ways in which governments distribute protectionist measures across industrial sectors rather than the degree to which they impose protectionist measures for the interests of domestic producers.

In this vein, we need to reconsider the second premise that certain types of electoral institutions promote trade liberalization by enhancing the incentives of policymakers to provide public goods. Consider Figures 2 and 3 which contain graphs of trade protection in advanced industrial countries in the 1980s.<sup>7</sup> In Figure 2, indicators of trade protection and openness are plotted against the variable DOM\_RANK, which denotes the extent to which legislators in a given electoral system rely on their personal reputations rather

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<sup>5</sup> The personal vote literature points out that the influence of district magnitude on the provision of public goods is conditioned by other elements of electoral systems. In open-list PR systems, for instance, large district magnitude is more likely to generate intra-party competition and induce legislators to adopt particularistic policies for specific interests at the level of districts. On the link between district magnitude and legislators' incentives to cultivate personal vote, see Carey and Shugart (1995); Wallack et al. (2003); and Golden and Chang (2007).

<sup>6</sup> See Mayer (1984), Alt and Gilligan (1994), and Dutt and Mitra (2002 and 2003) for more explanations of the relationship between equality, factor endowments, and levels of protection.

<sup>7</sup> Data of trade protection are culled from McGillivray (2004, p.31).

than party labels to enhance their electoral prospects<sup>8</sup>. Thus the lowest value of DOM\_RANK indicates that electoral institutions generate the least incentives for legislators to seek personal votes, and party leaders also have almost complete control over candidate selection. If strong party discipline reduces particularism in policy decision and hence lower the levels of protection, as previous research has suggested, the DOM\_RANK should be positively associated with measures of protection and negatively associated with the size of trade flows. The upper panels in Figure 2 show some evidence that countries with weak party discipline (or candidate-centered systems) are likely to increase some measures of protection (i.e. average tariff rates, the coverage of non-tariff barriers, and import duty levels). However, it also demonstrates that there exist significant variances in the levels of protection which cannot be clearly explained by the degree of party discipline. Some countries with strong-party discipline (e.g. Germany, Austria, and Switzerland) maintain higher ratios of NTB coverage than those with weak-party discipline (e.g. United States, Japan, and France). Other measures of protection in the lower panels, such as quota coverage ratio and industrial subsidies are negatively related with DOM\_RANK. Similarly, scatter plots in Figure 3 show that constituency size does not fully account for cross-national variations in the measures of trade protection<sup>9</sup>.

[Insert Figures 2 and 3]

To what extent does party discipline or constituency size affect variations in levels of trade protection? As Hankla argues (2006), of course, it might be reasonable to think that the influence of particular interest groups on policy decisions would be moderated in large constituencies where electorates hold heterogeneous policy preferences for trade issues and in systems where rank-and-file legislators are strongly committed to policy platforms that parties proposed for diffused interests in society as a whole. Nevertheless, neither constituency size nor party discipline tells us much about under what conditions domestic constituents and policymakers are leaning toward trade liberalization. In his analysis of the RTAA (1999), Hiscox refutes the constituency size argument by saying that “the notion that any president, by dint of having a large constituency must be less protectionist than the median member of Congress, is hopelessly ahistorical” (Hiscox 1999, p.677). The latest research on congressional voting in the U.S. also presents evidence that constituency size does not have any significant effect on trade policy preferences of legislators (Ehrlich 2006; Karol 2007). Similarly, without imposing additional assumptions on the structure of trade policy preferences among voters and political parties, it is hard to conclude that due to their greater incentives to appeal broad national constituencies, strong political parties always pursue liberal trade policy than weak political parties. As will be reviewed in detail later, there are several cases where political parties adopt protectionist policy platforms to serve the interests of their core-constituent groups. Political parties are also motivated to manipulate trade policy decisions to maximize their chances of winning power and their policy platforms only reflect their partisan concept of broad national interests.

A final critique of institutional explanations for trade protection is that they do not carefully conceptualize the demand-side variables in trade-policy making, that is, the structure of trade policy preferences among domestic groups. While deriving electoral incentives of politicians in trade policy decisions from the forms and nature of political systems, most institutional research infers aggregate preference of domestic actors over trade openness only from macroeconomic indicators (e.g. unemployment rate, exchange rates, economic growth, and the degree of import penetration). Nevertheless, macroeconomic indicators alone do not clearly capture the ways in which domestic groups which hold heterogeneous policy preferences align themselves with political parties in order to reflect their interests in trade policymaking.

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<sup>8</sup> Data on the variable DOM\_RANK are collected from the Database of Particularism by Wallack et al (2003). As Carey and Shugart's Index of Particularism (1995), the Database of Particularism ranks countries according to the extent to which elements in electoral systems (i.e. ballot, pool, and vote) induce legislators to engage in pork-barrel activities. It does not, however, assume that political parties in single-member districts with plurality systems fully control rank-and-file legislators. See Wallack, Gaviria, Panizza, and Stein (2003) and Johnson and Wallack (2007) for details.

<sup>9</sup> Constituency size is calculated according to the convention in the literature (Hankla 2006).

Consequently, by concentrating only on institutional differences across countries, the current literature on political institutions does not tell us much about how representatives allocate distributive benefits of protectionism among the electorate and who gets what from trade policy decisions in contemporary democracies.

#### **4. Tentative Argument: The Bases of Representation in Trade Policy Decisions**

The preceding section shows that previous research on trade protection has been conducted along two separate disciplines. Trade economists have accounted for cross-sectoral variations in protection within a given economy by pointing to policy preferences of domestic actors and their organizational capacities. Political scientists have more focused on clarifying institutional conditions under which political representatives are motivated to adopt liberal trade policy for broad national constituency. Each discipline, however, focuses only on the demand-side or the supply-side variables in trade policymaking and still leaves some empirical puzzles unexplained.

To redress this, my dissertation aims to offer a theoretical framework for analyzing the determinants of trade policy in contemporary democracies. It specifically attempts to bridge the gap between these two disciplines by focusing on the bases of representation in trade policy decisions which are defined by policy demands of domestic actors and the incentives of political parties to optimize their electoral prospects. To consider the influence of political parties, this section begins by reviewing two competing models of distributive politics, the swing-voter model presented by Dixit and Londregan (1995, 1996) and the core-voter model put forward by Cox and McCubbins (1986). In doing so, I point out that domestic political institutions, such as electoral formula and party discipline, do not explain much of variations in the allocation of targetable goods since they are mostly time-invariant.

Afterwards, I clarify economic and political factors that affect the bases of representation in trade policymaking. I argue that one important condition that induces political parties to target their own support groups in policy decisions is the mobility of factors of production. Factor mobility determines the scopes and characteristics of constituent coalitions and hence influences party unity, that is, the extent to which political parties are motivated to act cohesively and serve the interest of their partisan constituencies. I also propose that party unity, in turn, exerts influence on trade policy outcomes, such as the geographical allocation of protectionist measures across electoral districts and variations in the levels of protectionism across countries.

