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Compensating the Losers: An Examination of Congressional Votes on Trade Adjustment

Assistance¹

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Globalization intensifies political conflict between citizens whose circumstances improve from foreign trade and those whose lives deteriorate as a result of trade. To pacify these rival interests, governments may assist citizens that become unemployed due to trade. When and under what conditions will legislators fund such assistance programs? The current study addresses this question by examining Congressional roll call votes in the United States during a period of rapid economic integration (1980-2004). The analysis reveals that pro-trade legislators who represent relatively more exporters are more likely to vote for increased spending on Trade Adjustment Assistance (TAA) programs. Exporters and their elected representative arguably support such expenditures to reduce opposition to freer trade and broaden the pro-trade coalition.

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Globalization engenders political conflict. Some citizens benefit from integrated global markets. Yet, others see their circumstances deteriorate as a result of foreign trade. Democratically elected governments thus find themselves in a difficult position. On one hand, elected leaders face pressures to liberalize trade to appease citizens who stand to gain from it. On the other hand, leaders face protectionist demands from citizens that stand to lose from liberalization. Given these competing pressures, what options are available to democratic governments?

In theory, governments can pacify these conflicting interests. Winners from trade can afford to compensate the losers and still be better off than they would be in a closed economy, according to canonical models of international trade. Governments could tax citizens that gain from trade and use these revenues to compensate citizens for trade-induced losses. Survey research demonstrates that such compensation schemes can reduce individuals' opposition to free trade. Yet, an important question remains unanswered: when and under what conditions do legislators provide trade-related compensation? This question motivates the current study.

Legislative activity in the United States, one of the world's largest trading nations, is examined during a period of rapid economic integration (1980-2004). Roll call votes are used to identify legislators who support both trade liberalization and spending on programs that assist citizens who become unemployed as a result of trade. Analyses of roll call votes show that pro-trade legislators are more likely to support spending on Trade Adjustment Assistance programs when a larger proportion of their constituents are exporters. Exporters and their elected representative arguably support such expenditures in an attempt to reduce opposition to free trade and broaden the pro-trade coalition.

This finding points to the importance of a policy bundle, described by Senator Coleman (R-Minnesota) as, "the expansion of trade while meeting the needs of those workers who are

negatively impacted” (US Congress 3 May 2004, S4756). This policy bundle, frequently referred to as either embedded liberalism or the compensation hypothesis, was initially described by Ruggie (1982). He argued that the move towards free trade following World War II was facilitated by a change in government policy that provided compensation, via increased government spending, to those harmed by trade. Ruggie’s insight launched a new research agenda – one that subsequently inspired a vast number of studies of the empirical relationship between international trade and governmental spending.²

The current study differs from the myriad previous studies in three important ways. First, early studies examine the effects of trade on aggregate government expenditures. Studies that find a positive correlation between trade and total spending interpret this as evidence that governments invest more resources in compensating citizens for trade-induced losses following an increase in trade. Yet, most government spending has little, if anything, to do with trade-related compensation. Even social welfare spending, for example, assists many vulnerable citizens, not just those for whom trade has a negative impact (Burgoon 2001). Thus, the inferences drawn about governments’ trade-induced motives are difficult to substantiate using general spending measures.³ In contrast, the current study focuses on a spending program specifically designed to compensate citizens for trade-induced losses, namely Trade Adjustment Assistance.

² For a review of this literature, see Hays (2009).

³ It is possible, of course, that general spending programs might have disproportionately larger impacts in areas that are adversely affected by trade shocks. Evidence of this could be recovered by statistical means. An insightful reviewer pointed out this possibility, which suggests a potentially fruitful strategy for future research.

