

Understanding of Trade

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Motivation: How do People Reason about Trade and Trade Policy?

1. How well do people understand trade and trade policies?

Impacts on prices and wages?

Impacts of trade policies?

2. Which factors shape their support for different types of trade policies?

Material self-interest?

Broader social and economic concerns?

Trade restrictions vs. compensatory redistribution?

Address these questions using surveys and experiments.

Social Economics Surveys and Experiments as a Key Research Tool

Large scale surveys that go in-depth into people's minds.

Surveys have been used for a long time for statistics. Some variables are now better measured in administrative high-quality data (like income, family situation, employment)

Yet, some things are invisible in data other than survey data (even great data!): perceptions, attitudes, knowledge, and views.

Limits of revealed preference approaches.

Reliable results require good design & appropriate samples.

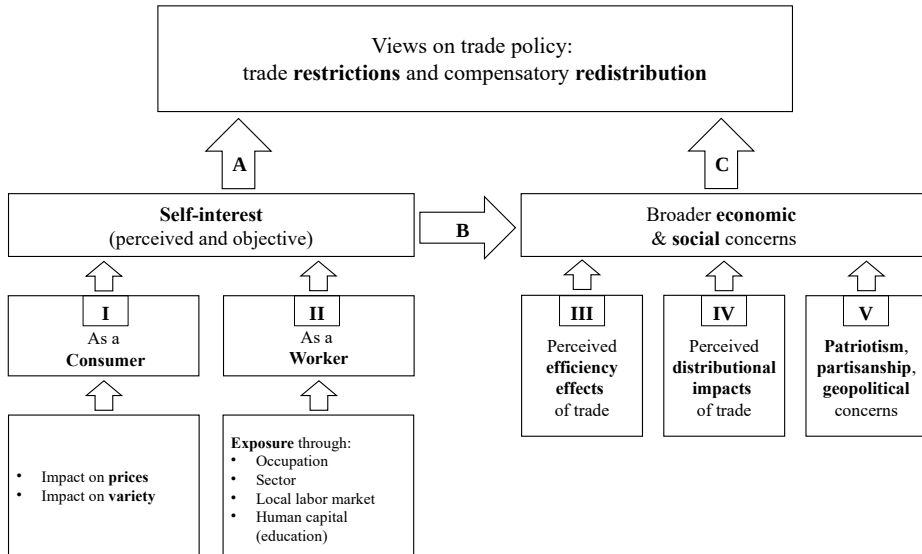
Benefits of surveys:

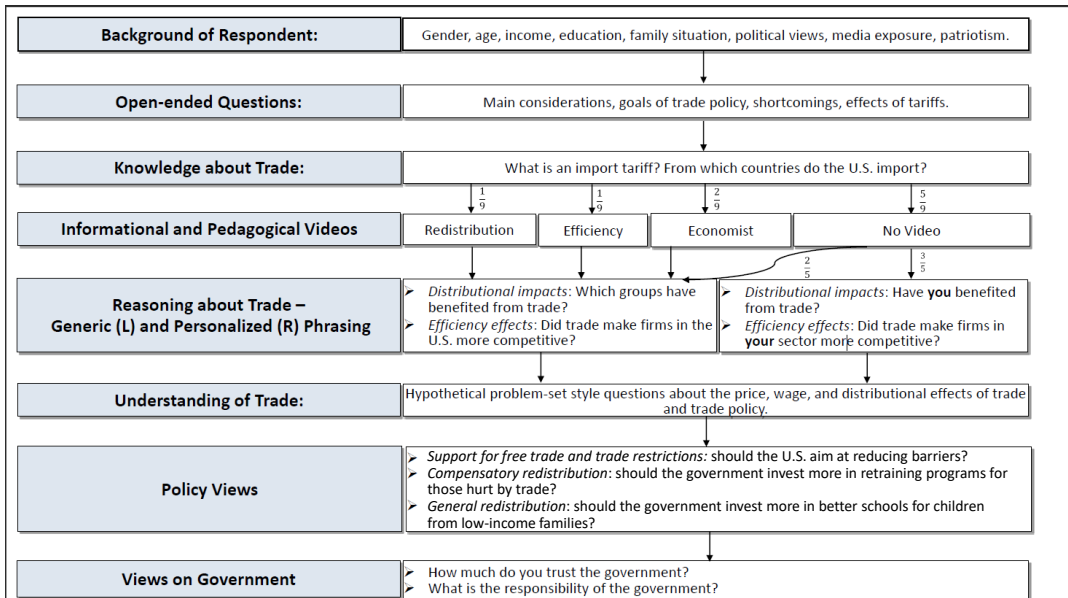
Two-way learning between policy makers/researchers & people.

What should the “social objective” be? What do people find “fair?”

Flexible tool, can collect more data. Comments very welcome!!

The Factors Shaping Views on Trade Policy





Distributive Effects Treatment

There are often both **winners** and **losers** from trade.



When there is more trade, all **households who consume** the imported goods can gain from it.

The benefits from increased trade can be perceived by a **large group**, throughout the country.



The losers from trade are generally a **smaller group**, often concentrated in one place or industry.

However, their losses can be very large, and therefore more **visible**.



Efficiency Effects treatment

When there is more trade between the two countries, companies in the car sector from country A will be able to **export more** of the goods and services they produce and increase their profits.



Firms in the clothing sectors will not be able to export much because they cannot produce as cheaply as the firms in country B. In these sectors, companies may **close down** because of the new foreign competition.



More trade can also increase **learning** between firms and people in countries A and B as well as the diffusion of **knowledge and technology**. This can make all firms and people more productive.



In a larger market, domestic industries have to be more efficient to remain competitive.



Economist (= Efficiency + Distributive Effects) treatment

Imagine that a country, that we call country A, starts trading more with a foreign country, called country B.

A



In a larger market, domestic industries have to be more efficient to remain competitive.
This can raise U.S. firms' **productivity** and spur long-run **economic growth**.



Imagine that the U.S. starts trading more with a foreign country, called country X.

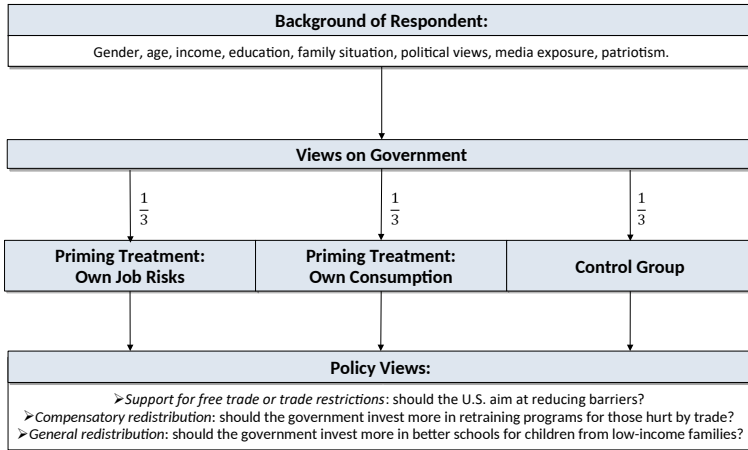
U.S.



The government can try and reduce the losses by **helping U.S. workers** in the sectors hurt by trade such as the clothing sector.



Survey 2 Flow



Own Job Risks (Priming) Treatment

What are the main considerations that come to your mind when you think about the U.S. trading with foreign countries and **how your job has been affected by it**? [Open ended]

Since 2000, more than 5 million jobs in the manufacturing sectors have been lost. One of the causes behind this decline is the increased competition with foreign countries that pay lower wages to their workers. **How serious of a threat do you think trade with foreign countries pose for the future of your sector?**

Do you agree or disagree with the following statement? “Because of trade and the resulting competition with foreign countries that pay lower wages to their workers, **my wage has not grown as fast as it would otherwise have**”?

How likely do you think it is that, over the next 10 years, your job will be outsourced, offshored, or automated because of competition with foreign countries?

Own Consumption (Priming) Treatment

Imagine the U.S. did not trade goods and services with other countries. What are the main things you feel like you'd be missing? [Open-ended]

Can you think of some goods only produced in foreign countries that you regularly buy and consume because of trade with foreign countries? Please describe. [Open-ended]

Do you agree or disagree with the following statements?

- ▶ Trade with other countries has decreased the prices of the goods I regularly buy by increasing competition among firms.
- ▶ Trade with other countries has increased the variety of the goods I have access to in ordinary stores.

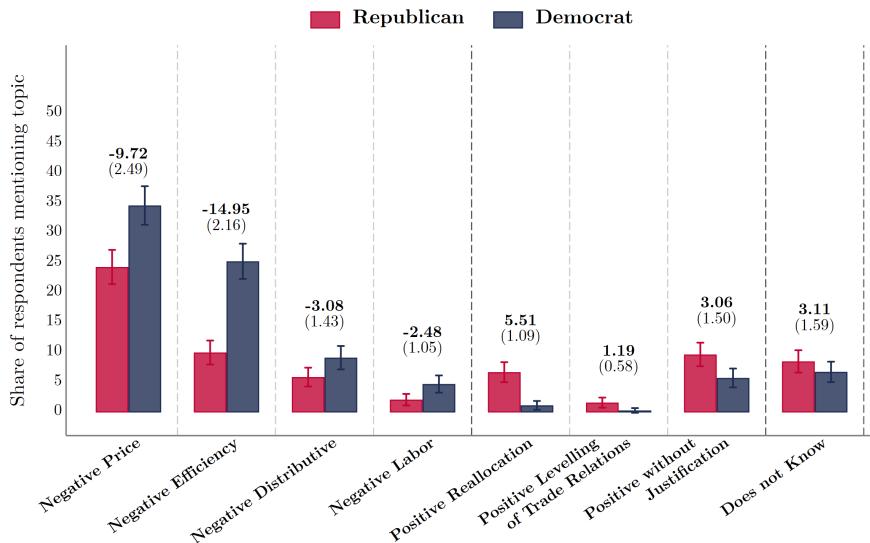
Outline

- 1 First Reactions: Text Analysis of the Open-Ended Survey Questions
- 2 Understanding of Trade
- 3 Perceived Efficiency and Distributional Effects of Trade
- 4 Views on Trade Policy

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What do you think would be the effects on the U.S. Economy if barriers to trade, such as tariffs, were increased? [▶ Considerations](#)



Keywords (1/2) Negative

- Negative Price:** (hit, destroy, bad, negat, suffer, disast, disastr, downfal, detriment, recess, depress, troubl, unhappi, hurt, harm, hit, loos, lost, damag, pay, worst, wors, fragil, pay, cost, impact) & (consumer, peopl, citizen, household, american, us), (increas, higher, high, up, rais, more, soar) & (price, cost), pay, inflationa, inflat, expens, hard & purchas, afford, less & cheap;
- Negative Efficiency:** (destroy, bad, negat, suffer, disast, disastr, downfal, detriment, depress, troubl, unhappi, hurt, harm, kill, death, shrink, declin) & (effici, compet, competit, innov, technolog, growth, economi), (increas, higher, high, up, rais, more, soar) & tax, ineffici, recess, depress, loss, economi & (collaps, down, shrink, hurt, crash, wors, slowdown, hamper, slow, hinder, negat), (slow, reduc) & growth, decreas & gdp;
- Negative Distributive:** (hit, destroy, bad, affect, negat, suffer, disast, disastr, downfal, detriment, recess, depress, troubl, unhappi, hurt, harm, hit, loos, lost, damag, pay, worst, wors, fragil, pay, cost, out & work) & (manufactur, farmer, busi, busine, busin, job, firm, poor, poorer, middleclass, middl & class, workingclass, compani, bottom, industri, lower & class, sector), layoff, bankrupt, bankruptci, poor & poorer;
- Negative Labor:** (hit, destroy, bad, negat, suffer, disast, disastr, downfal, detriment, recess, depress, troubl, unhappi, hurt, harm, hit, loos, lost, damag, pay, worst, wors, loss) & (labor, job, unemploy, salari, union, wage, outsourc, worker, employe, employ, manufactur, manufact, manufacur, manufactrur, manugfactur), (increas, high) & unemploy, retrain, (decreas, low, lower) & (salari, wage, employ), (few, fewer, lessen) & job;

Keywords (2/2) Positive

Positive....:

Words included: good, posit, benefit, benefici, better, thrive, strengthen, improv, stronger, help, nice, great, bolster, improv, increas;

Words excluded: catastroph, loss, lose, destroy, bad, negat, suffer, disast, disastr, downfal, detriment, depress, troubl, unhappi, hurt, harm, kill, death, shrink, declin, lost, price, cost, afford, expens, (pay & more), inflat;

...*Reallocation*:

own, ourselv, domest, work, job, farmer, demand, local, (product, buy, protect, support, good, posit, benefit, benefici, better, thrive, strengthen, improv, stronger, help, nice, great, economy) & (our, usa, america, american, us);

...*Levelling of Trade Relations*:

fair, (other & countri), china, chines;

...*without Justification*:

Answers in the *Positive* section that were neither in *Reallocation* nor in *Levelling of Trade Relations*.

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A Short “Problem Set:” Stylized and Hypothetical Questions

Goal: Check for understanding, in hypothetical scenarios, “holding all else fixed.”

*The **U.S.** is a **large net exporter of laptops** (meaning that it sells more laptops abroad than it purchases from abroad and that U.S. laptops are a large share of all laptops sold in the world), and a **large net importer of cars** (meaning that it purchases more cars from abroad than it sells abroad and that cars purchased by customers in the U.S. are a large share of worldwide car purchases).*

*The **laptop sector** employs many **high-skilled, college-educated workers**. The **car sector** employs many **low-skilled workers**. Cars are produced for cheaper abroad, while laptops are produced for cheaper in the U.S.*

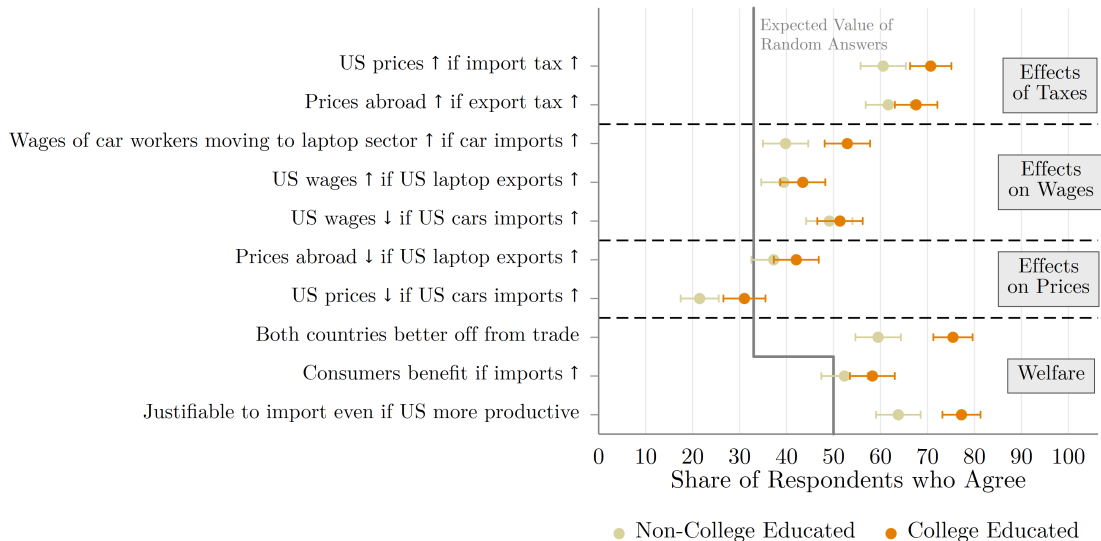
*Imagine that the **U.S.** starts importing even more cars and producing less cars domestically...*

*Imagine also that the **U.S.** starts producing and exporting more laptops...*

What happens to prices of cars/laptops, consumers who purchase cars/laptops, wages of high/low-skilled workers in the car/laptop sectors (in short-run and long-run), etc..