#### **4.1. Formal Theories of Distributive Politics**

Researchers have considered trade protection as a typical example of distributive programs.<sup>10</sup> In their seminal work (1981), Weingast, Shepsle, and Johnson (WSJ) define distributive policies “project, programs, and grants that benefits geographically specific constituencies while spreading their costs across all constituencies through generalized taxation.”<sup>11</sup> On the other hand, Dixit and Londregan (1996) refer to distributive policies as tactical redistribution, including concentration of subsidies or tariff protection to specific industries, local public goods for particular geographic areas, and other types of pork-barrel activities<sup>12</sup>. In both cases, distributive politics is clearly distinguished from programmatic redistribution which is significantly affected by ideological dispositions of government parties. The decision of distributive programs is more clearly related to strategic behaviors of political parties which attempt to optimize their electoral prospects through the allocation targetable resources to different groups

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<sup>10</sup> On the typology of distributive politics, see Lowi (1964, 1979); Shepsle and Weingast (1981).

<sup>11</sup> Weingast, Shepsle, and Johnson (1981, p.644)

<sup>12</sup> Dixit and Londregan (1996, p.1133)

of constituents. Thus the likelihood that particular groups receive distributive benefits mostly depends on their political characteristics rather than their economic characteristics in the market since government parties concentrate benefits on groups (or regions) which more efficiently enhance their prospects for electoral supports.

Two competing theories account for the influence of political competition on the distribution of targetable goods. The swing-voter model presented by Lindbeck and Weibull (1986) and Dixit and Londregan (1995, 1996) proposes that in order to maximize their chances of winning power, parties tend to concentrate distributive benefits on groups containing more political moderates or swing voters who are more willing to tradeoff their ideological preferences in response to the promise of economic benefits. In contrast, the loyal-vote model proposed by Cox and McCubbins (1986) emphasizes the status of core-partisan groups in getting benefits of (re)distributive transfers. Political parties are motivated to avoid any risks in tactical redistribution, so they are more willing to target their loyal supporters rather than swing groups who might renege on their promises of electoral support.

Several authors have tested these two models directly using data on public expenditure, intergovernmental transfers and grants, trade protection, and poverty alleviation programs. Some studies support the swing voter-model by arguing that the incumbent party reward regions where there are many political moderates, like marginal districts (Schady 2000; Case 2001; John and Wards 2001; Dahlberg and Johansson 2002; Dasgupta, Amirta and Dutta 2004; Kwon 2005; Stokes 2005). By contrast, others confirm the core-voter model by showing that targetable goods are mostly concentrated on regions where the incumbent parties have their core-support groups (Levitt and Snyder 1995 and 1997; Magaloni, Diaz-Cayeros, and Estevez 2007; Schady; Ansolabehere and Snyder 2006; Porto and Sanguinetti 2001)<sup>13</sup>. On the other hand, a few studies point out that vote-maximization strategies of parties in distributive politics depend on contextual variables, such as democratic consolidation (Viega and Pinho 2007) and electoral institutions (McGillivray 1997, 2004; Golden and Picci 2008).

While most of these studies concentrate on testing the relative validity of the swing-voter and core-voter models, McGillivray (1997, 2004) makes a notable attempt to explain how electoral institutions systematically affect the ways in which parties allocate distributive benefits - industry specific tariff rates - across electoral districts. Two elements in electoral institutions are emphasized. Electoral formula, by defining the ways in which votes are translated into seats, determines the relationships between political strength of electoral districts and the amount of protection that each district would receive from government parties. Drawing on Persson and Tabellini (1999), McGillivray argues that in order to obtain a majority in the legislature, parties in majoritarian electoral systems are more likely to concentrate resources in some key marginal districts containing political moderates or swing voters. In contrast, parties in proportional electoral systems are still motivated to focus distributive benefits on their partisan strongholds since votes in non-marginal districts still have the same effect on their electoral prospects as those in marginal districts and since proportional representation makes the entry of new parties relatively easier. Here, McGillivray points out that the relationship between electoral formula and allocation of distributive goods is conditioned by party strength (or party discipline) which defines the main actors in trade policymaking. In systems where party leaders maintain control over individual legislators, electoral formula mainly determine whether parties target swing districts or partisan strongholds in allocating distributive benefits. Systems with weak party discipline, however, do not prevent personal vote seeking incentives which render rank-and-file legislators target their own constituencies in policy decisions. Thus McGillivray predicts that weak majoritarian systems are more likely to favor safe districts which she assumes be assigned to senior, powerful legislators.

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<sup>13</sup> Schady (2000) argues that “government parties” provide resources for regions where the marginal political effects of expenditures are likely to be largest and regions which are the poorest.

Although offering a pioneering contribution to understanding about formal models of distributive politics as well as trade protection, McGillivray's research remains incomplete in several aspects. First, it does not adequately address the influence of electoral institutions on vote-maximization strategies of political parties in allocating distributive benefits across electorates. She categorizes electoral systems into four groups according to her hypotheses that electoral formula (e.g. majoritarian vs. proportional representation) and party discipline (e.g. strong and weak party systems) interactively shape preferences of elected officials over regions to be protected. Nevertheless, her empirical tests cover only two majoritarian countries - the United States and Canada - which she thinks are contradictory in terms of party discipline and therefore fail to capture whether electoral formula makes any systematic differences in patterns of distributive politics. Moreover, she infers the influence of party discipline by simply comparing how district marginality is associated with district-level industry tariff rates in Canada for 1970 and in the U.S. for 1979. She finds that the coefficient sign of district marginality is positive in a strong majoritarian system, as in Canada, and negative in a weak majoritarian system, as in the United States, but in the latter instance, the coefficient is almost close to zero ( $=-0.0006$ ). Consequently, her findings do not fully confirm whether the different relationships between district marginality and the levels of protection in these two countries are caused by party discipline or by other country-specific factors.

Second, it should be noted that McGillivray's work and the literature on the congressional parties in the United States offer contradictory implications about the influence of party strength on patterns of distributive politics. According to McGillivray, weak majoritarian systems concentrate distributive benefits on safe-district because party leaders do not effectively control legislators' deviation from parties' vote-maximization strategies in the allocation of targetable resources and also because safe districts, by her definition, are allocated to powerful, senior legislators. Her argument about weak-party majoritarian systems therefore cannot be established without the additional assumption on district allocation among legislators.<sup>14</sup> On the other hand, previous works on political parties in the U.S. mostly consider the concentration of targetable goods on safe districts as a proxy for partisan influences on distributive politics. As will be discussed in detail later, these studies maintain that strong political parties optimize their electoral prospects by building core-partisan constituencies and targeting their interest groups in policy decisions (Aldrich 1995; Rohde 1991; Cox and McCubbins 1993; Levitt and Snyder 1995; Ansolabehere and Snyder 2002, 2006).