The United States' Trade Adjustment Assistance (TAA) program was established in the Trade Act of 1974. TAA programs provide assistance to workers who lose their jobs or experience a reduction in their working hours or wages due to increased imports. Workers may be eligible for cash benefits, job training, health care tax credits, job search assistance, relocation allowances, income support, and other reemployment services through TAA programs. Wage insurance is also provided under certain circumstances.⁴ Trade Adjustment Assistance provides precisely the type of assistance envisaged by embedded liberalism; it targets help directly to those citizens made worse off by trade. The current study thus offers an improvement over earlier studies by examining spending on TAA programs rather than aggregate government spending or general budget items.

Second, many previous studies assume that trade liberalization is exogenously determined and take, as given, countries' exposure to foreign trade.⁵ However, governments purposefully act to set tariff rates, decide to join international trade agreements (or not), impose regulations and enact other policies that act as non-tariff barriers to trade. In some countries, these policy decisions are made by the legislature. In the United States, for example, legislators vote on bills that increase or decrease the exposure of the national economy to competition from foreign goods and services.

⁴ Although the primary focus of TAA programs is displaced workers, the program also includes some provisions for aiding firms and communities harmed by trade (Baicker and Rehavi, 2004). For example, the Department of Commerce established 12 regional TAA Centers in 1978 to help firms with the TAA petitions and to help them develop business plans for dealing with increased international competition. Firms whose business plans were approved were eligible for matching funds of up to \$75,000.

⁵ See Adsera and Boix (2002) for an excellent discussion of this point.

Using roll call votes, the current study examines when and under what conditions legislators who vote to liberalize trade policy also support trade-related compensation. In this way, the current study takes a step towards “endogenizing” trade policy.

Third, more recent studies of trade and spending tend to analyze individual-level survey data (for example, Hays, Ehrlich and Peinhardt 2005; Margalit 2012).⁶ While instructive, individual-level studies can only provide indirect evidence of the propensity of governments and parliaments to compensate citizens for the costs of trade. Furthermore, individual citizens need not realize the importance of TAA programs for maintaining support for free trade in order for the embedded liberalism thesis to hold (Ehrlich 2010). Legislators may bundle together liberalization and compensation as a rational response to the competing demands they face. In fact, the embedded liberalism thesis was originally conceived of as a supply side story. Governments were thought to have recognized the importance of combining liberalization with compensation following the collapse of the gold standard and the interwar global economy (Ruggie 1982). The current study provides one of the first direct tests of the supply side of the embedded liberalism thesis by investigating pro-trade legislators’ votes on TAA funding.⁷

⁶ Margalit (2011) investigates individual-level voting behavior.

⁷ In a related study, Brian Burgoon (2012) investigates parties’ manifestos for evidence of support for trade-related compensation. In this way, Burgoon also moves away from individual-level studies towards an investigation of the supply side of compensation programs, as in the current study.

EXPLAINING TAA VOTES

At times, legislators have the opportunity to decide whether or not to increase spending on Trade Adjustment Assistance programs. TAA programs are specifically designed to help workers that become unemployed as a result of foreign trade. A vast majority (70%) of legislators that vote against trade liberalization also vote to increase spending on TAA programs. These legislators seek to protect their constituents by voting against liberalization. As a second line of defense, they also vote to fund TAA programs that will help workers who become unemployed due to trade. This pattern is not surprising. However, the pattern of support for TAA funding amongst pro-trade legislators is puzzling.

Legislators that vote to liberalize trade barriers are evenly split over TAA funding increases; 50 percent of “pro-trade” legislators vote to increase TAA funding while 50 percent vote against TAA funding increases. Which pro-trade legislators support increased TAA funding and why? This question is the central motivation for the current study.⁸

The “compensation hypothesis”, which derives from the logic of embedded liberalism, posits that governments increase spending to offset the costs of trade liberalization. Governments are believed to increase expenditures to avert a backlash against freer trade. This logic implies that

⁸ The focus on pro-trade legislators is also justifiable theoretically. Canonical models of trade illustrate that the winners from trade can compensate the losers from trade and still be better off from freer trade. This prediction suggests that it is precisely the pro-trade constituents and their representatives that should support TAA spending. Also, from a policy standpoint, it is the pro-trade senators who matter for getting TAA funding increases passed as there many more pro-trade senators than anti-trade ones.