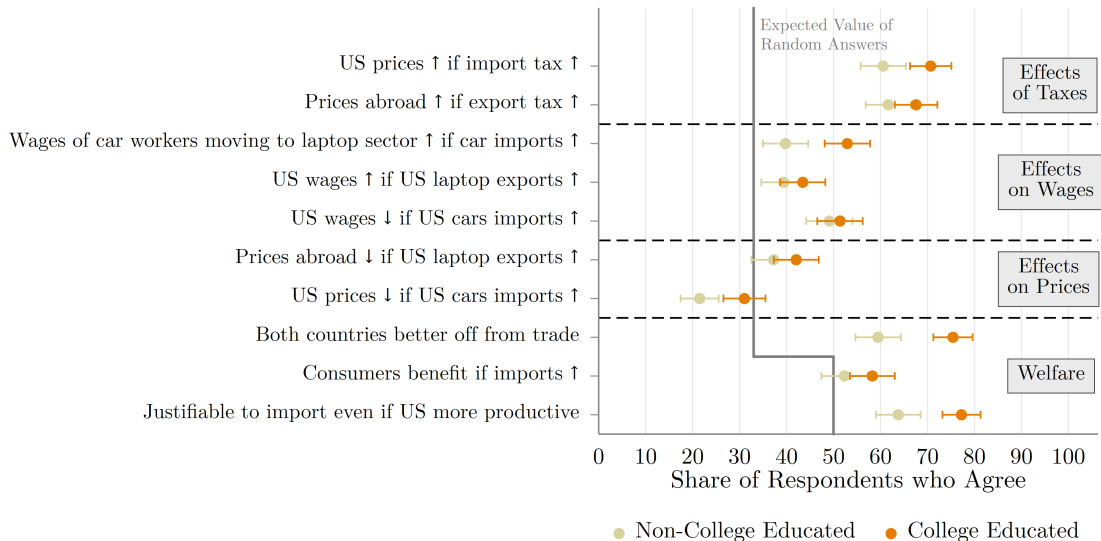
► [More Problem Set Questions](#)

Gaps in understanding on prices/wages. College-educated more accurate



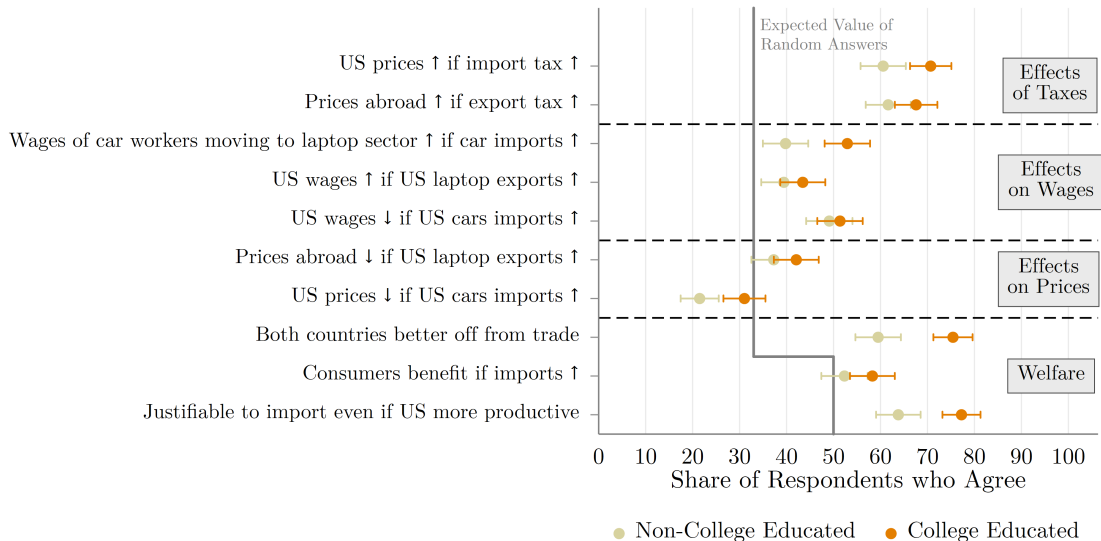
Some effects are harder to understand than others.

Gaps in understanding on prices/wages. College-educated more accurate



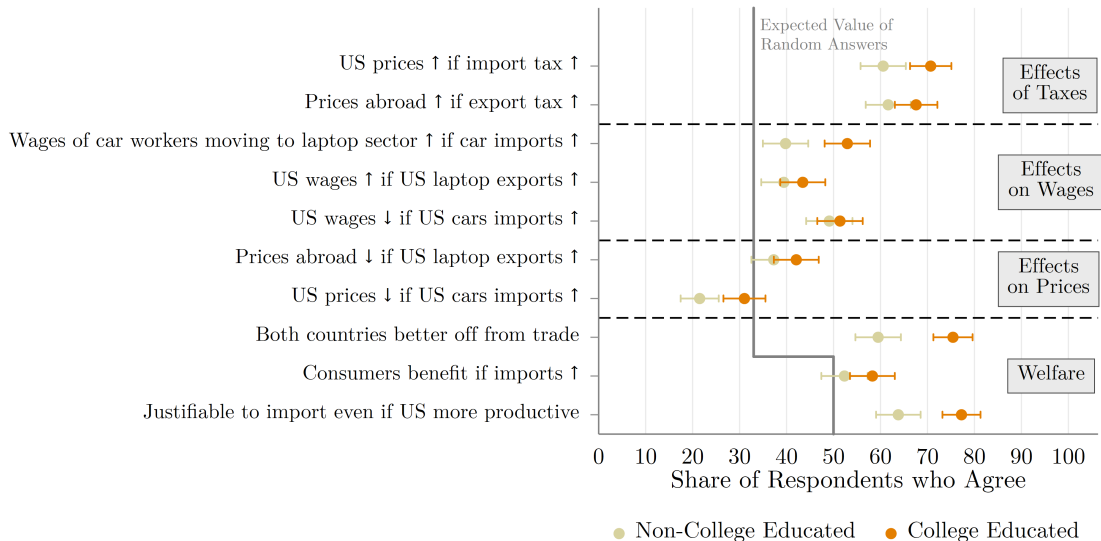
Some alignment on the overall welfare effects of trade or the effects of trade-related taxes.

Gaps in understanding on prices/wages. College-educated more accurate



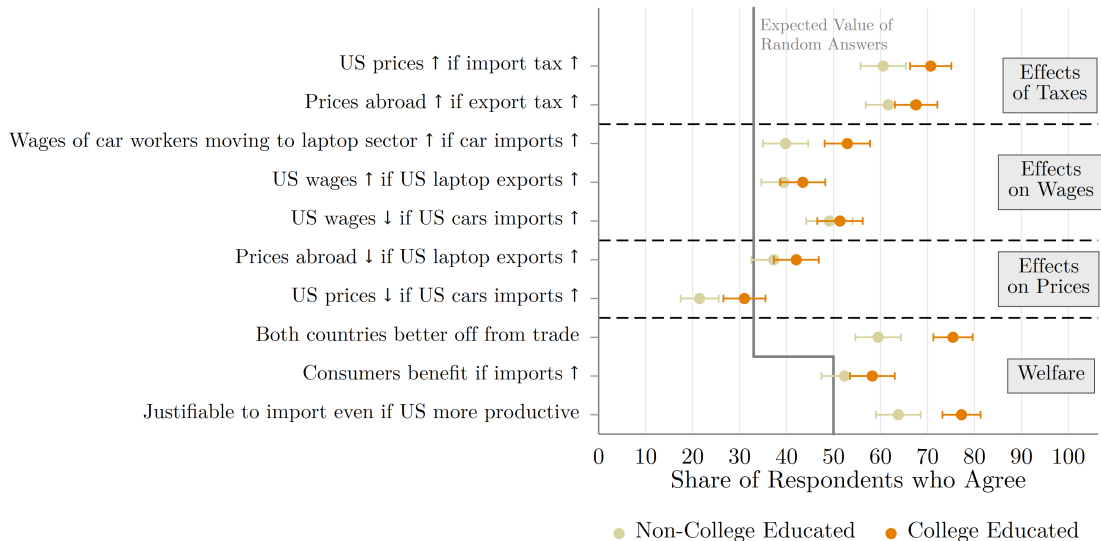
Little agreement on the effects of trade on prices or wages in different sectors.

Gaps in understanding on prices/wages. College-educated more accurate



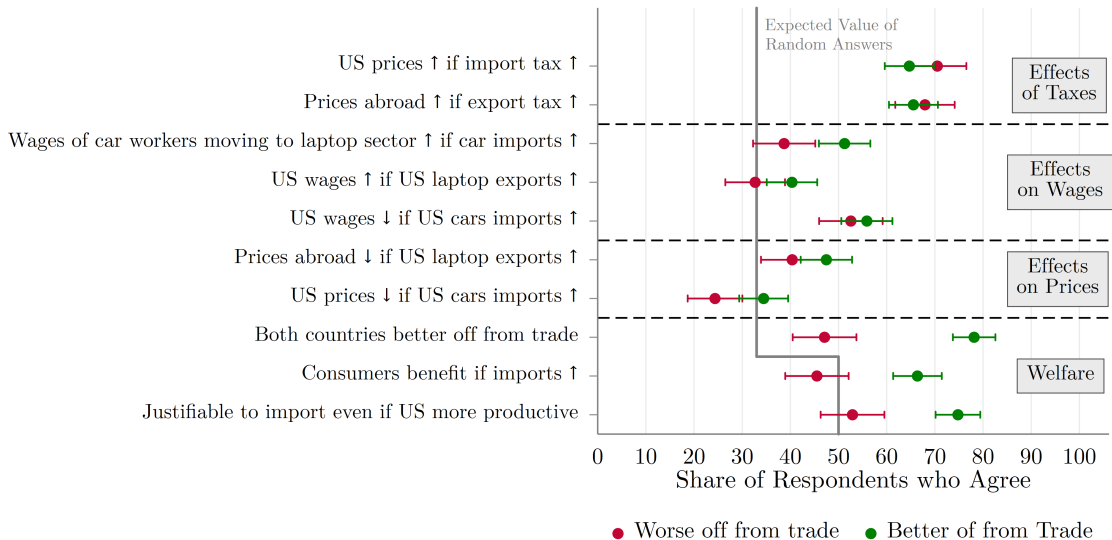
College-educated: more accurate, more optimistic. Self-interest or more?

Gaps in understanding on prices/wages. College-educated more accurate



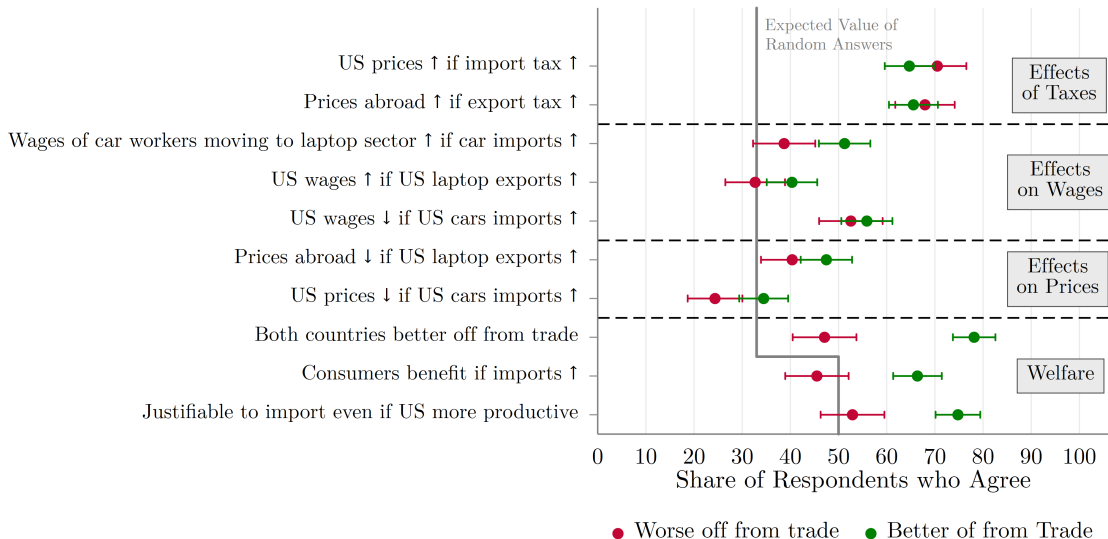
Small partisan gaps in understanding.

Answers to the "Problem-Set" Style Questions by Perceived Exposure to Trade



If made worse off by trade: anticipate more (-) effects from open trade, even in hypothetical scenarios.

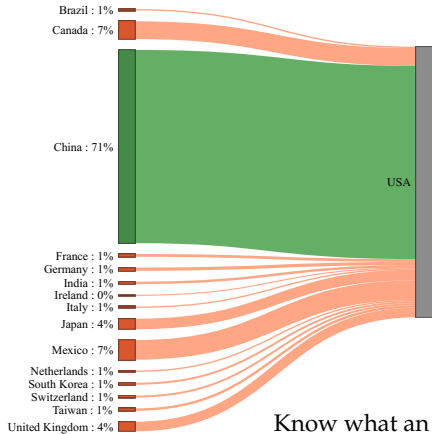
Answers to the "Problem-Set" Style Questions by Perceived Exposure to Trade



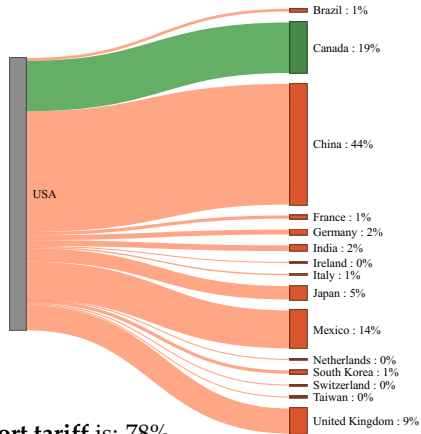
More accurate respondents also more willing to pay for information.