Last, contrary to suggestions in McGillivray and others (Persson and Tabellini 1999; Milesi-Ferretti, Perotti, and Rostagno 2002), it is still not clear to what extent electoral formula would affect the way in which parties allocate distributive benefits among the electorate. Dahlberg and Johansson (2004) maintain that Sweden, a strong PR system, concentrates ecological grants on pivotal regions which consist of undecided voters rather than on partisan strongholds of government. In their analysis on central-state transfers, Dasgupta et al. (2004) show that in India, a weak majoritarian system, government transfers are concentrated on swing regions which are aligned with central governments. Moreover, the allocation of distributive benefits in the same country often presents contradictory patterns. Magaloni (2006) finds that the Partido Revolucionario Institucional (PRI) in Mexico focus the benefits of social programs to swing regions dominated by political moderates whereas Yarahuan (2006) argues that government parties are in favor of regions from which they receive strong electoral supports rather than of opposition strongholds. In a similar way, some argue that ruling parties in Argentina are in favor of marginal districts in allocating distributive benefits (Weitz-Shapiro 2005; Nazareno et al. 2006) whereas others maintain that parties transfer targetable goods mostly to indifferent voters but also provide benefits for core-supporters (Stokes 2005).

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<sup>14</sup> Extending McGillivray's work, Golden and Picci (2008) find that weak proportional systems, as in open-list PR in Italy, target resources to districts which elect more powerful deputies from the government parties.

Extant models of distributive politics also show some considerable theoretical disagreement about the relative efficiency of vote-maximization strategies in distributive politics. As in Stokes (2005), the literature on the swing voter model argues that political parties, as a rational actor, do not have a good enough reason to focus targetable goods on core-partisan groups which would not be able to credibly threaten to punish their favored parties even if their supports are not rewarded by economic benefits. In contrast, the literature on the core-voter model points out that parties which focus distributive benefits on swing-groups continuously would take a risk of losing electoral supports from their core-supporters, especially when they attempt to build broader core-constituencies in a long-term perspective (Cox 2006; Magaloni 2006; Magaloni et al. 2007).

As discussed so far, these variations in extant studies of distributive politics are not explicitly accounted for either by electoral formula or by party discipline. While certainly affecting the incentives of political parties target specific groups of voters in policy decisions, electoral institutions are time invariant and thus do not fully clarify the conditions under which parties are strongly motivated to represent the interest of their partisan constituencies in the allocation of distributive benefits. In the following section, I address this problem by suggesting that the bases of democratic representation in distributive politics are not fixed, but transformed according to changes in economic and political environments. I argue that in terms of trade policy, one important condition that affects the bases of representation is the mobility of factors of production which shapes the characteristics of constituent coalitions as well as electoral incentives of parties in policy decisions. Then I generate several testable hypotheses about how factor mobility affects vote-maximization strategies of political parties and in turn creates variations in trade policy outcomes.

## **4.2. The Bases of Political Representation in Trade Policy Decisions**

### **4.2.1. *Factor Mobility, Party Unity, and the Distribution of Protectionist Measures***

What are the conditions under which political parties are strongly motivated to build core-group of supporters and target them in trade policy decisions? When is it more cost-effective for parties to concentrate distributive benefits on partisan-constituencies in optimizing their electoral prospects?

To understand the relative efficiency of vote-maximization strategies in distributive politics, let's briefly reconsider the swing-voter model suggested by Dixit and Londregan (1995). The model of political competition of Dixit and Londregan starts with several assumptions on a majority voting with two-party competition. In a unidimensional policy space, there are two political parties *L* and *R*, and a continuum of voters which have different preferences over political parties in different interest groups. Facing elections, each party allocates redistributive benefits across groups to maximize its vote totals, whereas voters decide which parties to vote by considering both their ideological (or non-economic) preferences over parties and the amount of economic benefits promised by two parties. In the distribution of ideological preference of each group, there exists a cutpoint which divides voters into two different constituencies and determines the size of vote shares for each party. Voters at the cutpoint receive the same amount of utility from their ideological attachment to one party and from economic benefits promised by the other party. Through the allocation of targetable goods, therefore, parties attempt to maximize their electoral prospects by moving the cutpoint in their favor. The equilibrium of the voting-proportion function indicates that regardless of their ideological dispositions, each party is more likely to concentrate distributive benefits to groups which contain swing voters who are more willing to compromise their ideological preference for economic benefits and groups which members are concentrated on the center of ideological spectrum. That is, the swing voter model predicts that government parties tend to increase their electoral prospects by targeting groups (or regions) which consist of poor, politically moderate voters.

In their subsequent work (1996), however, Dixit and Londregan expand their model to incorporate the case where parties are motivated to target their own supporters in policy decisions. They argue that whether government parties target swing voters or partisan constituencies depends on the discrepancies between parties in their abilities to concentrate distributive benefits on different group of voters. If both parties are equally effective in delivering distributive benefits to groups of voters, they predict that parties are more likely to concentrate benefits on the same bloc of swing voters or political moderates who are more willing to compromise their ideological preference to economic benefits. By contrast, if each party has a certain group of voters which are similar in their ideological affinities for parties as well as in their willingness to sell their voters, and hence if one party is better than its competitor in delivering distributive benefits to different groups of voters, they expect that parties are more likely to concentrate economic benefits on their core constituencies which can be easily swayed with the same amount of transfers.

Although their model consequently encompasses both the swing-voter and the core-voter models, Dixit and Londregan do not specify under which conditions parties differ in their abilities to concentrate economic benefits to different groups of voters or when they have core-constituents which increase the efficiency of distributive programs. Here, I argue that in terms of trade policy, the mobility of factors of production gives us a clue as to when political parties are strongly motivated to target the interest of their core-constituents in trade policy decisions. In the previous literature on trade policy, factor mobility has been a fundamental premise which explains the income effects of international trade on domestic groups and their corresponding trade policy preferences. The Stolper-Samuelson theorem rests on the assumption that factors of production are completely mobile within a given economy. Given that expansion of international trade raises the prices of goods that heavily employ factors which the country is relatively abundantly endowed with but reduce the price of goods that heavily use its relatively scarce factors, the Stolper-Samuelson theorem proposes that owners of abundant factors prefer trade liberalization whereas those of scarce factors favor protectionism. In contrast, the Ricardo-Viner model maintains that one or more factors do not freely move across sectors and hence the returns of specific factors are determined by the rise and fall of industries where they are employed.

There are only a few works which address the influence of factor mobility on actors in domestic politics.<sup>15</sup> Hiscox (2001, 2002) builds a bridge between the Stolper-Samuelson model and the Ricardo-Viner model by conceptualizing factor mobility as a continuous variable which varies according to exogenous factors, such as industrialization, technological development, and political environments. In doing so, he argues that factor mobility determines types of political cleavages which can be inferred from the behavior of political parties, peak associations, and interest groups. High factor mobility tends to generate broad coalitions based on class factors (e.g. capital, labor, and land) as in the Stolper-Samuelson theorem, whereas low factor mobility tends to yields trade policy coalitions along the narrow line of industrial sectors (e.g. exporting- and import-competing sectors). Specifically, through the comparison of legislative voting unity on trade issues over different time periods, Hiscox proposes that factor mobility affects the degree of party strength (or party unity). When parties are associated with owners of factors, high levels of factor mobility and corresponding class cleavages induce parties to act more cohesively on trade issues and to serve the interest of their core-support groups either a protectionist- or a liberalized- policy platform.

