Explaining the Populist Backlash: Trade, Partisan Collusion, and the Underprovision of Compensation

Nicholas Ray

2024-05-03

Abstract

In this paper I explain why political elites in developed democracies have not provided more compensation to the losers of globalization. This is a puzzle because the lack of compensation has contributed to a globalization backlash that has hurt incumbent political elites who should have anticipated it. I argue that more compensation has not been provided because political elites have been able to tacitly collude to reduce the possibility of an electoral backlash to globalization and a lack of compensation. I test the implications of my argument with observational panel data and find partial support for my hypotheses.

Introduction

Globalization, and in particular trade, has increased aggregate economic welfare but had distributional consequences. In the United States (U.S.), for example, an estimated 87% of the population gained real income from a rise in imports from China while a minority experienced severe losses (Galle, Rodriguez-Clare, and Yi 2023, 349). More generally, the losers from free trade have been concentrated in "the 'old-rich' countries of Western Europe, North America, [and] Oceania," where the real incomes of lower to middle class citizens grew the least compared to any other group in the world from 1988 to 2008 (Milanović 2016, 20).

There is a growing body of evidence that these distributional consequences have political implications. Specifically, negative import shocks are associated with reduced vote share for political incumbents in the U.S. (Jensen, Quinn, and Weymouth 2017; Margalit 2011) and

increases in the vote shares of populist right-wing parties across Europe (e.g., Colantone and Stanig 2018; Milner 2021). Thus, there appears to have been an electoral backlash from the losers that has hurt incumbents and favored right-wing populists.

It is also well known theoretically that compensation can alleviate the distributional consequences of trade. By redistributing some of the gains from trade to the losers, free trade with compensation can still increase aggregate welfare yet leave no one worse off (i.e., Pareto gains) (e.g., Feenstra and Lewis 1994). However, there has been a "failure of compensation" (Frieden 2019, 182). This failure includes "a widespread decline in income redistribution across OECD countries" (Causa, Browne, and Vindics 2019, 13) and "limited regional redistribution of trade gains from winners to losers" in the U.S. (Autor, Dorn, and Hanson 2016, 231). Consequently, a lack of compensation has made the backlash to globalization "perfectly predictable" (Rodrik 2018, 12).

It is puzzling why political elites in these countries have failed to compensate the losers of globalization. The distributional consequences of globalization and the ability of compensation to weakly improve everyone's welfare has been known for decades. Subsequently, the electoral backlash from a lack of compensation was foreseeable and clearly in the interests of political elites to prevent, as evidenced by anti-incumbent voting effects and increases in the vote shares of far-right rivals. Thus, it is surprising why political elites have not anticipated the electoral backlash and compensated the losers of globalization more. Why has there not been more compensation?

Literature Review

There are two explanations commonly offered for the lack of compensation. The first is that compensation is ineffective (e.g., Frieden 2019), and thus it is not surprising that more has not occurred. This is especially likely when compensation is small relative to the income lost, as with trade adjustment assistance (TAA) in the U.S. (see Autor, Dorn, and Hanson 2016).

The second is that compensation is too costly to provide (e.g., Rodrik 2018). Redistribution through taxes and transfers is inefficient due to behavioral distortions and expensive while it may be politically costly to redistribute gains away from powerful winners. I argue that both of these reasons are not sufficient to explain why political elites have not provided more compensation.

Firstly, there is evidence that compensation is effective. I replicated a recent study from Milner (2021), where one analysis the author conducts evaluates how an increase in Chinese imports affects the vote share of different party families in Europe. Milner's main finding is that the "China shock" (see Autor, Dorn, and Hanson 2013; Acemoglu et al. 2016) increases the vote share of populist right-wing parties. However, interacting the China shock with information on social spending as a percentage of GDP (OECD 2023b) indicates that at higher levels of spending, the effect of the China shock on far-right vote shares becomes statistically indistinguishable from zero (see Figure 1). Further, the effect of the China shock on centrist right party vote shares is negative at lower levels of social spending but positive at higher levels of spending. The China shock does not have a conditional effect on the vote shares for populist left or centrist left parties.