Knowledge about Trade Policy

From which country does the US **import** the most?



To which country does the US **export** to the most?



Know what an **import tariff** is: 78%

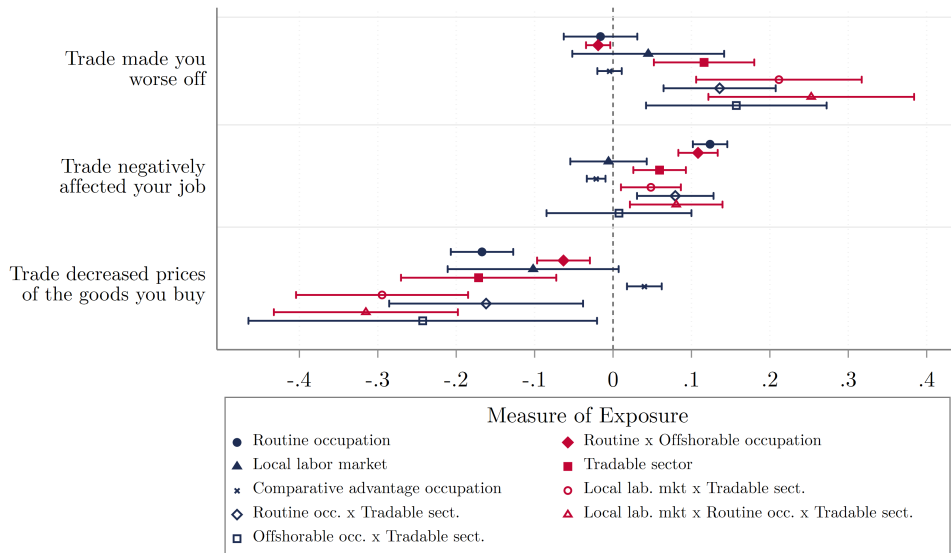
Know what a **quota** is: 48%

Outline

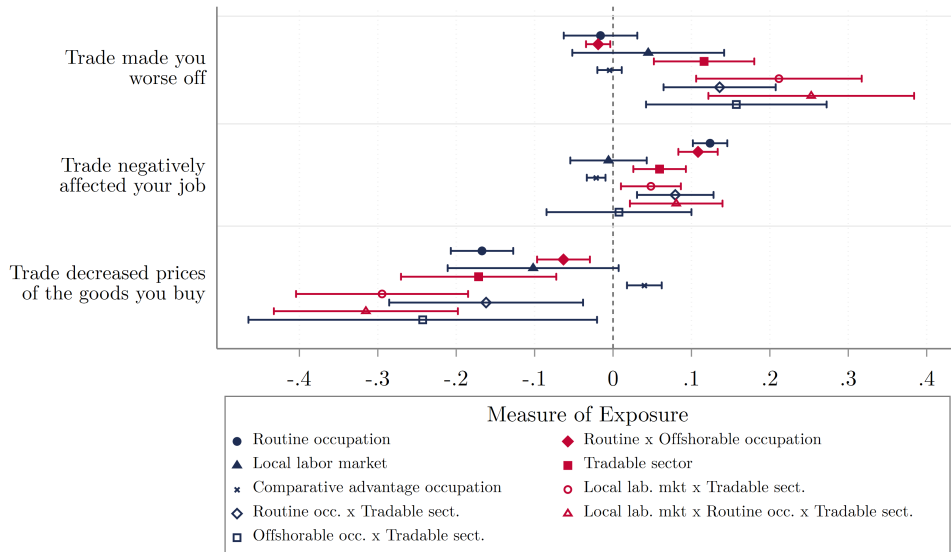
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PERSONAL IMPACTS

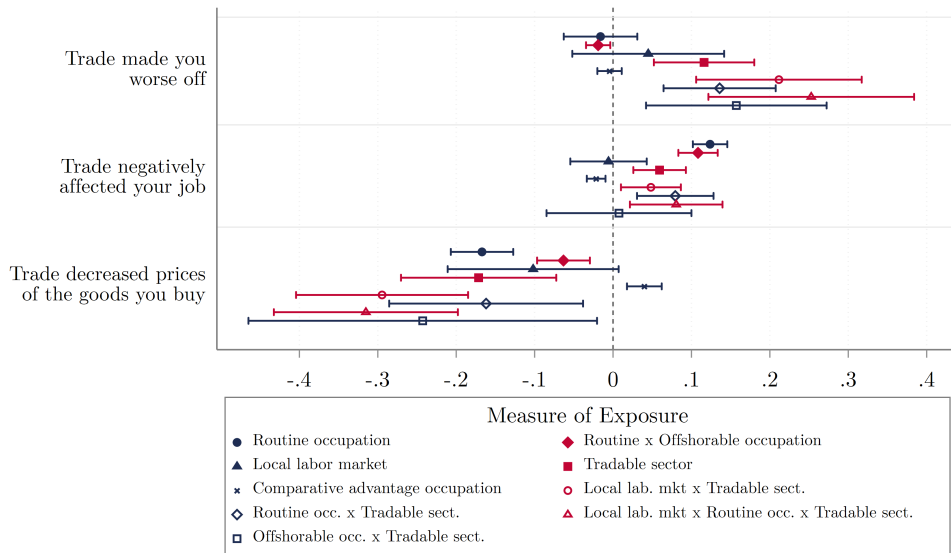
Positive Correlation between Perceived & Objective Exposure Measures



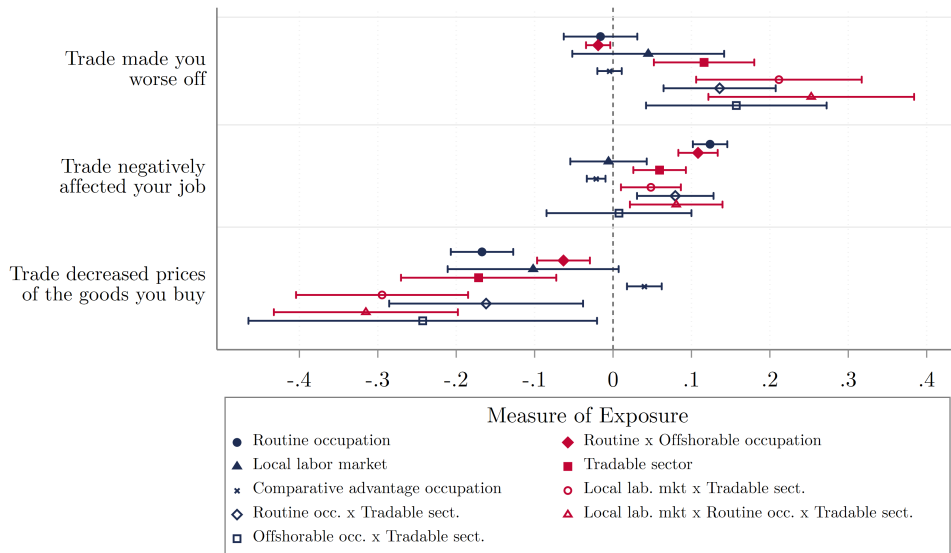
↑ exposure through sector, occupation, or local labor market ↔ feeling worse off from trade in job & overall...



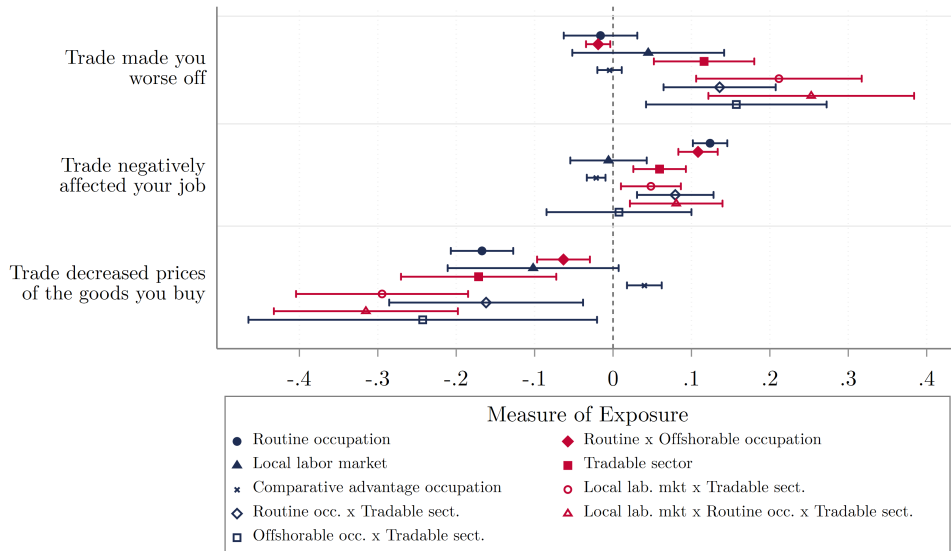
... and not feeling price decreases as a consumer.



College-educated \leftrightarrow feel less negatively impacted (as consumers & workers)

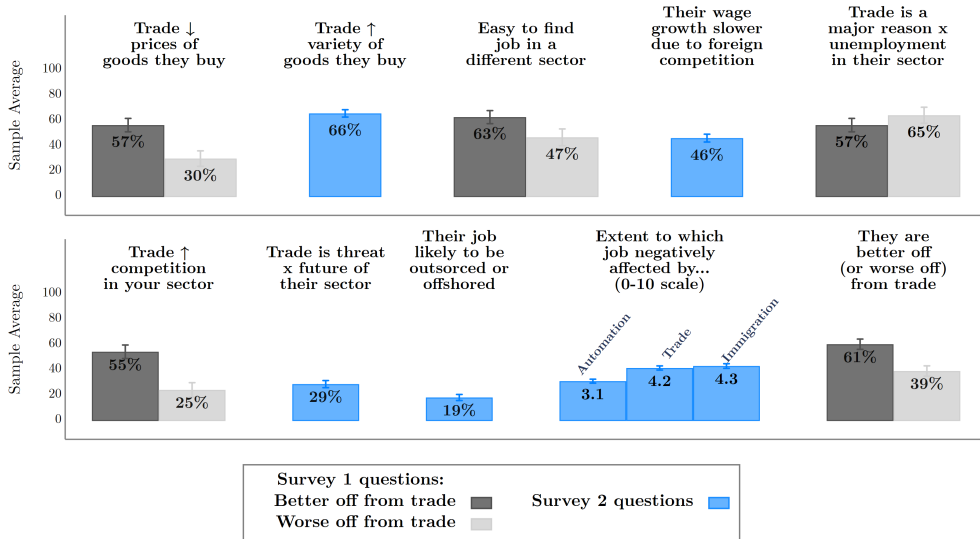


Correlation between subjective & objective exposure is strong, but not perfect.



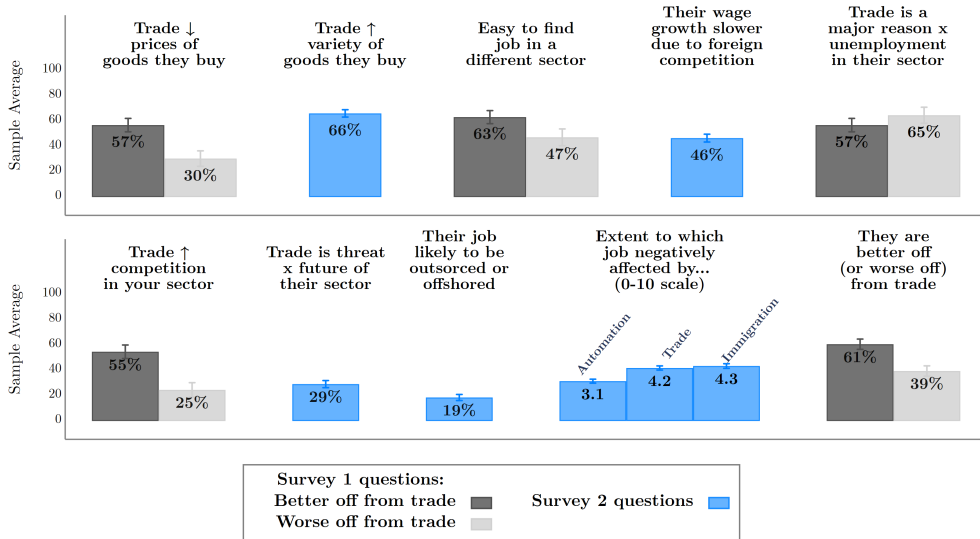
Personal Impacts: Concentrated (Job) Losses, Diffuse (Consumer) Gains

The Respondent Believes that:



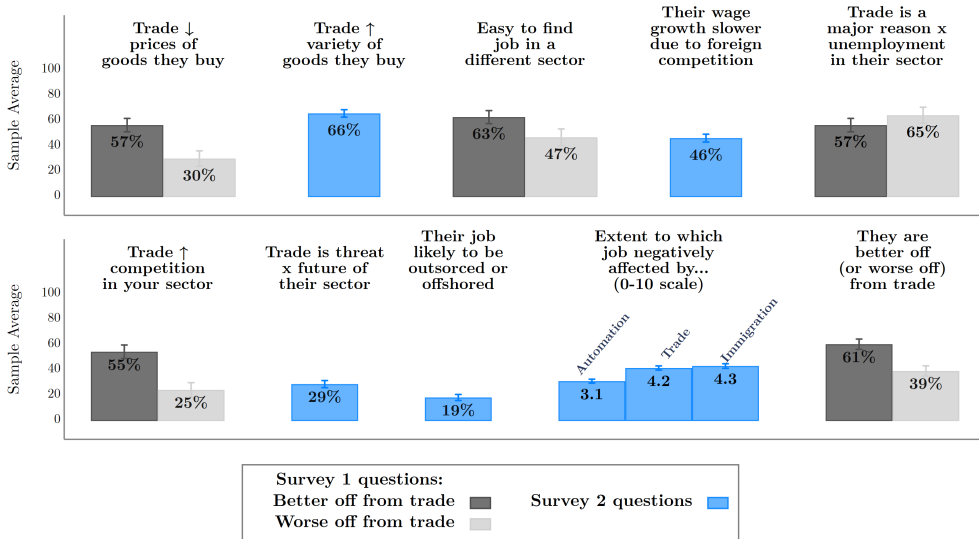
People are divided on whether trade has increased the prices of goods they buy

The Respondent Believes that:



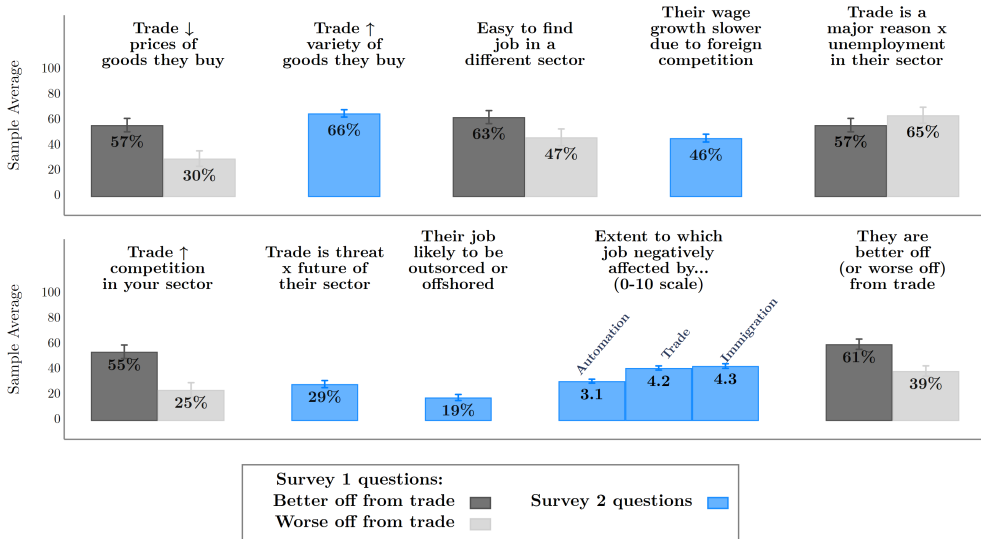
Do think trade has increased the variety of goods available

The Respondent Believes that:



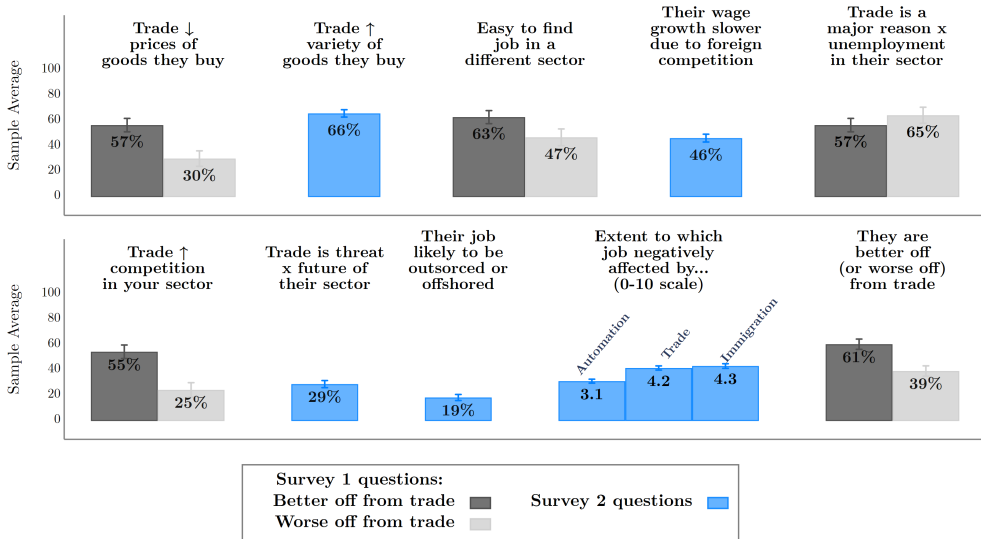
Minority of respondents thinks that trade is a major threat to their sector or job

The Respondent Believes that:



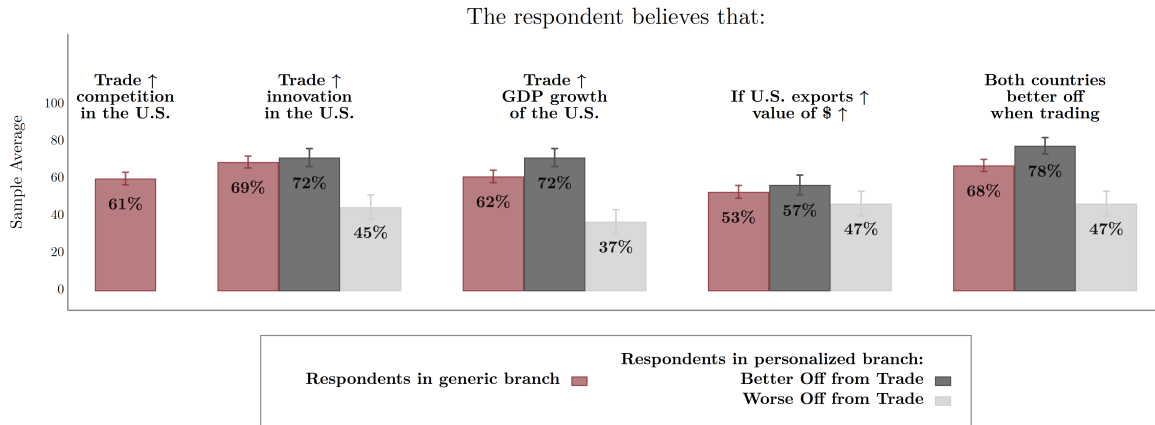
On balance, more people feel made better off than worse off

The Respondent Believes that:



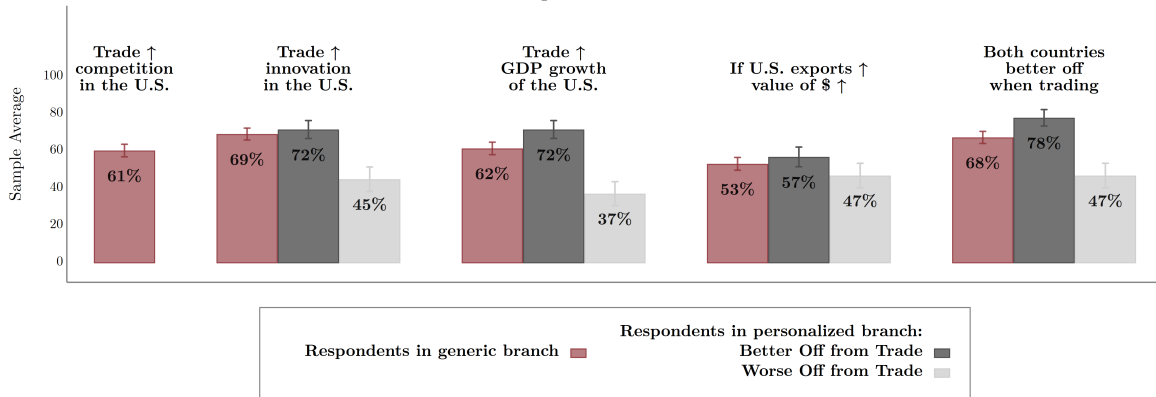
PERCEIVED EFFICIENCY EFFECTS

Perceived Efficiency Effects of Trade

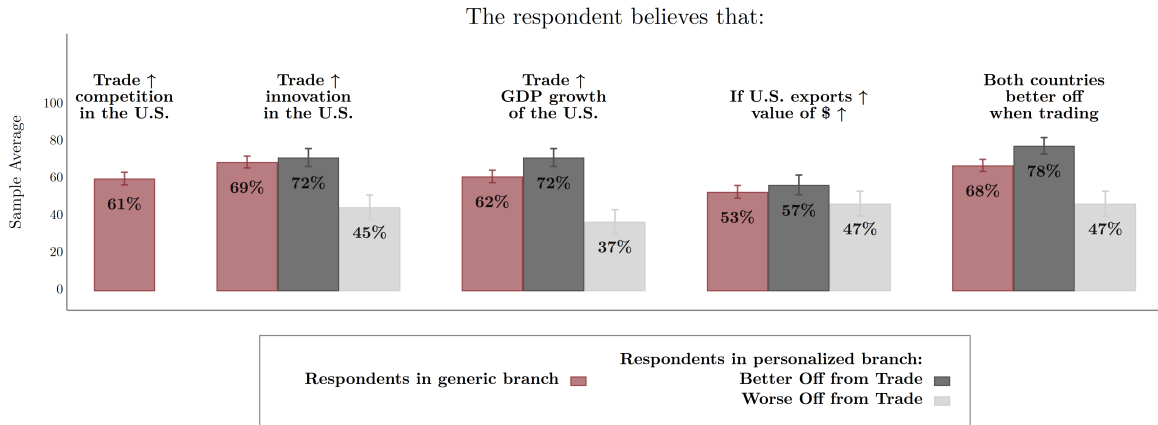


Divided, but generally positive views of efficiency gains from trade

The respondent believes that:

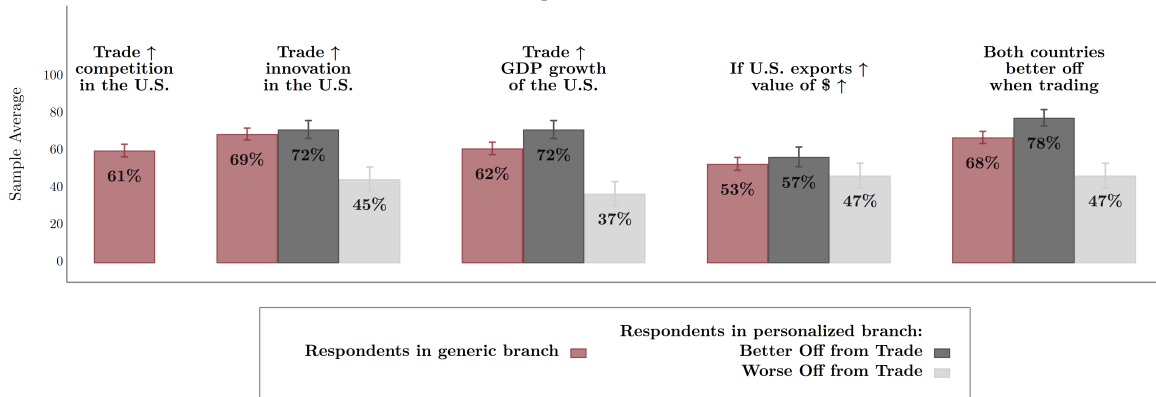


Views (on broader efficiency effects) differ by own experience (arrow B).



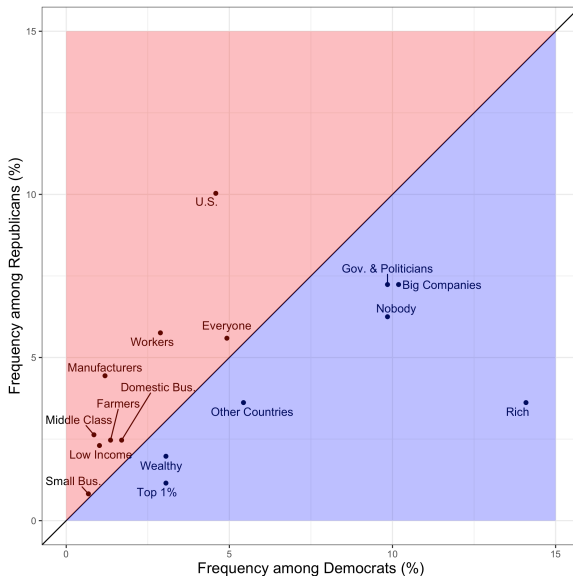
Objective exposure & education also significantly correlated with efficiency perception.

The respondent believes that:



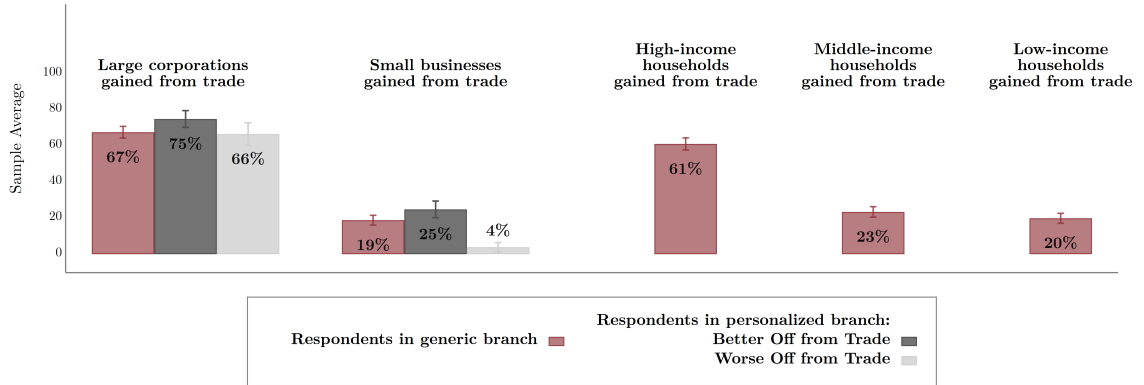
PERCEIVED DISTRIBUTIONAL IMPACTS

Which Groups of people do you think would gain if trade barriers such as tariffs were increased?



Perceived Distributional Impacts: Do these Groups Gain from Trade?