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<sup>15</sup> Despite its importance, previous research has rarely considered the influences of factor mobility on trade policy decisions. Extant institutional explanations for trade policy do not address the issues related to factor mobility and infer policy preferences of domestic actors from macroeconomic indicators. If considered at all, it is assumed to be low, as in the endogenous protection literature on cross-sectoral variations in protectionist policies, or *very* high, as in Rogowski's work (1987b) on the impact of international trade on political conflicts in domestic politics.

In a similar vein, Ladewig (2005) more directly addresses the relationship between factor mobility, constituent coalitions, and party strength. Drawing on the theory of conditional party government (Aldrich and Rhode 1995), he analyzes changes in party strength by examining the influence of party and ideology on trade policy preferences of legislators revealed in congressional votes. When factor mobility is high, the costs and benefits of international trade are easily diffused to owners of different factors in both tradable and nontradable sectors and therefore, there are more likely broad class coalitions which are internally homogenous but externally polarized. When factor mobility is low, however, the income effects of international trade are limited to only exporting- and import-competing sectors, and class coalitions would be divided into small, fragmented policy coalitions. Given that political parties reflect dominant types of political cleavages among electorates, Ladewig argues that constituent homogeneity and polarization also increase party strength by enhancing the homogeneity of intraparty interests and the polarization of interests.

Both Hiscox and Ladewig imply that factor mobility present explanations about the demand-side and the supply-side of trade policy decisions. The levels of factor mobility, by determining whether political cleavages are formed along the line of industries or factor classes, affect the scope and characteristics of constituent coalitions as well as their linkages with political parties. In doing so, factor mobility also offers some explanations about under what conditions political parties are strongly motivated to build core partisan groups and represent their interest in policy decisions. High levels of factor mobility render political parties act cohesively in trade policy decisions and represent the interests of their core partisan constituencies rather than multiple, diverse interests of sectors and industries. Thus the influences of factor mobility on the behaviors of political parties in trade policy decisions are framed in the following hypotheses.

*H<sub>1,1</sub>: All other things being equal, high levels of factor mobility are more likely to generate interparty polarization in trade policy decisions.*

*H<sub>1,2</sub>: As factor mobility increases in capital abundant countries, the leftist party is more likely to pursue protectionism whereas the right party is more likely to hold liberalized trade policy.*

*H<sub>1,3</sub>: All other things being equal, factor mobility increases party unity, that is, the degree to which parties act in a unified way in trade policy decisions and serve the interest of their core partisan groups.*

Following the lead of others, I define party unity as a degree to which parties act in a unified way in policy decisions and represent the interest of their core-partisan constituencies (Aldrich 1995; Rohde 1991; Cox and McCubbins 1993; Levitt and Snyder 1995; Ansolabehere and Snyder 2002, 2006; Franzese, Nooruddin 2004; Franzese, Nooruddin, and Jusko 2008). Since party unity reflects the relative values that rank-and-file legislators put on parties' reputation over their own reputation, it is still conceptually related to the personal-vote literature (Carey and Shugart 1995) or the institutional literature which emphasizes the effects of party strength, or party discipline on trade policy outcomes (McGillivray 1997, 2004; Grossman and Helpman 2004, 2005; Hankla 2006). Two differences should be noted. First, previous works maintain that the extent to which elected officials are committed to partisan platforms over personal-vote seeking behaviors is mainly determined by institutional elements of electoral systems at the level of electoral districts, such as electoral formula, district magnitude, and ballot systems. In contrast, I regard party unity as a continuous variable which changes according to socioeconomic environments, specifically levels of factor mobility and corresponding characteristics of constituent coalitions.

Second, contrary to previous literature, I assume that high party unity does not necessarily make elected officials prefer trade liberalization over protectionism. Rather, it increases the value of party labels as an

information conduit between voters and policy decisions and also as a leverage by which individual legislators optimize their electoral prospects (Snyder and Ting 2002). When party unity is high, party members have a strong incentive to act cohesively for the representation of their constituencies' interests. Thus the influence of factor mobility on party unity can be rephrased in the following hypotheses.

*H<sub>2,1</sub>: As factor mobility increases, trade policy preferences of elected officials are affected by partisan ideologies rather than by economic interests of their geographic constituencies.*

*H<sub>2,2</sub>: All else being held constant, factor mobility increases voting unity in the legislation of trade bills.*

*H<sub>2,3</sub>: All else being held constant, legislative voting unity over trade issues is higher in systems where electoral fates of legislators are tied to party reputation at the national level rather than their personal reputation at the level of electoral districts.*

The third hypothesis captures the influence of features of electoral systems on the abilities for political parties to pursue the interest of their partisan constituencies in trade policy decisions. Carey (2007) argues that party members are less likely to act as a strategic unit in their voting behavior if there exist multiple principals affect their prospects for candidate selection and reelection. For instance, in electoral systems where legislative candidates have strong incentives to cultivate personal reputations in order to compete against their co-partisans, they are more likely to deviate from policy platforms proposed by parties and target specific demands of their own constituencies.

#### **4.2.2. Party Unity and the Geographical Allocation of Protectionist Measures**

How does party unity affect the geographical distribution of protectionist measures? Previous works on federal spending in the U.S. considers concentration of economic benefits on partisan strongholds as a proxy for strong political parties. Levitt and Snyder (1995) find that under the Democratic control of the legislature, the amounts of federal expenditure that each district receives is positively associated with the number of Democratic voters. Their subsequent research (1997) on the impact of federal spending on electoral outcomes also finds that the more federal money the incumbent members of Congress give to their districts, the more personal votes they receive in the following elections. On the other hand, Ansolabehere and Snyder (2002, 2006) provide more directly addresses of the core-voter model in public funds in the U.S. They argue that regardless of electoral competitiveness, government parties strategically concentrate funds to regions which show the highest degree of electoral support and to regions which are under their partisan control.

The influence of party unity on the allocation of targetable goods can be accounted by extant models of distributive politics. As I mentioned earlier, Dixit and Londregan (1996) predict that the incumbent party is more likely to target core-support groups in distributive politics when it is better than its competitor in delivering economic benefits to particular group of voters. If high levels of factor mobility generate broad-class constituencies which are homogeneous but polarized, and hence if parties are likely to act more cohesively in trade policy making, there would be also considerable discrepancies in the abilities of parties to allocate targetable goods to different constituencies. If factor mobility is low, however, trade policy coalitions are more likely to form along the line of narrow industry groups and parties would not show significant differences in their abilities to target these small, ephemeral coalitions in policy decisions.