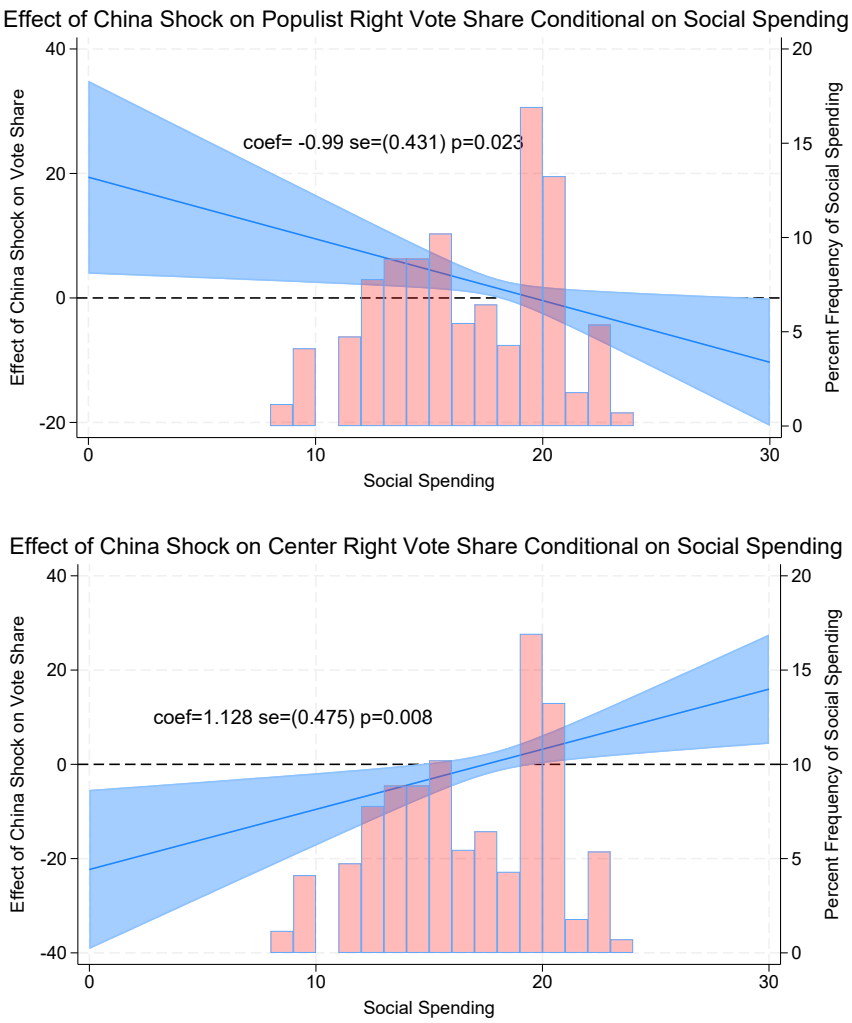

Figure 1: Replicating Milner (2021) and including social spending information provides evidence that compensation is effective. Social spending reduces the effect that the China shock has on far-right vote shares (top) and induces a positive effect of the China shock on centrist right vote shares (bottom). The Appendix includes the full regression tables for the replication, where the interaction from model (2) from Table 2 is shown in the top plot and the bottom plot shows the interaction from Table 4, model (2).

Thus, if compensation can be thought of as social spending- which is a likely form of compensation since the gains from trade can be redistributed in a nonexclusive and accessible way (Rodrik 2018)- there is evidence that it moderates the distributional consequences of trade on vote shares in Europe. Compensation reduces the positive effect that the China shock has on the vote share of far-right rivals and induces the China shock to have a positive effect on centrist parties on the right (i.e., conventional political elites).