legislators representing more trade winners will be more likely to vote for TAA spending. Arguably, such legislators support TAA funding in an attempt to minimize opposition to free trade, not only in their own districts, but also more broadly. Legislators who place the highest value on broadening the pro-trade coalition are most likely to vote for TAA funding increases. For example, Senator Baucus (D-Montana), when speaking in favor of increased TAA funding, said trade-related compensation “can make an important difference in public attitudes. Surveys show that most American feel a lot more comfortable with globalization, off-shoring and trade when they know they will get help if their jobs are threatened” (US Congress 29 April 2004:4680). Similarly, Senator Grassley (R-Iowa) acknowledged public support for free trade as a key reason to vote for TAA funding. Speaking in favor of extending trade-related compensation to farmers in the 2002 Trade Adjustment Assistance Reform Act, Grassley said, “I am very concerned that if we lose (farm) support for free trade it will be very hard for us to win Congressional support for new trade deals when they are concluded” (US Congress 3 May 2004:4757). In short, pro-trade legislators support trade-related compensation programs, such as TAA, in order to broaden the pro-trade coalition and minimize opposition to current and future liberalization.

TAA programs can help make trade liberalization politically viable. The promise of increased spending on trade-related compensation secured the passage of the North American Free Trade Agreement (NAFTA) (Baicker and Rehavi 2004).⁹ Increased spending on trade-related

⁹ Congress agreed to fund a program called NAFTA Transition Adjustment Assistance (NAFTA TAA) in an attempt to secure the number of votes needed to pass NAFTA. This aim of NAFTA TAA was to provide financial assistance to workers displaced by trade with Canada and/or

compensation also helped to secure the votes needed to renew fast track authority for the Bush administration in 2002 (Baicker and Rehavi 2004).¹⁰ Senator Nickles (R-Oklahoma) stated that the amendment promising increased spending on trade-related compensation programs was “added to the fast-track promotion bill to encourage people to vote for it” (US Congress 4 May 2004:4817).

This anecdotal evidence suggests that the legislators who place the greatest value on broadening the pro-trade coalition are precisely those legislators most likely to vote for TAA funding increases. Legislators’ roll call votes are analyzed in the following section to investigate this possibility.

SAMPLE AND DEPENDENT VARIABLE

The universe of clean Senate votes on TAA funding is identified for the period from 1980 to 2004. Five clean, competitive roll call votes on funding for Trade Adjustment Assistance occurred during this period.¹¹ These votes are “clean” in the sense that a vote for or against captures a legislator’s position on increasing funding for TAA programs (Broz 2008; Broz and Hawes 2006). To ensure that a vote reflects only a legislator’s inclination toward trade-related

Mexico. It also promised assistance to workers displaced by plant relocations to Mexico (Baicker and Rehavi, 2004).

¹⁰ Fast track negotiating authority allows the President of the United States to negotiate trade agreements that Congress can then only approve or disapprove (that is, they cannot amend or filibuster).

¹¹ Competitive votes are defined as votes for which at least 10 percent of the votes are in opposition to the majority.

compensation spending, votes containing issues other than TAA funding are excluded.¹² Table 1 details each of the five TAA votes.

Clean, competitive votes on trade policy that occur in the same or consecutive Congress as the TAA votes are then identified. This strategy ensures that the same legislators, representing the same constituents, vote on both trade policy and TAA spending. Following Milner and Tingley (2011), procedural votes and ‘sense of Congress’ votes are excluded and thus only those votes that had clear consequences for US trade policy are examined. Noncompetitive votes are also excluded from the sample. Using these criteria, four clean trade policy votes occurring in the same or consecutive Congress as the TAA votes are identified. Table 2 provides detailed information regarding the trade policy votes.