On the other hand, Cox (2006) points out that the current literature on distributive politics focuses on only one aspect of vote-maximization strategies, namely persuasion, which he defines as an attempt to change voters' preferences over political parties. He maintains that there are certain circumstances where parties optimize their electoral prospects through mobilization, that is, the promotion of participation of their core

supporters in elections, or through coordination, the adjustment of the number of characteristics of alternatives from which voters to choose. Specifically, Cox expects that parties are more likely to concentrate distributive benefits on their core-partisan groups in the following conditions: if parties are not able to deliver credible promises to swing groups of voters, if there are almost no swing voters, or if parties think mobilization more possible than persuasion. As mentioned above, here I assume that high levels of factor mobility divide voters into broad-class coalitions which are homogenous but polarized and also create discrepancies in the abilities of political parties in delivering distributive benefits to different group of voters. Thus factor mobility would affect the geographically allocation of protectionist measures as follows.

*H<sub>3.1</sub>: All other else constant, when factor mobility is high (and hence when party unity is high), government parties are more likely to target their partisan strongholds in policy decisions.*

*H<sub>3.2</sub>: When factor mobility is high, distributive benefits of trade protection are more likely to be concentrated on districts where government parties have their partisan-constituencies or districts where elected officials are associated with government parties.*

*H<sub>3.3</sub>: When factor mobility is low, distributive benefits of trade protection are more likely to be targeted to districts which voters have a great willingness to compromise their ideological preferences for economic benefits or which members are concentrated at the cutpoint in the distribution of ideological preferences.*

*H<sub>3.4</sub>: The amount of trade protection that the government party distributes for electoral districts is positively associated with the extent of electoral support that the party would receive in the following elections.*

#### **4.2.3. Party Unity and the Level of Protectionism**

How does party unity affect the levels of protection to trade? There are a number of notable attempts to overcome the dichotomy between majoritarian and proportional electoral systems. Relying on the personal-vote literature, Hankla (2006) maintains that the levels of protection are lowered by strong political parties which he defines in terms of the breadth of party linkages to voters and organizational centralization that prevents logrolling to protection. On the other hand, Park and Jensen (2007) explain variations in agricultural subsidies across OECD countries by measuring the extent to which electoral systems induce legislators to target narrow geographical constituencies in policy decisions.<sup>16</sup> Ehrlich (2007) maintains that the number of access points in political institutions is positively associated with levels of trade barriers since the more access points lower lobbying costs that protectionist groups should pay to reflect their interest in trade policy decisions. Goodhart (2008) also offers a formal explanation for countervailing effects of electoral formula on the levels of protection. She argues that legislators in majoritarian systems, by having smaller constituencies, are strongly motivated to pursue protectionist policy at the local level since benefits from protection exceed costs imposed on consumers. At the national level, however, majoritarian systems moderate protectionist bias in trade policy by inducing legislators to target only some key marginal districts.

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<sup>16</sup> Park and Jensen (2007) point out that a majoritarian-proportional representation dichotomy does not account for a cross-national variation in agricultural subsidies in OECD countries. For instance, their data shows that several closed-list PR systems, such as Switzerland, Iceland, and Norway persistently maintain high levels of subsidies from 1986-2000, whereas some majoritarian systems including the United States and Canada have relatively lower levels of agricultural protection. To explain this variation, they calculate the Cox-thresholds which conceptualize the degree to which electoral systems induce legislators to protect the benefits of specific interest groups, using the number of noncumulative votes, the number of competitors, and voting rules. For more explanations about Cox thresholds, see Park and Jensen (2007, p.317).

Nevertheless, these studies do not usually consider the demand side-variables in trade policy making, that is, the structure of trade policy preferences among domestic actors which changes over time and across countries.

To redress this, I first begin by reviewing existing models on distributive politics generate several testable hypotheses about cross-national variations in levels of protection. It has been frequently argued that the project choices in distributive policy areas are usually characterized by the norm of universalism, that is, “the tendency to seek unanimous passage of distributive program which includes a project for all legislators who want one” (Weingast, 1979, p.249). In the absence of legally binding contracts among legislators, minimum winning coalitions (MWC) for the legislation of a budget proposal is instable since the members of MWC always have incentives to break from the existing coalitions and to form with the representatives in the minority that offers larger benefits. In overcoming this type of instability in the MWC, each legislator proposing protectionist measures for his electoral constituencies is motivated to vote for similar measures proposed by other legislators. If legislators vote on such proposals repeatedly, a universal logroll will be generated as an equilibrium because each legislator assumes that other legislators would punish his defection by offering amendments that withdraw the bill that he initially proposed. The norm of universalism would, therefore, generate the oversupply of distributive programs that targeting specific interests and consumers would be worse off than they were before the bill was passed (WSJ 1981; Hiscox 1999).

Here, WSJ provide a model that explains why the mechanisms for democratic representation generate Pareto-dominated outcomes in the distributive policy areas. They argue that dividing the single national constituency to “multiple, disjoint political units called geographic districts” encourages each member of the legislature to maximize its benefits without considering the costs imposed on other districts (WSJ 1981, p.10). When the norm of universalism is predominant, each legislator determines a level of expenditure for his district such that the marginal benefit equals  $1/n$  of its marginal costs, where  $n$  equals the number of legislators (or the number of electoral districts in single-member district systems). As an increase in  $n$  reduces marginal costs that each legislator should internalize, legislators are motivated to increase the size of distributive program that he proposes for his electoral constituencies. This is what WSJ call “the law of  $1/n$ ” which proposes that an increase in the number of constituencies generate the oversupply of distributive programs at the national level.

While the WSJ’s model has been derived from two-party systems in the U.S., several researchers have applied the law of  $1/n$  to multi-party legislatures. In their studies of the size and composition of government spending, Scartascini and Crain (2002) and Mukherjee (2003) suggest the “modified universalism” which emphasizes the role of political parties in the legislative process. One of their common assumptions is that in a multi-party legislature that reduces the probability of a single-party majority, actors in charge of policy negotiations are party leaders rather than individual legislators. Given that the actual number of relevant bargaining agents in the multi-parties legislature is reduced to the number of political parties, they argue that an increase in the effective number of parties in the legislature induces political parties to expand the size of distributive programs that appease their core supporters and also approve similar programs suggested by other parties. In a similar vein, Bawn and Rosenbluth (2006) argue that the more parties in a coalition government at budget-passing time, the larger the public sector since a government coalition of many parties generate inefficient bargaining than a single party coalition of many interests.

The aforementioned literature generates contradictory predictions about the link between electoral institutions, party systems, and the size of distributive programs. In WSJ’s model, protectionist restrictions would be oversupplied in single-member district plurality systems that usually consist of small, many districts. In contrast, the modified universalism (Scartascini and Crain 2002; Mukherjee 2003;

Bawn and Rosenbluth 2006) suggests that multi-party legislatures in PR systems would increase the size of distributive policies.

Here, it should be noted that despite their contradictory arguments, these two models rest on the same equation to measure the ideal size of distributive project for each group. If a society consists  $n$  groups, the scale of project  $i$  is determined through a simple utility maximization of  $[B(x_i)-C(x_i)/n]$  where  $B(x_i)$  denotes the benefits of project  $i$  given only to the group  $i$  and  $C(x_i)$  indicates the costs of project  $i$  borne by all groups. The WSJ's model focuses on electoral accountability of individual legislators to geographically defined constituencies and hence  $n$  denotes the number of electoral districts in a given country. In the latter cases, however,  $n$  indicates the number of legislative parties (Scartascini and Crain 200) or the number of parties in a coalition government (Bawn and Rosenbluth 2006). Therefore, while these two models commonly argue that as  $n$  increase with the size of distributive projects, these two models yield different predictions on the effect of political institutions on cross-national variations in levels of protection to trade.