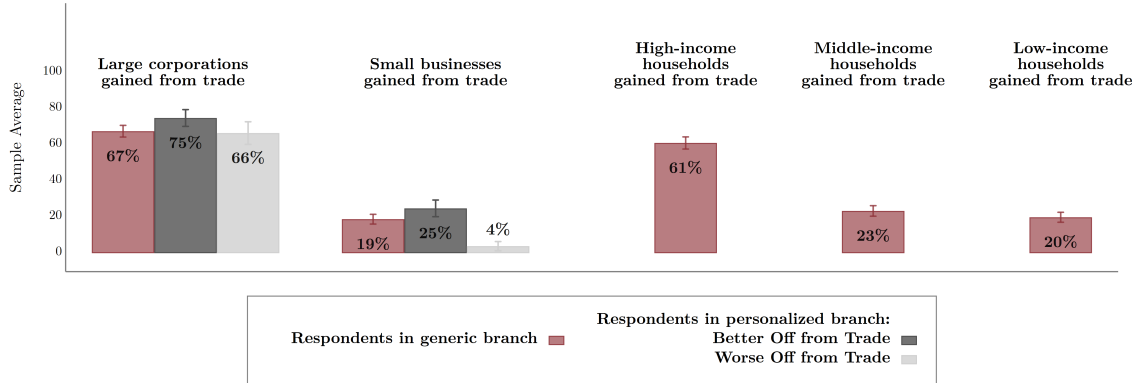
The respondent believes that:



Divided, but generally perceive adverse distributional gains from trade

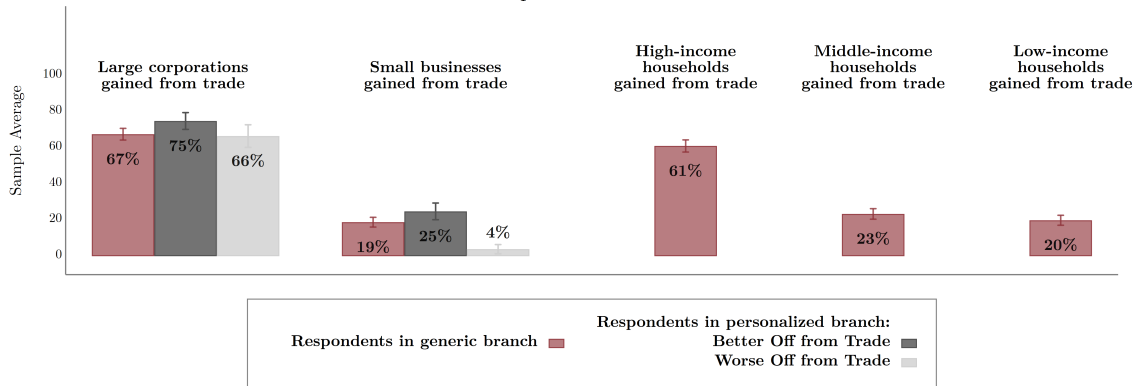
Broad agreement on some of the winners from trade, namely large companies and high-income households

The respondent believes that:



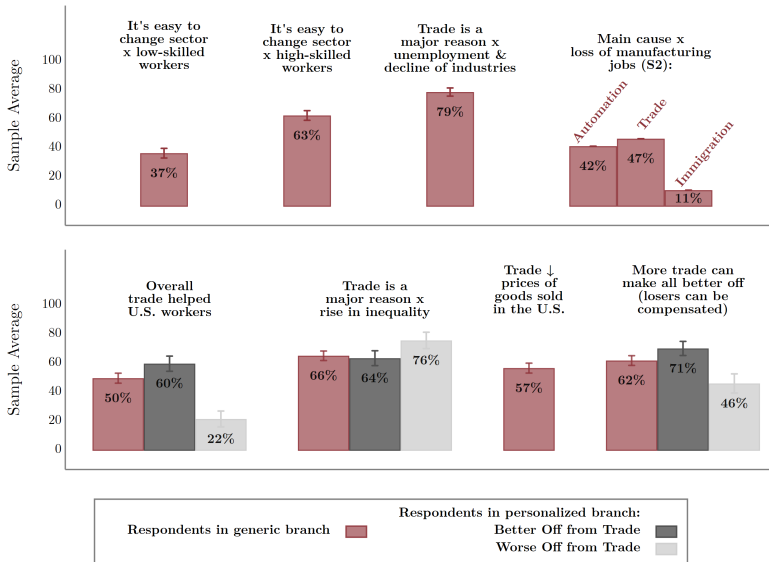
Pessimistic about middle-class and low-income households

The respondent believes that:



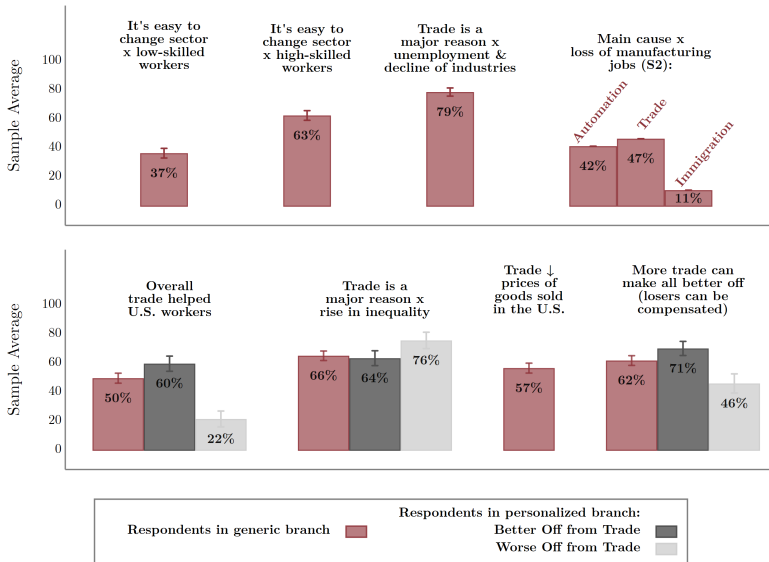
Perceived Distributional Impacts

The Respondent Believes that:



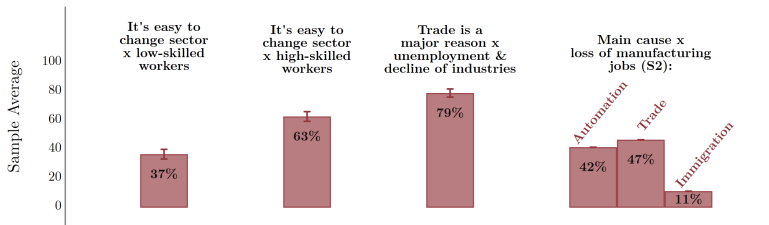
Aware of possible adverse distributional impacts through the labor market.

The Respondent Believes that:



Pessimism and disagreement on whether trade benefits workers or how it shapes inequality & unemployment

The Respondent Believes that:



Respondents in generic branch



Respondents in personalized branch:

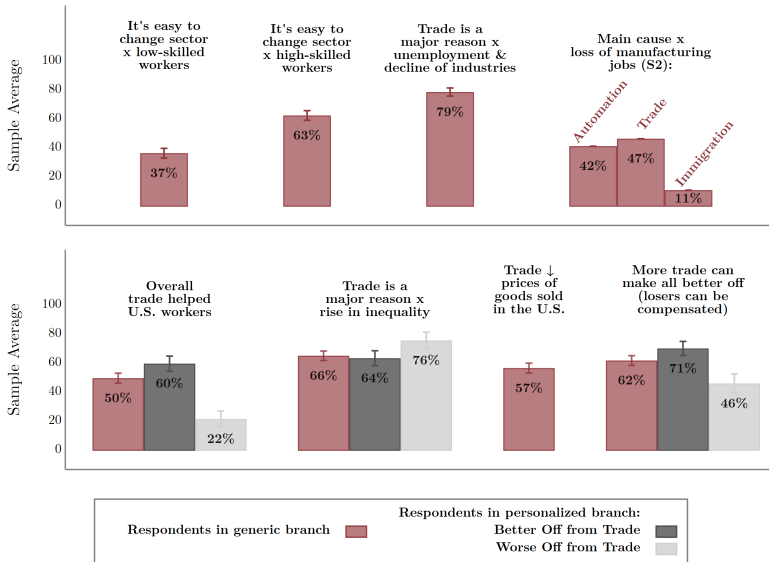
Better Off from Trade

Worse Off from Trade



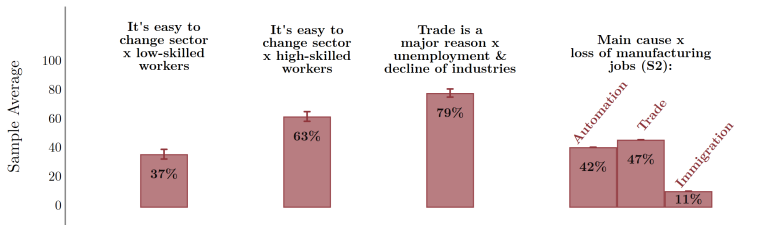
Quite divided on price effects (Hard to know counterfactual? Relative prices?)

The Respondent Believes that:



Yet, a majority believes that in principle everyone could be made better off thanks to policy (“Losers can be compensated”)

The Respondent Believes that:



Respondents in generic branch



Respondents in personalized branch:

Better Off from Trade

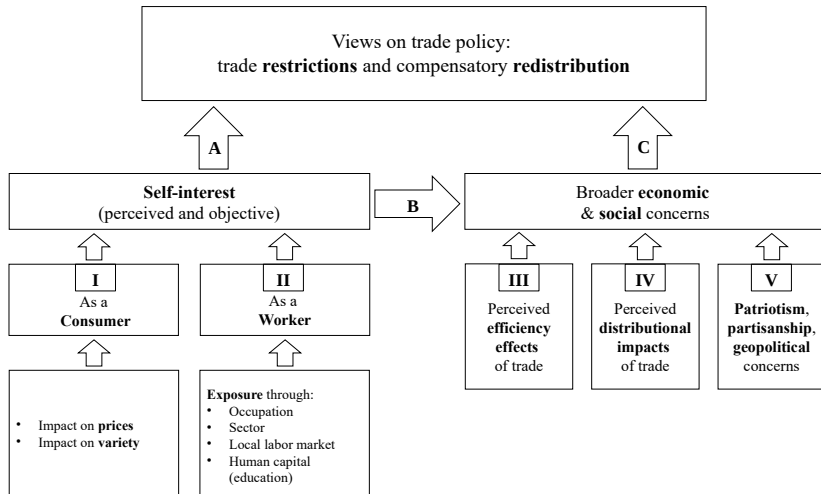
Worse Off from Trade



Outline

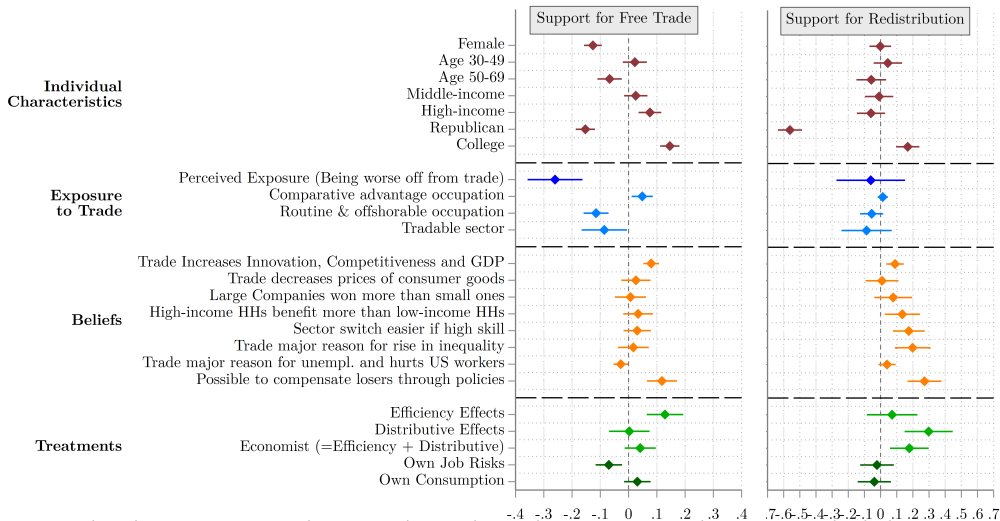
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Which Factors Shape Support for Free Trade and Redistribution?



We will think about both **correlations and causality**, thanks to the experiments.

Which Factors Shape Support for Free Trade and Redistribution?



Compensation is hard in practice. I ask respondents about distortionary policies, not “ideal” lump-sum compensation. [▶ Index Definition](#)

Consumer Gains are Non-Salient

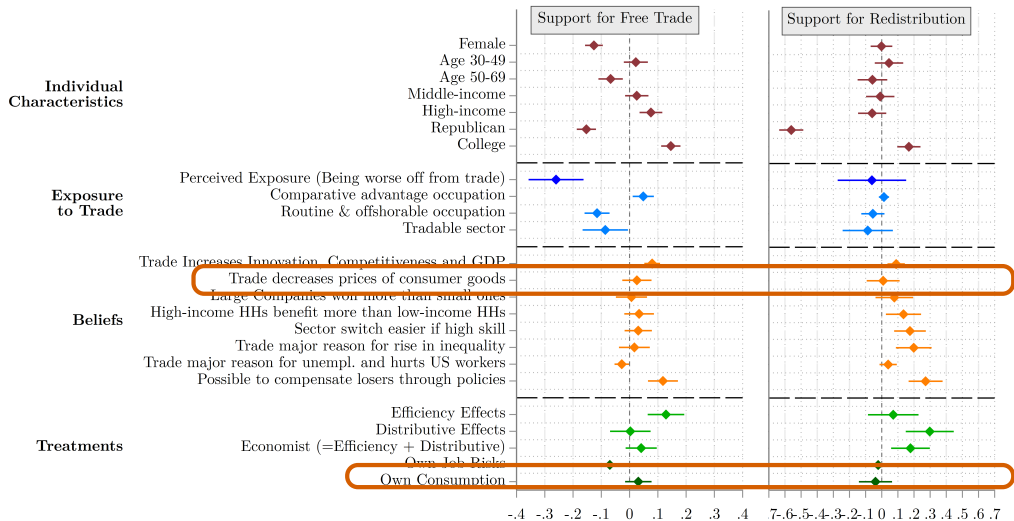
From topic analysis: prices come to mind often.

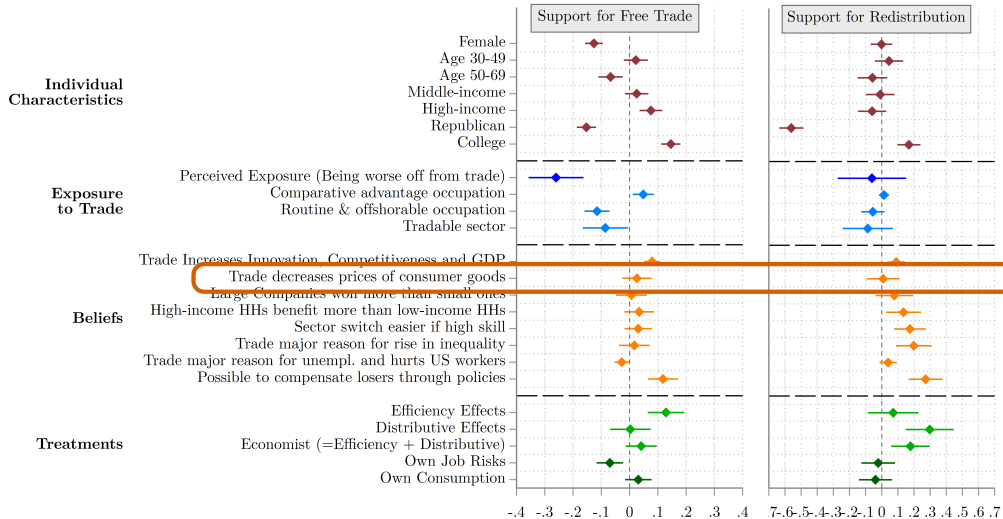
Yet, people are quite divided on whether prices have decreased or not thanks to trade (both overall and for goods they buy).