Table 3 reports the four vote pairs analyzed in the current study. Votes on trade policy are used to identify the sample of pro-free trade senators. Votes on TAA funding are then used to identify which pro-trade senators vote to increase TAA spending.¹³ Vote-pairs are pooled together to provide a reasonable sample size.

¹² TAA funding is often included in large omnibus spending bills, which makes it difficult to isolate legislator positions’ on TAA funding. It is for this reason that so few clean TAA funding votes exist during the period under investigation.

¹³ Although the paired votes occurred in the same or consecutive congresses, none were explicitly bundled together in the legislative process and some votes occurred further apart than others. The exact dates of each vote are reported in Tables 1 and 2. This selection criteria sets up a difficult test of the potential connection between liberalization and compensation. If the votes were explicitly bundled or occurred very close together, then vote-trading would be likely. Pro-

MEASURING CONSTITUENTS' ECONOMIC INTERESTS

Two well-established theories are used to identify citizens' economic interests. The first, the Stolper-Samuelson theorem (1941), demonstrates that trade increases real returns for owners of the factor of production with which the country's economy is relatively abundantly endowed.¹⁴ In contrast, trade reduces real returns for owners of the scarce factor of production. In the United States, high-skilled labor is relatively abundant during the period under investigation and thus high-skilled workers are expected to win from trade.

Census data on citizens' occupations are used to estimate the number of high-skilled workers in a state. Some occupations are characterized by high skill, including, for example, executive, managerial, administrative and professional occupations (Bailey 2001; Milner and Tingley 2011). The percentage of a state's population employed in these occupations is thus used to construct the first measure of factor-based trade winners (*Skill*). A second proxy for the number of factor-based trade winners is the percentage of a state's population with four or more years of college education (*Education*). Both variables, frequently used in previous studies, estimate the number of highly skilled workers in a given US state (for example, Bailey 2001; Broz 2008; Katz

trade legislators may, for example, promise to vote for trade-related compensation in order to secure the votes needed to pass trade liberalization. The interesting question is whether such log-rolls occur when liberalization and compensation are not explicitly bundled together and/or when these votes occur months (or even years) apart. In other words, the research design sets up a difficult test of the proposed hypothesis.

¹⁴ In this model, perfect mobility of factors is assumed. This assures that trade affects owners of a given factor in the same way no matter where they are employed in the economy.

and Murphy 1992). Since the variables *Skill* and *Education* are alternative measures for the same concept (that is, factor-based economic interests) they do not enter the estimated models simultaneously.

The Ricardo-Viner model demonstrates that the income effects of trade are industry-specific when factors are immobile between industries within an economy (Hiscox 2002; Jones 1971.¹⁵ Factors employed in export industries receive a real increase in returns due to trade and therefore support trade liberalization. In contrast, factors employed in import-competing industries lose from trade in real terms.

The relative number of industry-based trade winners in a given US state is calculated by the percentage of a state's population employed in net export industries (*Exporters*). Net export industries are defined as two-digit SIC manufacturing sectors where the ratio of revenues from exports to total industry revenue is greater than the ratio of imports to consumption.¹⁶ A similar

¹⁵ A large literature focuses on which of these models best predict the distributive effects of trade. See Hiscox (2002) for an outline of this debate.

¹⁶ These ratios are provided by Campa and Goldberg (1999) for three time periods: 1975, 1985, 1995. Following Broz (2008), the sample closest to each vote is used to assemble the data. In 1975, net export industries were Tobacco 21, Textiles 22, Lumber 24, Printing 27, Chemicals 28, Fabricated metals 34, Industrial machinery 35, Electronic equipment 36, Transportation equipment 37, and Instruments 38. In 1985, net export industries were Tobacco 21, Chemicals 28, Industrial machinery 35, and Instruments 38. In 1995, net export industries were Food 20, Tobacco 21, Printing 27, Chemicals 28, and Instruments 38. The source for industry employment is the County Business Patterns, Bureau of the Census.

calculation identifies the percentage of a state's population employed in net import industries (*Importers*). According to the Ricardo-Viner model, the variable *Importers* captures the number of citizens incurring losses from trade in a given state. *Exporters* and *Importers* measure different concepts of interest and can therefore be entered simultaneously into the estimated models, as is increasingly standard practice (see, for example, Fordham and McKeown 2003).