Here, I attempt to fill this gap drawing on the theory of effective constituency proposed by Franzese et al. (with Nooruddin 2004; with Nooruddin and Jusko 2008). The basic assumption of the effective constituency is that actual constituencies that legislators aim to represent are not necessarily the same as geographically defined electoral districts. Therefore, the effective constituency conceptualizes "the potential bases of democratic representation as a continuum from the interests of the policymaker's geographic constituency, her electoral district,  $d$ , and to those her party's supporters, her partisan constituency,  $p$ " (Franzese and Nooruddin 2004, p.2). Given that the extent to which legislators pursue partisan platforms rather than geographically defined interests depend on the degree of party unity,  $u$ , the effective number of constituencies conceive legislators' representation of voters demands in the following equation:  $c = u \cdot p + (1-u) \cdot d$ . Considering party unity as a continuous variable, this model incorporates the WSJ's law of  $1/n$  for two party systems with SMDP and the modified universalism for multi-party environments in PR into one theoretical framework.

While Franzese et al. focus on the size of public spending and distributive politics in the United States, I argue that the conception of the effective constituency clarifies the link between electoral institutions, party systems, and protectionist measures. Specifically, I assume that both partisan and geographic bases of representation exert significant effects on the provision of protectionist measures and generate the following hypotheses.

*H<sub>4.1</sub>: In any given voting rules, an increase in the number of electoral districts would promote logrolling in the legislation of trade bills and raise the level of trade barriers.*

*H<sub>4.2</sub>: An increase in the number of political parties in government would generate inter-party competition over trade policies. Hence the number of government parties is positively associated with the level of trade barriers.*

*H<sub>4.3</sub>: High factor mobility (or high party unity in trade policy decisions) would increase the effect of the number of government parties on the levels of protectionism but decrease the effect of the number of electoral districts.*

*H<sub>4.4</sub>: When the numbers of parties and electoral constituencies are constant, high factor mobility (or high party unit in trade policy decisions) would reduce the number of effective constituencies and thus lower the levels of trade barriers.*

*H<sub>4.5</sub>: An increase in the effective number of constituencies would raise the average level of trade barriers.*

*H<sub>4.6</sub>: When factor mobility is high, an increase in the number of districts supporting government parties (or partisan strongholds) is positively associated with levels of protection. When factor mobility is low, however, an increase in the number of marginal districts is positively associated with levels of protection.*

## **5. Research Design**

- The influence of factor mobility on party unity in trade policy decisions
  - Factor mobility → ideological polarization of political parties
  - Factor mobility + Electoral Systems → voting unity in the legislation of trade bills
  
- Factor mobility, party unity, and trade policy outcomes
  - Factor mobility → the geographical distribution of protectionist measures within a country
    - The sign of coefficients of Cox-McCubbins variables at the level of electoral districts
    - The sign of coefficients of Dixit-Londregan variables at the level of electoral districts
  
  - Party unity in trade policy decisions and electoral systems → cross-national variations in trade protection
    - Generation of the number of effective constituency
  
- Data

## **6. Timeline to Completion**

**Figure 1. The Levels of Tariff and Nontariff Barriers in OECD countries**

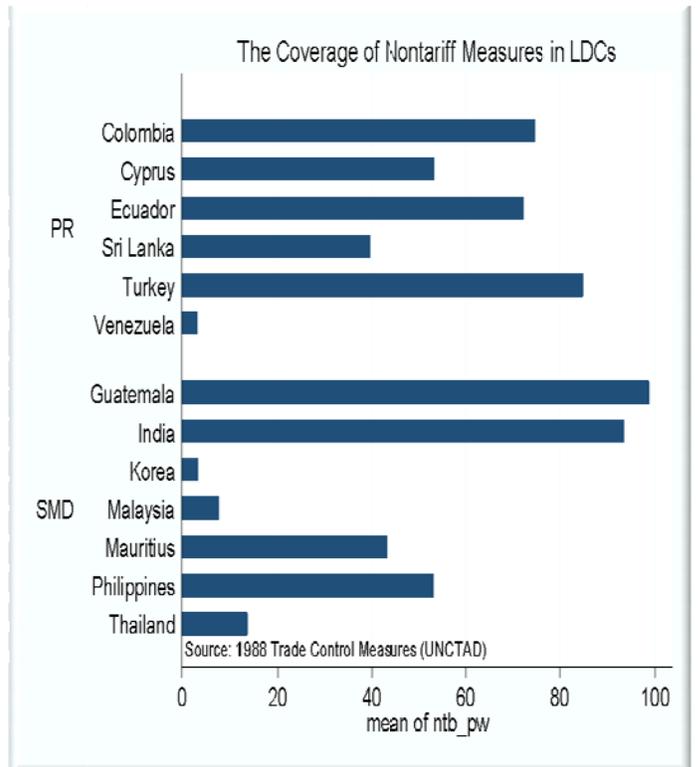
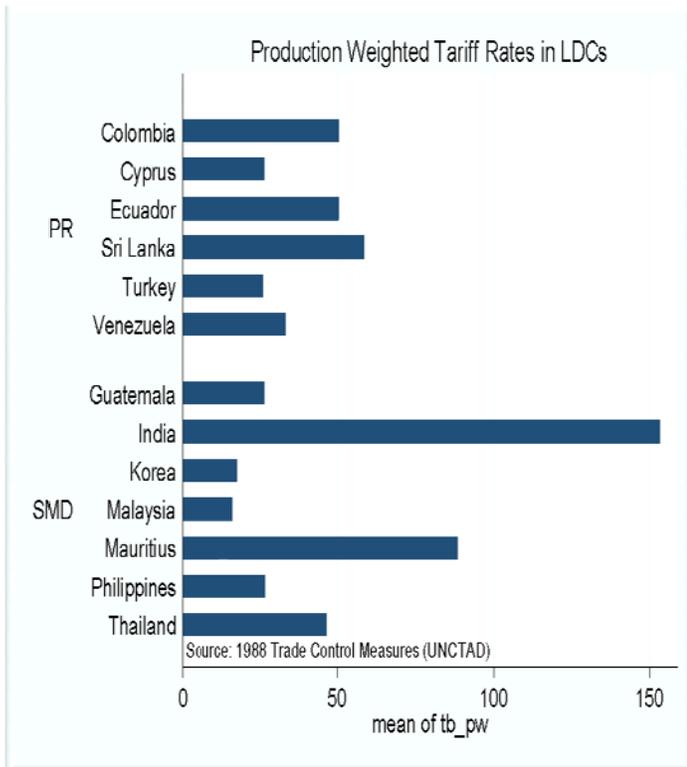
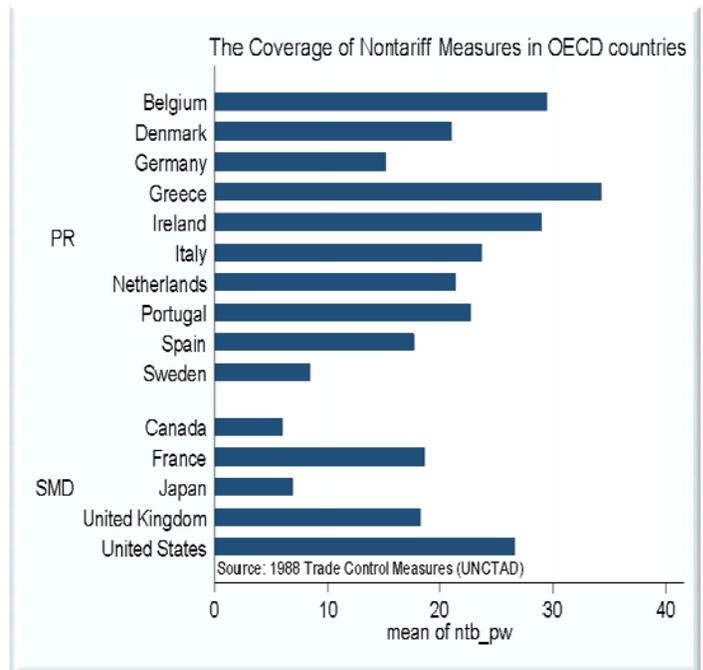
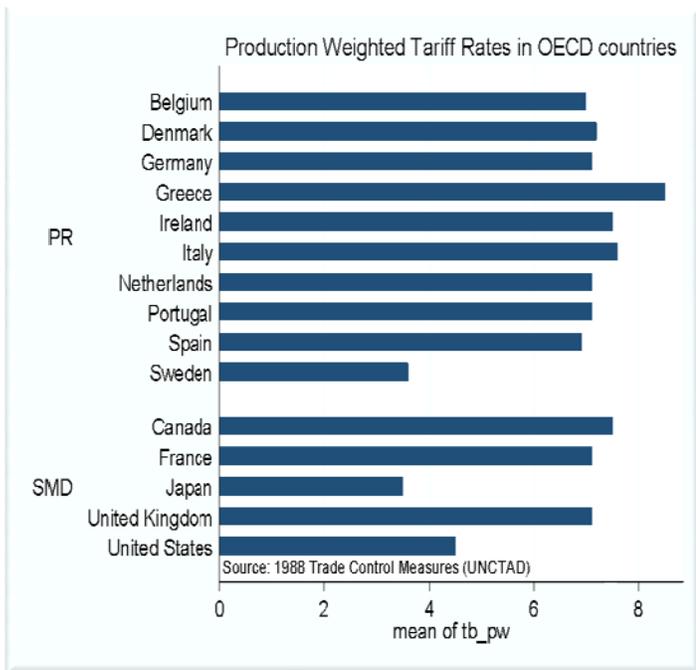