Price effects may be hard to grasp

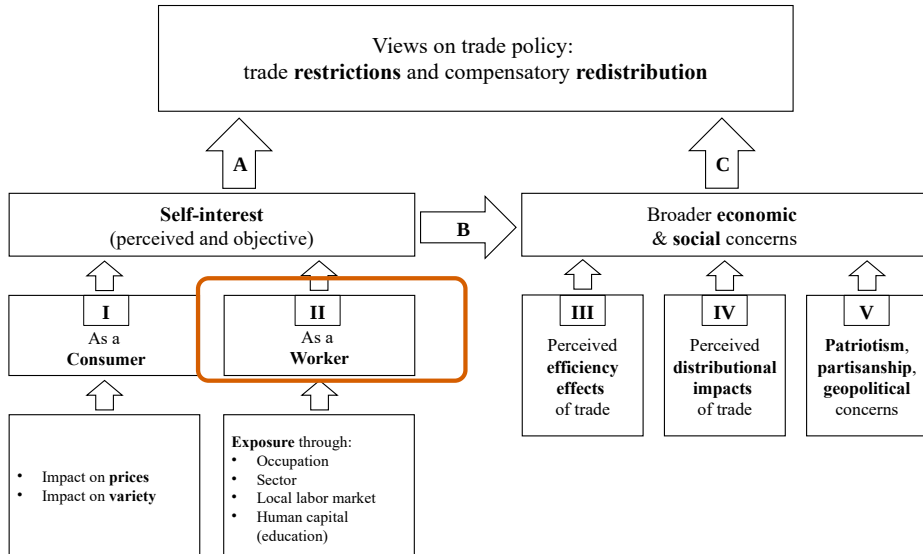
Belief that prices have decreased not predictive of support for free trade or redistribution (correlation).

Priming people to think about gains as consumers does not change policy views either (causal).

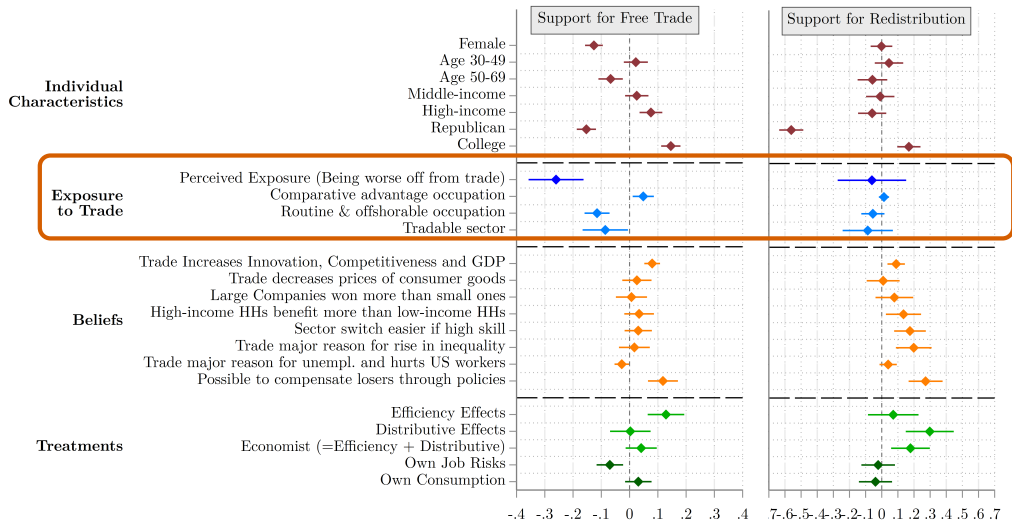




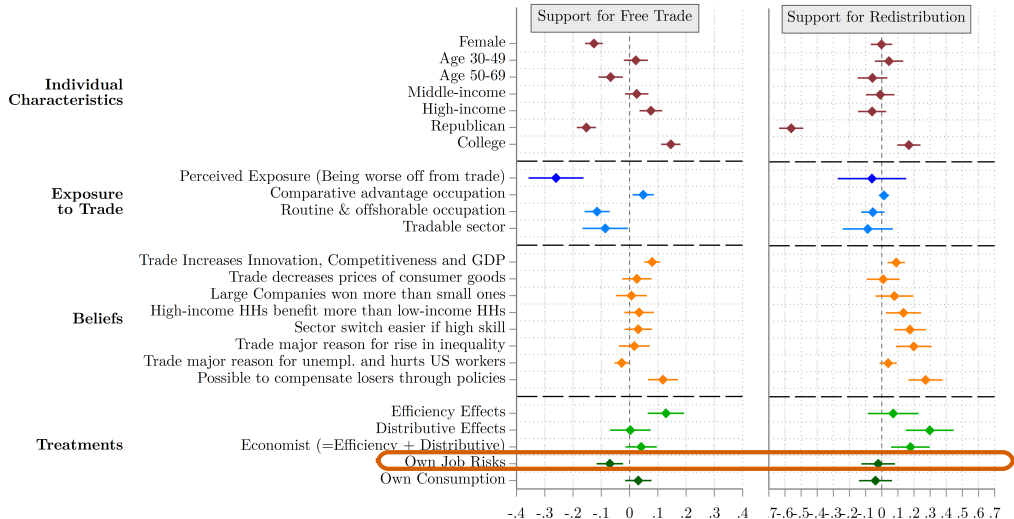
2. Do Own Job Risks Matter?



Those more exposed to trade support less free trade; no difference in support for redistribution

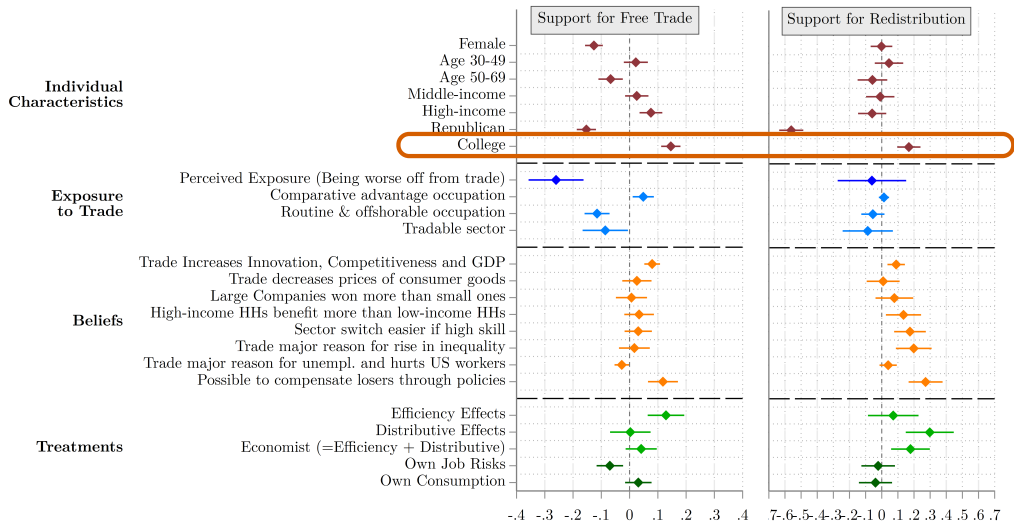


Priming people to think about own job risks reduces support for free trade



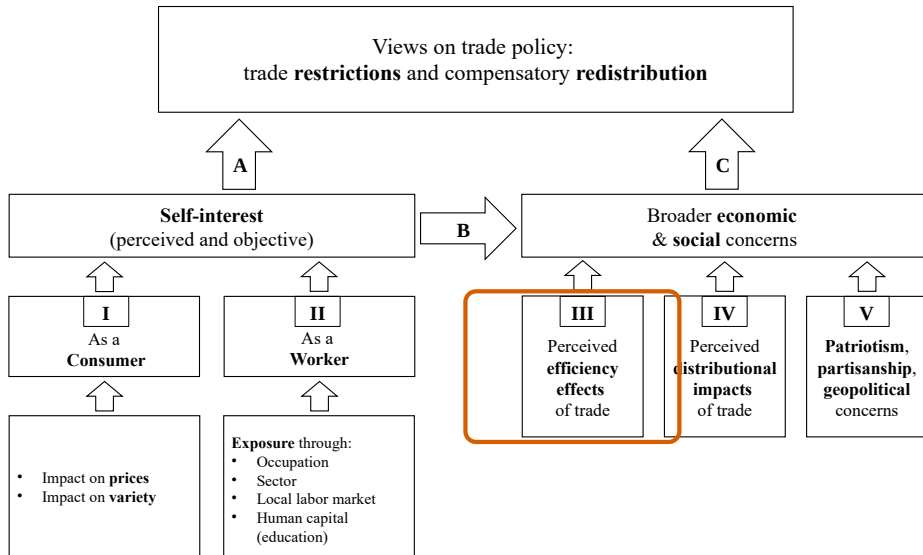
⇒ trade creates a concentrated set of losers: Although a minority of respondents feel directly impacted in their job, these potential losses are salient and loom large.

Parenthesis: College-educated support more free trade & more redistribution (conditional on income)

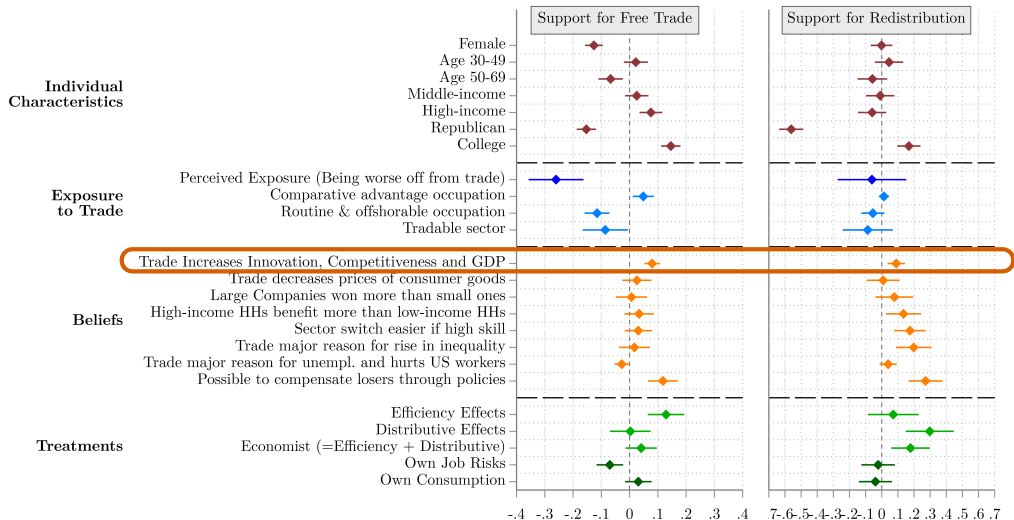


Note: Hard to see education only as proxy for factor endowment and attribute these effects to pure self-interest.

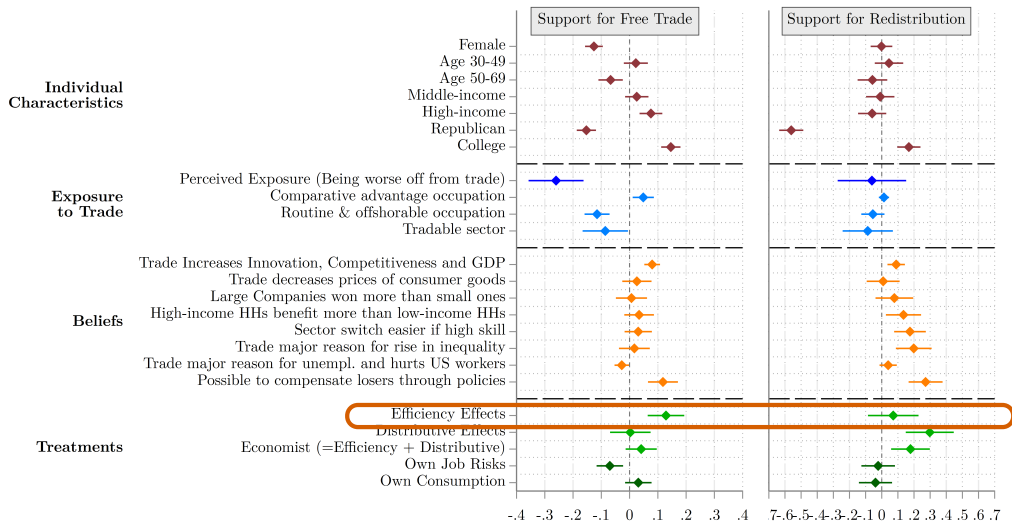
3. Belief in the efficiency gains from trade



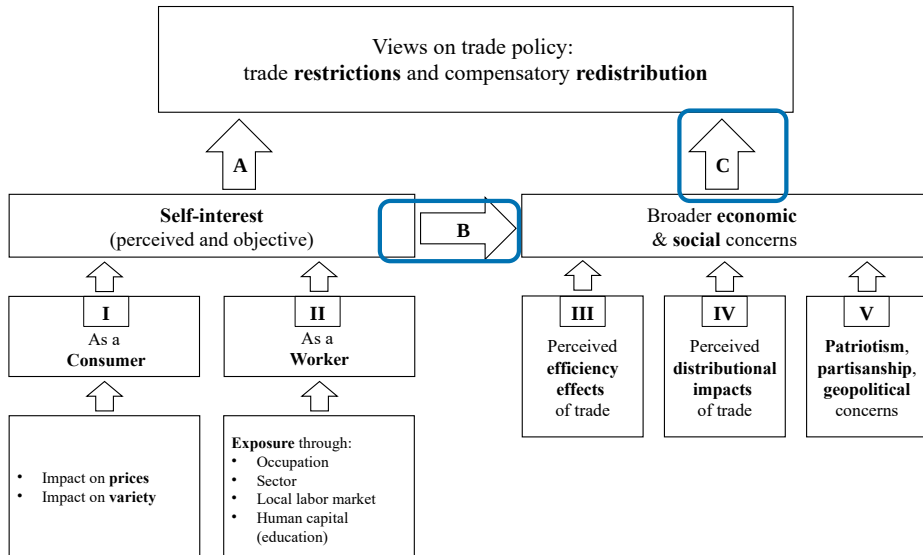
Beliefs in the efficiency gains from trade matter for support for free trade



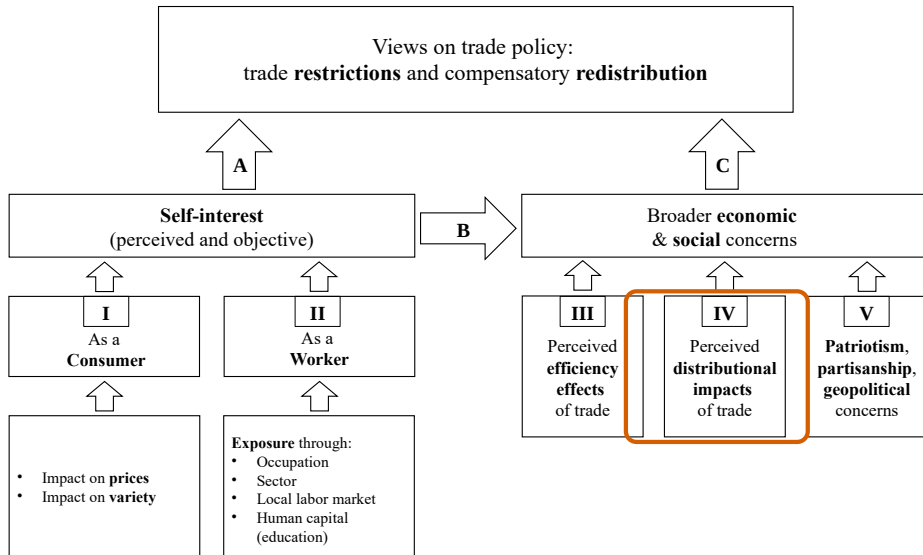
Efficiency treatment significantly improves support for free trade