Previous studies of trade legislation demonstrated that despite the relatively low level of party discipline in the United States, a legislator's party affiliation is a robust predictor of their votes on trade policy (Hiscox 2002; Ladewig 2006). All estimated models therefore include the variable *Party*, which is coded, 1 for Democrats and 0 for Republicans.

RESULTS

Table 4 reports the coefficient estimates for logit regression models where the dependent variable equals 1 if a pro-trade senator voted to increase funding for TAA programs and 0 if they voted against TAA spending increases. Pro-trade senators are more likely to vote for increased TAA funding when they represent relatively more exporters. On average, an increase in the variable *Exporters* of one standard deviation over its mean value corresponds with a five percentage point increase in the probability that a pro-trade senator votes for increased TAA funding. In short, more exporters equal greater support for TAA funding. Yet, exporters do not directly benefit from TAA programs. They are unlikely to become unemployed because of trade and therefore do not qualify for assistance under the TAA criteria. Instead, exporters benefit indirectly from TAA spending. Exporters and their elected representative arguably support TAA spending to reduce opposition to free trade.

The industry-based measure of trade winners (that is, exporters) is a better predictor of TAA votes than factor-based measures of trade winners. The estimated coefficients for *Skill* and

Education are consistently insignificant. Senators representing relatively more factor-based winners (that is, more highly-educated/highly-skilled voters) are no more likely to vote for TAA spending. These findings speak to the debate over which model of trade best describes the politics surrounding modern-day trade legislation: Stolper-Samuelson or Ricardo-Viner (for example, Destler 1995; Fordham and McKeown 2003; Hiscox 2002; Lowi 1964). The evidence reported here comes down squarely on the side of the Ricardo-Viner model. Industry-based interests are a better predictor of TAA votes than factor-based interests. Industry-based models of trade may perform better in recent decades due to increased adjustment costs and factor specificity, as hypothesized by Hiscox (2002).

The null findings for the variables *Skill* and *Education* are also consistent with research that finds highly-educated citizens support trade liberalization for reasons other than economic self-interest. Hainmueller and Hiscox (2006) argue that college educated voters support trade openness because of their exposure to economic ideas about the overall efficiency gains from trade. Although economic literacy may lead to increased support for trade, it may not generate similar support for trade-related compensation. Voters that support trade openness for ideational reasons may be unwilling to support TAA spending. If citizens' support for trade openness is not motivated by economic self-interest, they have few incentives to pay for trade-related compensation. In other words, voters who support trade openness for ideational reasons may not be willing to "back up" their ideals financially, which may explain why pro-trade senators from states with relatively more

college educated voters are no more likely to vote for increased TAA spending.¹⁷ In contrast, pro-trade senators from states with relatively more industry-specific trade winners (that is, exporters) are significantly more likely to vote for TAA funding increases.

Pro-trade senators who represent relatively more industry-based trade losers (that is, importers) are less likely to vote for TAA funding increases. Why would senators vote against trade-related compensation when some of their constituents could benefit from TAA programs?¹⁸ One possible explanation is that large numbers of exporters are needed to generate sufficient demand for free trade in order to motivate senators to fund TAA programs. In other words, senators who place the highest value on broadening the pro-trade coalition are the ones most likely to vote for TAA funding.¹⁹ A senator attaches more value to strengthening the pro-trade coalition when

¹⁷ This suggestion is, of course, purely speculative at this point. Future studies could investigate its' empirical validity by explicitly examining the effects of university education on attitudes towards TAA spending.