Figure 2. Personal Vote Seeking Incentives and Trade Policy Indicators in OECD countries

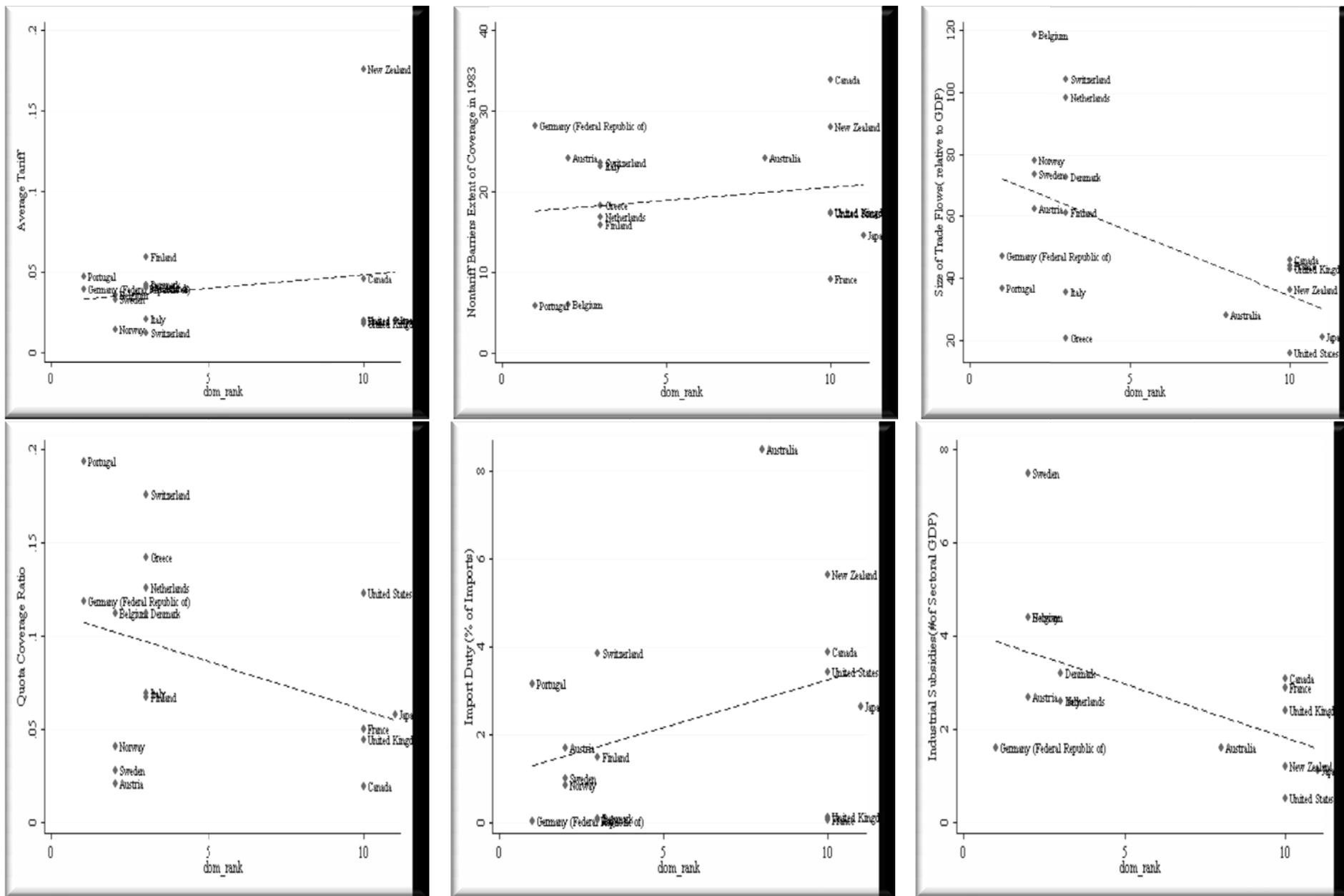
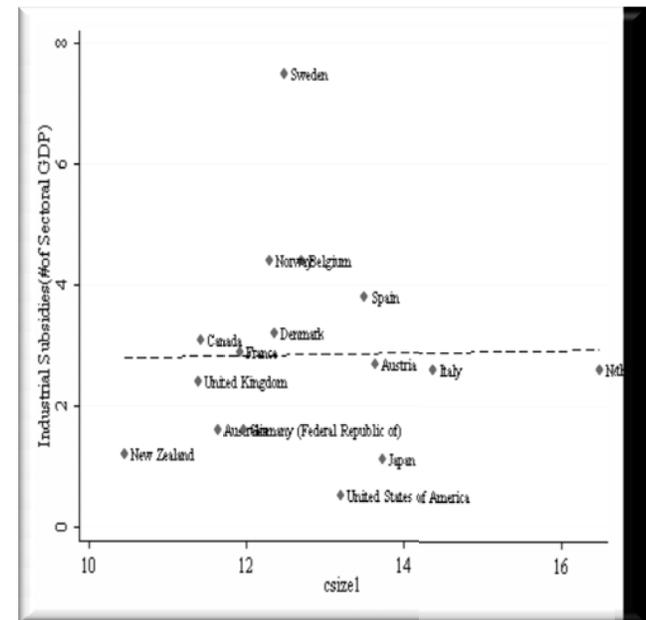
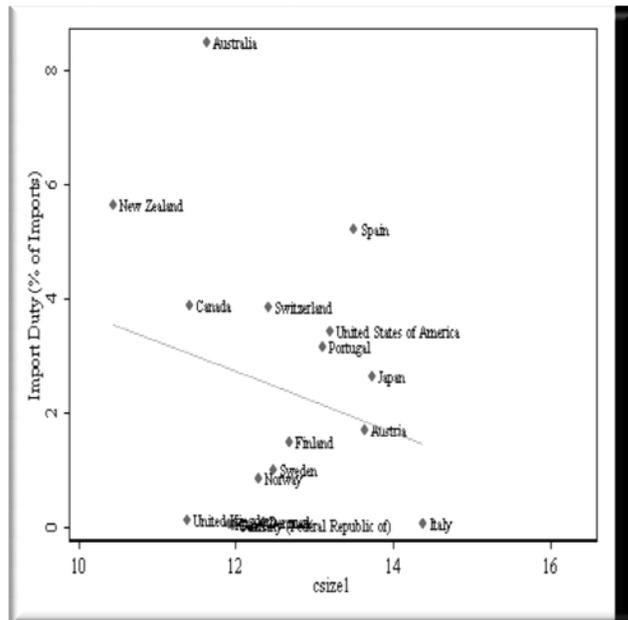
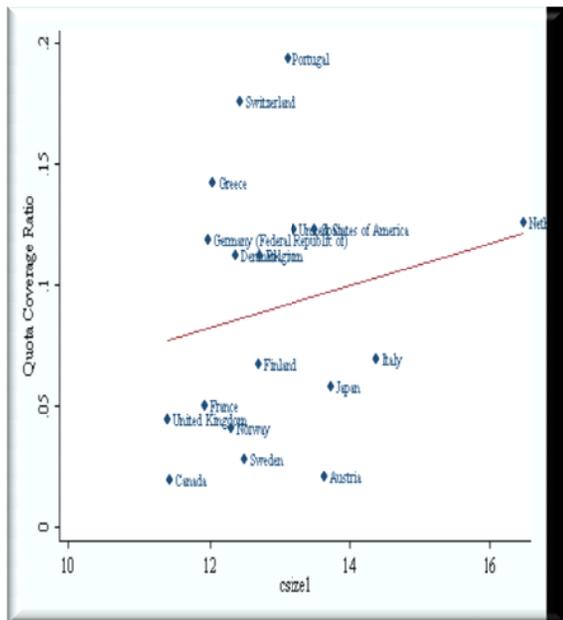