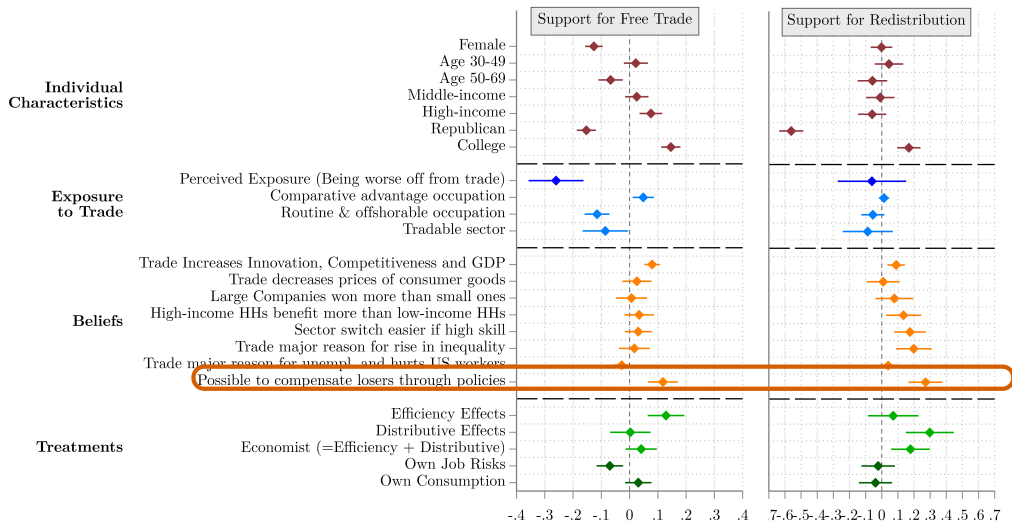
Indirect effect of self-interest (through efficiency perceptions) is relevant too



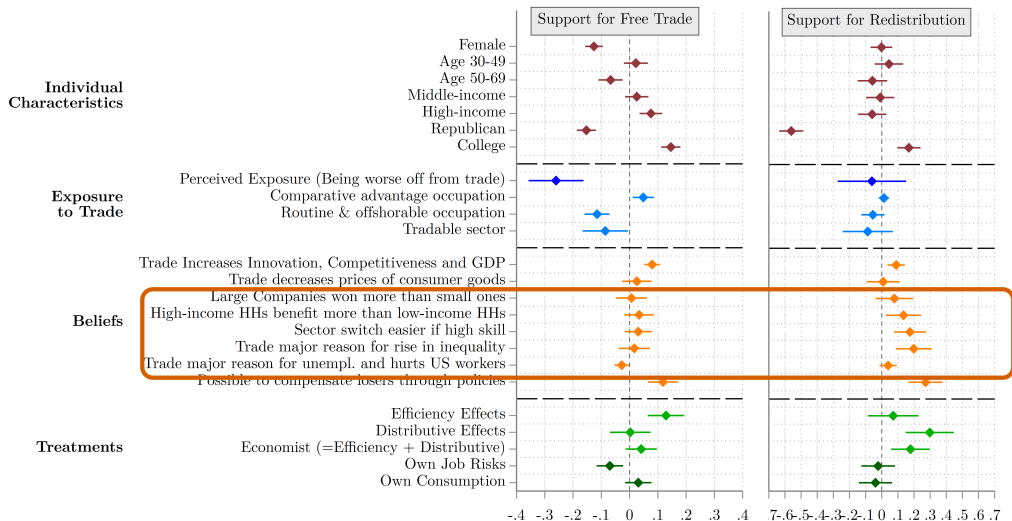
4. Perceived distributional impacts of trade



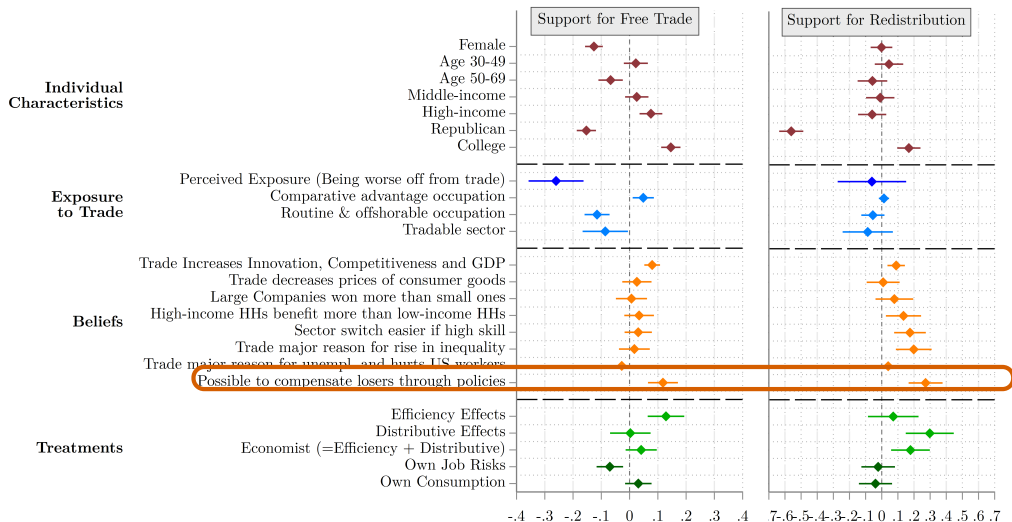
Belief that losers can be compensated is strongest predictor of support for free trade



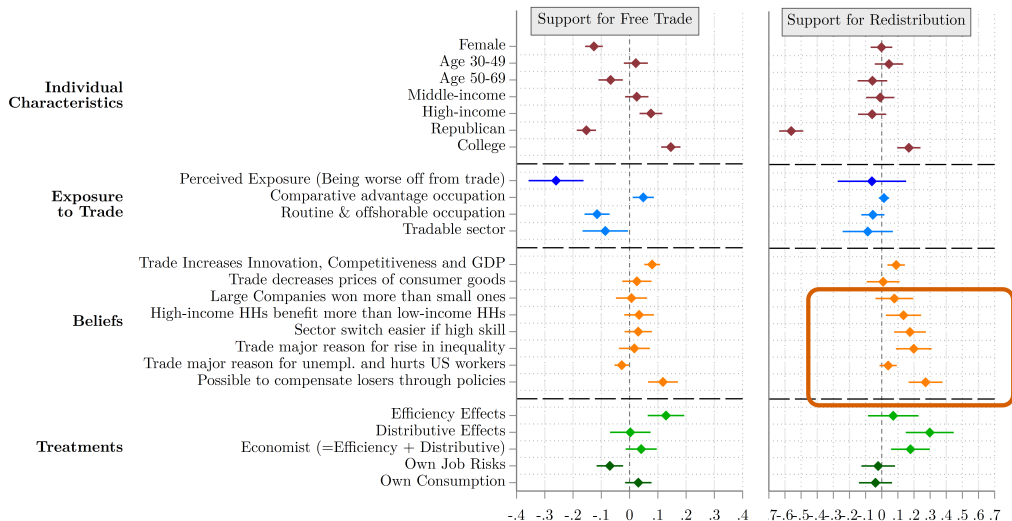
Other perceptions of the distributional impacts of trade are only weakly correlated with views on trade



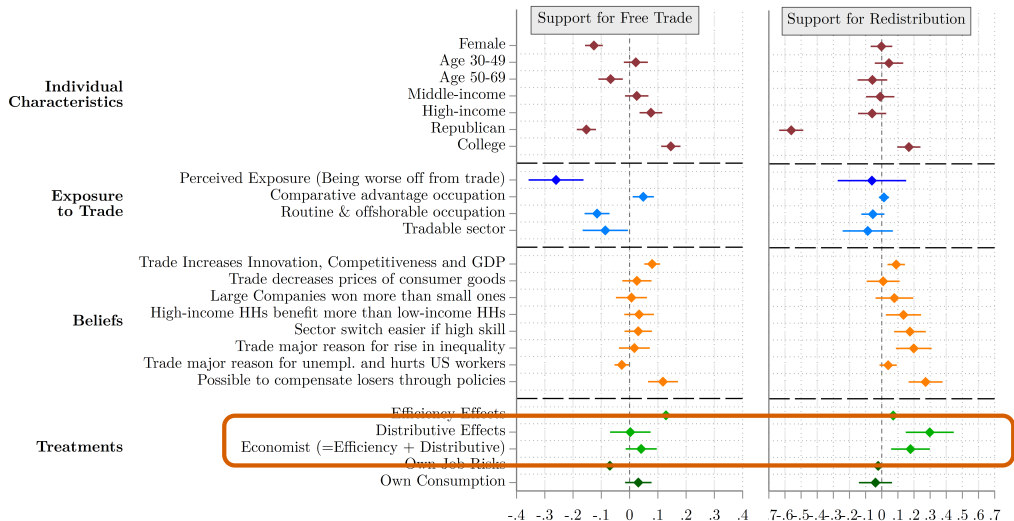
⇒ As long as respondents believe that adverse consequences from trade on some groups can be dampened by redistributive policy, they are likely to support more free trade, even if they believe that there are adverse distributional consequences.



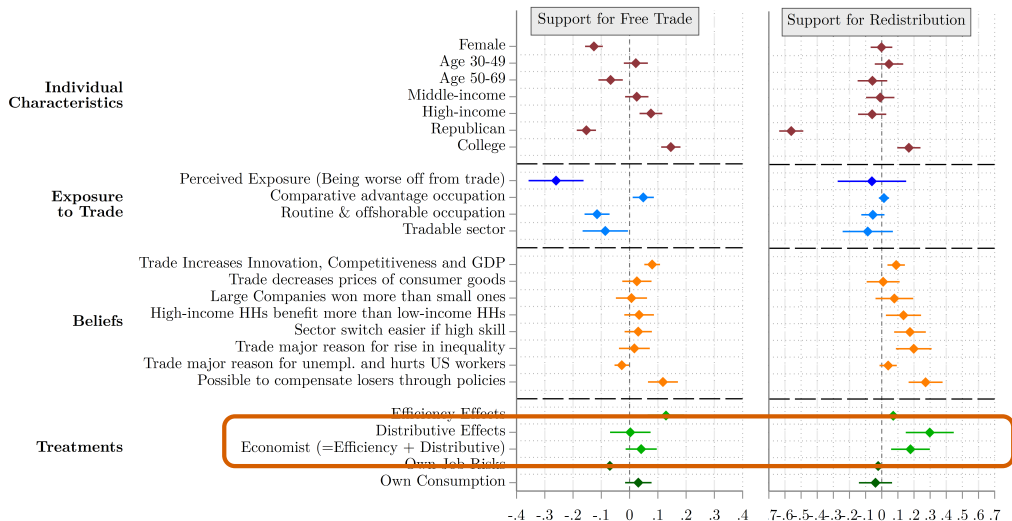
Perceived distributional impacts of trade also substantially matter for support for compensatory redistribution



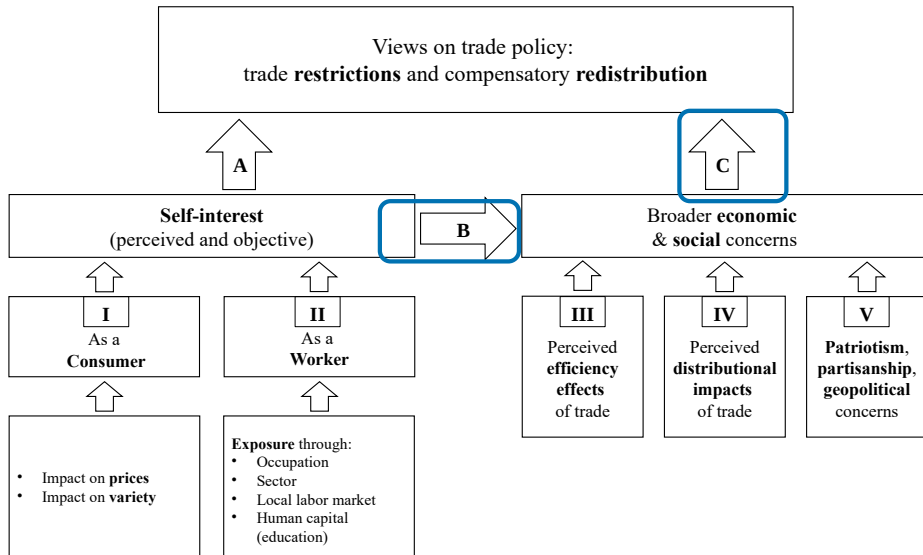
Effects of the *Distributive effects* and *Economist* treatment on support for free trade confirm that explaining compensatory redistribution “cancels” out worries about adverse distributive effects



Both treatments strongly increase support for redistribution (& do not reduce support for free trade)



Indirect effect of self-interest (through distributional perceptions) is relevant too



In sum: The importance of the **belief** that losers can be compensated

Even if people understand that there could be adverse distributional impacts from trade, they will still support free trade as long as they believe that losers can be compensated.

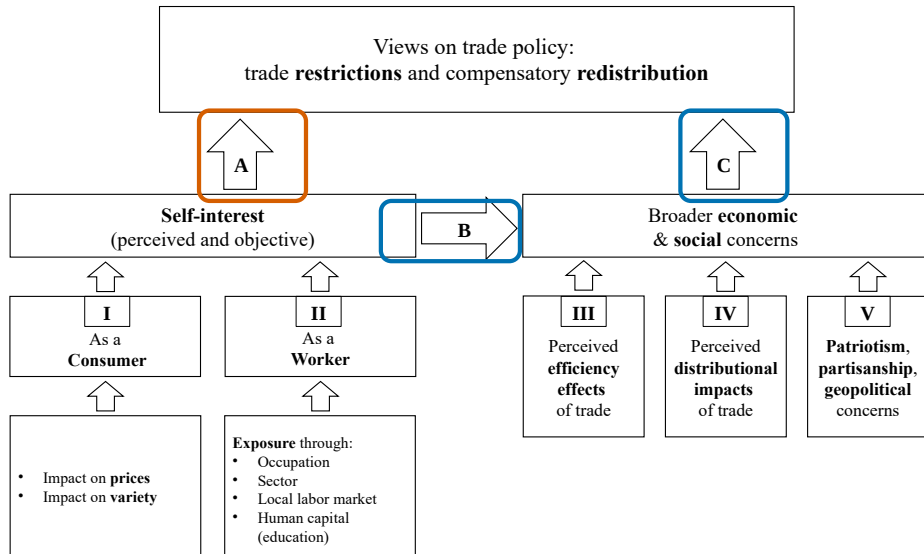
People care both about efficiency and distributional effects, but these beliefs shape different aspects of their policy views, i.e., views on free trade itself versus views on redistribution to deal with the adverse consequences.