¹⁸ Recall that the sample includes only senators who voted for trade liberalization. Senators representing states dominated by trade losers are unlikely to be in the sample because they voted against trade liberalization in the first place.

¹⁹ An alternative explanation lies in the potential importance of non-traded good producers. The empirical models explicitly measure employment in exporting and import-competing industries, but employment in non-tradable industries is only implicit. Controlling for exporting activity, relatively more import-competing activity implies relatively less non-trade goods production. Non-traded goods producers and employees by definition have little interest in trade policy and,

their state is dominated by exporting industries. Senators representing fewer exporters have relatively less interest in the pro-trade coalition and thus may be less willing to support TAA funding.

Party is a robust predictor of TAA votes. Democrats are more likely to vote for TAA funding, as compared to Republicans, holding all else equal. This result is consistent with other studies of roll call voting on both distributive spending programs and trade policy (for example, Garrett 1998; Hiscox 2002; Ladewig 2006). Interestingly, however, the results reported here suggest that even Republicans, who often oppose spending increases, are willing to support increased TAA funding when a substantial portion of their constituents stand to gain from trade. As Senator Wilson, a Republican from California made clear on the floor of the chamber:

“...the high cost of protectionism is inevitably the result of efforts to protect jobs in selected industries. It is an effort I well understand and with which I have sympathy. That is why...I supported the Trade Adjustment Assistance Act in its provisions to assist those who suffer hardship because the industry of which they are a member and in which they are employed ceases to be competitive” (US Congress 16 July 1990:S9770).

Similarly, Senator Chafee, a Republican from Rhode Island, said:

“...I understand that the footwear industry has suffered employment losses, and any significant employment loss to a U.S. industry is a cause of concern to every one of us. That is why we have done something about it. We recognized that in the highly competitive world there are some areas that we are going to be able to compete in successfully and

in fact, have a consumer’s interest in favour of trade liberalization. Thank you to an insightful reviewer for pointing out this possibility.

some areas less successfully. So we have set up these safety nets, if you would, the Trade Adjustment Assistance Program.....to help individuals who have lost their jobs because of foreign competition” (US Congress 16 July 1990:9799).

In sum, even Republicans are willing to vote for increased spending when it is designed to compensate citizens for their trade-induced losses and a large number of their constituents stand to gain from freer trade.

CONCLUSION

The current study presents evidence that governments purposefully increase expenditures to off-set the costs of international trade. While governments in countries with open economies are widely believed to spend more, few studies actually examine governments’ purposeful spending decisions. In contrast, the current study examines paired roll call votes on trade policy and spending on Trade Adjustment Assistance (TAA) in the United States during the period from 1980 to 2004. The results show that pro-trade legislators are more likely to support increased TAA funding when a larger proportion of their constituents stand to gain from trade. Specifically, pro-trade legislators representing relatively more exporters are more likely to vote for increased TAA spending, even though exporters themselves do not benefit directly from TAA programs. Instead, exporters and their elected representatives arguably support such spending increases to minimize domestic opposition to free trade.

This finding suggests that the concurrent upward trends in trade openness and governmental spending may be causally related. The global rush to free trade has been accompanied by a corresponding increase in government spending, especially in developed countries (Kono 2011; Rickard 2012; Rodrik 1998). Previous studies argue that these two

concurrent trends are causally related.²⁰ However, the current study is the first to examine legislators' contemporaneous decisions on trade openness and government spending. Pro-trade legislators vote to increase spending on TAA programs when they represent a large number of industry-specific trade winners. This finding suggests that a causal relationship may, in fact, exist between trade and government spending. Additional studies of the supply side of trade-induced spending increases are needed. Yet, this study takes an important first step in moving beyond simple correlations between trade flows and spending levels by focusing instead on governments' decisions regarding trade policy and trade-related compensation spending.

²⁰ A notable exception is Iversen and Cusack (2000).

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