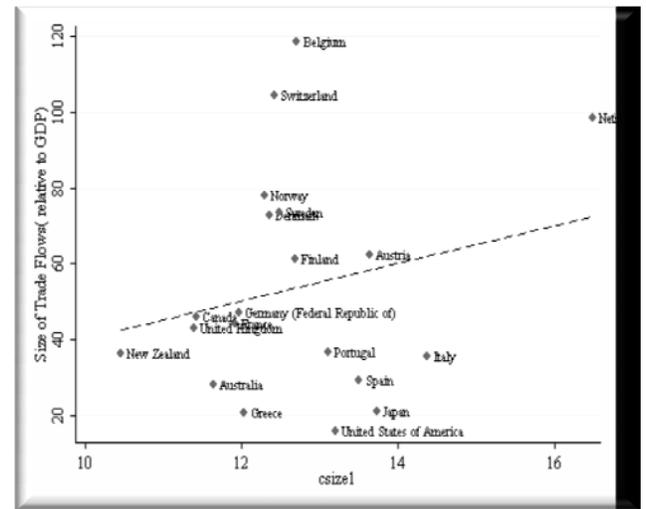
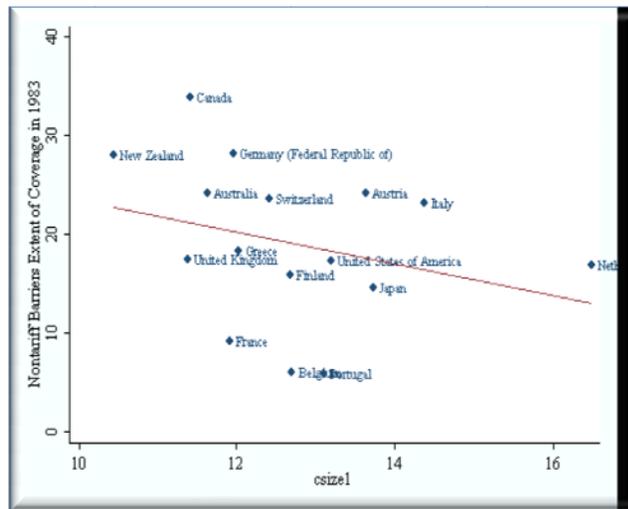
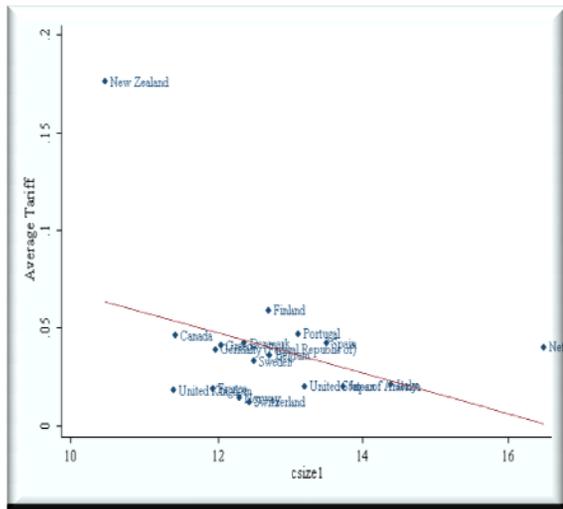


Figure 3. Constituency Size and Trade Policy Indicators in OECD countries



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