⇒ efficiency gains are more relevant for trade policy; distributional concerns can be “fixed” by other policies

However, absent the belief that losers can be helped, distributional worries decrease support for trade.

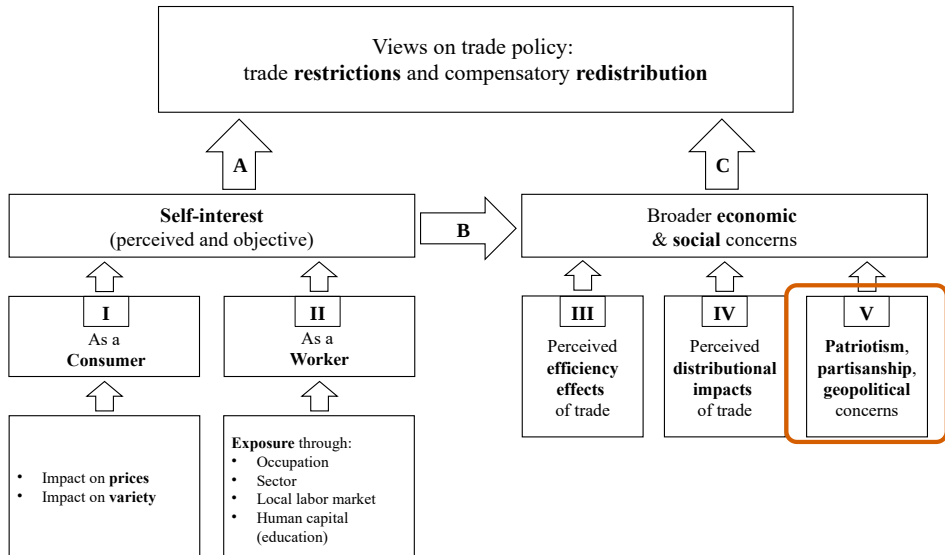
In practice, compensation is challenging!

Indirect vs. direct effects of self-interest



Gelbach decomposition shows direct self-interest channel (arrow A) accounts for 30% if we use perceived exposure, 50-70% for exposure based on occupation, and 84% for exposure based on sector. ▶ [Gelbach Decomposition](#)

5. Additional results: International relations, patriotism, and partisanship



Additional results: International relations, patriotism, and partisanship

No new causal evidence, interesting correlations. Have been studied!

Worry about **geopolitical ramifications** from trade restrictions & retaliation \leftrightarrow more likely to support policies to compensate losers from trade rather than support outright trade restrictions

Patriotism measures \leftrightarrow support for trade restrictions & lower support for compensatory redistribution.

Partisanship matters, but bigger difference is in support for compensatory transfers and redistribution.

Relative (to other very polarized policy issues!) bi-partisan support for free trade, with restrictions such as on food imports to ensure food security and “infant industry” argument.

Substantial partisan gaps in support for compensatory and general redistribution.

Conclusions

Understanding of how trade and trade policy work is mixed.

Overall, belief in positive efficiency gains, but also awareness of adverse distributional impacts.

Respondents' own exposure (both actual and perceived) to trade through their work is significantly correlated with their support for trade restrictions.

More surprising is that it not only shapes their assessment of how trade affects *them*, but also their broader perceptions of the efficiency and distributional impacts of trade on the U.S. as a whole (“indirect effect”).

Findings lend support to the idea that losses from trade in the labor market are concentrated and large, while consumer gains are widespread and diffuse.

Broader concerns matter too: Belief in efficiency gains \leftrightarrow more support for free trade.

People who believe that those hurt by trade can be helped using other tools (i.e., compensatory redistribution) do not oppose free trade, even if they are convinced that it will entail adverse distributional consequences. Instead, they support more redistribution.

THANK YOU!

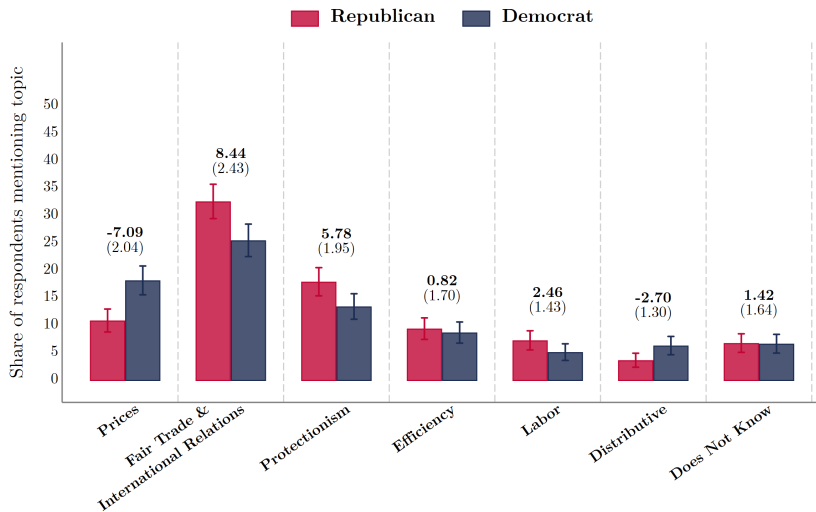


<https://socialeconomicslab.org/>

	US Population	Survey 1	US Population in the Labor Force	Survey 2
Male	.48	.5	.52	.49
18-29 years old	.22	.23	.21	.26
30-39 years old	.21	.21	.24	.22
40-49 years old	.2	.2	.23	.2
50-59 years old	.19	.18	.2	.21
60-69 years old	.18	.18	.12	.11
\$0-\$19,999	.12	.15	.07	.16
\$20,000-\$39,999	.15	.19	.14	.19
\$40,000-\$69,999	.21	.23	.21	.22
\$70,000-\$109,999	.21	.19	.23	.18
\$110,000+	.31	.25	.35	.25
Four-year college degree	.21	.28	.24	.23
High-school graduate or less	.39	.19	.34	.23
Employed	.71	.68	.96	.9
Unemployed	.02	.05	.03	.09
Married	.56	.56	.58	.56
White	.59	.78	.6	.69
Black/African-American	.11	.06	.11	.11
Hispanic/Latino	.2	.06	.2	.08
Asian/Asian-American	.07	.06	.06	.04
Democrat	.30	.33	.30	.45
Republican	.26	.34	.26	.29
Independent and other	.44	.32	.44	.26
Voted for Clinton at the 2016 presidential election	.48	.39	.48	.46
Voted for Trump at the 2016 presidential election	.46	.45	.46	.45
Sample size		1771		2148

	Correct Answers to the Case Study (1)	Willingness to Pay (2)	Willingness to Pay (3)
Panel A: Individual Characteristics			
Female	-0.04*** (0.01)	-0.11*** (0.03)	-0.09*** (0.03)
Has children	0.02 (0.01)	0.09*** (0.03)	0.09*** (0.03)
Black	-0.06*** (0.02)	0.00 (0.05)	0.03 (0.05)
Hispanic	-0.06*** (0.02)	-0.02 (0.05)	0.01 (0.05)
Other	-0.02 (0.02)	-0.07* (0.04)	-0.06 (0.04)
Age 30-49	-0.00 (0.02)	0.02 (0.03)	0.02 (0.03)
Age 50-69	0.03** (0.02)	0.05 (0.04)	0.03 (0.04)
Middle-Income	0.01 (0.01)	-0.05 (0.03)	-0.05* (0.03)
High-Income	0.02 (0.01)	-0.03 (0.03)	-0.04 (0.03)
College Degree	0.07*** (0.01)	0.05* (0.03)	0.02 (0.03)
Republican	-0.04*** (0.01)	-0.03 (0.03)	-0.02 (0.03)
Independent and others	-0.04*** (0.01)	-0.01 (0.03)	0.01 (0.03)
Correct Answers to the Case Study			0.38*** (0.05)
Panel B: Effect of Trade			
Better off from Trade	0.09*** (0.02)	0.10* (0.05)	0.06 (0.05)
Panel C: Summary Statistics			
Control mean	0.51	0.38	0.38
Democrat control mean	0.52	0.39	0.39
Observations	1771	1771	1771

When you think about trade policy and whether the U.S. should put some restrictions on trade with other countries, such as tariffs, what are the main considerations that come to your mind? [▶ Back](#)



Topic Analysis: Keywords for the Main Topics Identified [▶ Back](#)

Efficiency:	effici, compet, competit, innov, technolog, ineffici, growth, gdp, tax, economi, (more & varieti), (stock & market);
Price:	cost, price, afford, (pay & more), inflationa, inflat, expens, (impact, suffer, affect, hurt, effect, hit, loos, lost, pay) (consum, citizen, peopl, american, household);
Fair Trade & Int. Relations:	fair, unfair, imbal, balanc, justic, equal, (even & (share, valu)), reciproc, cooper, (mutual & (benefit, benefici)), equit, (take & advantag), (play & field) china, retali, retaliatori, ((other, foreign, those, relat, relationship, certain) & countri), mexico, (intern & trade), negoti, renegoti, (advantag & us), (trade & war), isol, isolation, isolationist, (world & economi), (pay & back), cheat;
Distributive:	((impact, suffer, affect, hurt, effect, hit, loos, lost, difficult, difficulti, problem, horribl) & (farmer, busi, busine, busin, firm, poor, poorer, middleclass, (middl & class), industri, sector)), winner, loos, corpor, workingclass, ((expens, under) & (busi, busin, busine)), (lower & class), (better & compani);
Protectionism:	((made) & (usa, america, us)), ((buy, protect, support) & (usa, america, american, local)), ((restrict, tariff) & (fine, good, need, use, reason, some, necessari));
Labor:	labor, job, unemploy, salari, union, wage, outsourc, worker, employe, employ, retrain.

A Short “Problem Set:” Stylized and Hypothetical Questions (1/3)

Imagine now that the **U.S. starts importing even more cars** and producing less cars domestically.

What will happen to the **price of cars in the U.S.**?

- ▶ *It will decrease; It will remain the same; It will increase*

Would you say that **households** who purchase cars in the U.S. are now **better off**?

- ▶ *Yes; No*

What will happen to the **wages of low-skilled workers** working in the **car sector**?

- ▶ *Wages will decrease; Wages will remain the same; Wages will increase*

A Short "Problem Set" Style Series of Questions (Cont. 2/3)

Imagine also that the **U.S. starts producing and exporting more laptops.**

What will happen to the **price of U.S. laptops abroad**, i.e., in the countries where the U.S. sells laptops?

- ▶ *[It will decrease; It will remain the same; It will increase]*

What will happen to the **wages of high-skilled workers** working in the laptop sector?

- ▶ *[Wages will decrease; Wages will remain the same; Wages will increase]*

Imagine now that over time, some **low-skilled workers from the car sector** are able to **quit their jobs** and find new jobs in the laptop sector.

What will happen to their wages now if the U.S. exports more laptops?

- ▶ *[Wages will decrease; Wages will remain the same; Wages will increase]*

A Short "Problem Set" Style Series of Questions (Cont. 3/3)

If the U.S. were to impose an **export tax on laptops**, what would happen to the **price of laptops abroad**?

- ▶ *[It will decrease; It will remain the same; It will increase]*

If the U.S. were to impose an import **tariff on cars** sold in the U.S, what would happen to the **price of cars in the U.S**?

- ▶ *[It will decrease; It will remain the same; It will increase]*

If **exports from your sector** to other countries would **increase**, what do you think will happen to **your wage**?

- ▶ *[It will decrease; It will remain the same; It will increase]*

If the **U.S.** started to **import more** of the **goods produced in your sector**, what do you think would happen to **your wage**?

- ▶ *[It will decrease; It will remain the same; It will increase]*

Support for Free Trade and Redistribution (Definitions)

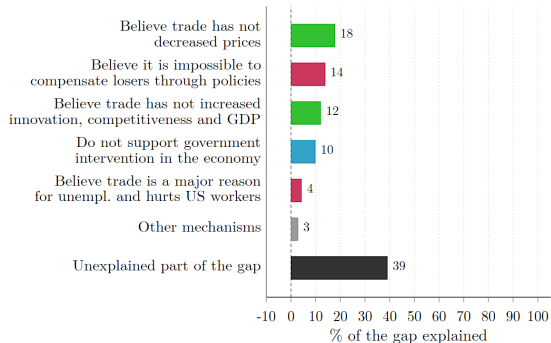
Support for free trade captures whether the respondent thinks that the U.S. should aim to reduce trade barriers.

Support for Redistribution measures support for redistribution policy. It is constructed following the methodology of Kling, Liebman, and Katz. It consists of an equally weighted average of the z-scores of all redistribution-related variables and is further divided by its standard deviation.

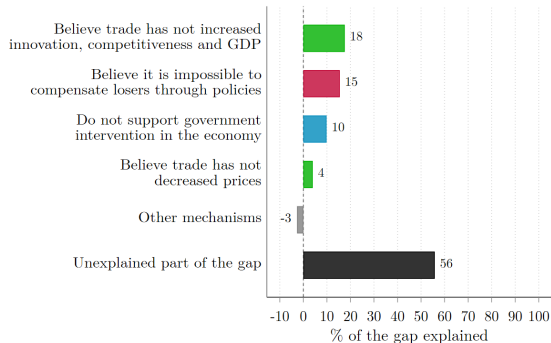
Higher for respondents who agree that the best tools to help workers are more generous transfers and direct assistance to workers (rather than restricting imports or subsidizing production in their industry) and who want to increase spending on support and retraining programs for workers displaced by international competition and trade. It is also increasing in support for more general (non-trade specific) redistributive spending such as help for those out of work, better schools for children from low-income families, and wage subsidies.

Gelbach Decomposition of Support for Free Trade (1/2)

Those who Perceive they are Worse off from Trade
Support less Free Trade because they...

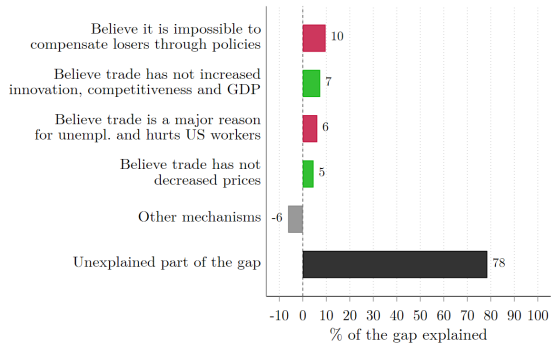


Those who are in Routine & Offshorable Occupations
Support less Free Trade because they...



Gelbach Decomposition of Support for Free Trade (2/2)

Those who are in Tradable Sectors Support less Free Trade because they...



Those who are in Comparative Advantage Occupations Support more Free Trade because they...