Secondly, the costliness of compensation does not imply that it is *too* costly to provide. The choice to compensate or not is relative to the alternative. If the lack of compensation contributes to an electoral backlash against incumbent political elites, then the expected costs of compensation must be compared to the expected costs of not compensating the losers and possibly experiencing an electoral backlash. It is not ex-ante obvious or clear from previous literature that the expected costs of compensation were indeed larger than the expected costs of not providing compensation, and thus this is not a sufficient explanation for the observed compensation failure.

Summarily, the literature does not resolve the puzzle of compensation failure. While there are well established costs associated with compensation, the backlash that has also been well established challenges the notion that it was rational for political elites to ignore the losers of globalization. A better explanation would demonstrate that the expected costs of compensation outweigh the expected costs of an electoral backlash. Moreover, evidence for compensation's ability to mitigate the impact of trade on vote shares suggests that it may be a successful tool for elites. Thus, it remains surprising that elites have failed to anticipate the globalization backlash and compensate losers.

Theory

If political elites do not compensate the losers of globalization, they run the risk of an electoral backlash where the losers vote for other elites that will compensate them. I argue that political elites have not provided more compensation because they were able to minimize the risk of an electoral backlash. Specifically, political parties adopted similar policies on compensation that left the losers ex-ante indifferent between them. The losers then had no electoral exit options to vote for other elites who could increase compensation and a backlash did not materialize. By all deciding not to offer more compensation, political parties were able to maintain the status quo of free trade (which benefits the vast majority of voters) and

avoid paying costly compensation to the minority of losers. Thus, I theorize that the failure of compensation occurred because political parties were able to tacitly collude to reduce the possibility of an electoral backlash and avoid the costs of compensation.

Democratic collusion is not a new idea. Gottlieb (2015, 2) reviews the literature on democratic collusion and demonstrates its occurrence in Mali, noting that "Little has been written, however, on either the theoretical possibility or empirical instance of collusion among parties in democratic regimes." This is especially true for the more developed democracies in the West experiencing compensation failure. Collusion is more often ascribed to developing countries that may be more prone to corruption or authoritarian regimes.

While my argument may seem provocative, it is not unfamiliar to the losers of globalization in these countries. In a book on inequality, Andrain (2015) details several instances that are consistent with a story of collusion. For example, "After New Labour won control of the British House of Commons in 1997, it resisted combining procedural justice with egalitarian public policies. Many neoliberal programs from the previous Conservative administration remained" (Andrain 2015, 138). Speaking more generally about the U.S. and Europe, "neoliberal leaders [gave] priority to growth over more equal economic outcomes" (Andrain 2015, 143). Lastly, Andrain states that "Although deprivations motivated some frustrated individuals to mobilize behind public protests, structural constraints hindered the ability of egalitarian protesters to influence policy performance... When dominating the government, social democratic and labor parties backed many neoliberal programs preferred by the MNCs" (2015, 128).

However, it is still not clear that collusion is rational behavior for parties. In any one election, the incentives to win will drive compensation to be offered if it is demanded. I argue that tacit collusion is possible when parties can expect to compete in an indefinite number of future elections. To demonstrate that collusion is an equilibrium between elites if elections occur many times, I develop a simple formal game in the next section.

Game-Theoretic Analysis of the Argument

		L: ¬C	L: C
R	¬C	$p(\psi),\ (1-p)\psi$	$0,\ \psi$
	C	$\psi,\ 0$	$p(\psi - c),\ (1-p)(\psi - c)$

Figure 2: A symmetric game between left and right-wing parties who decide to offer compensation (C) or not (¬C). It is a prisoner's dilemma when $0 < c < p(\psi) < \psi$, which is assumed below for the purposes of this paper.

Figure 2 introduces a game between two parties facing an election. While I focus only on two parties for simplicity, the game can also be thought of as between two coalitions of parties. The parties, here a right (R) and left (L) party, simultaneously propose to compensate (C) the losers of globalization after the election or not (¬C). I assume that the parties can credibly commit to providing compensation after the election. If they both choose not to propose compensation (¬C, ¬C), they compete to win office (valued at ψ) with probability p and $1 - p$, respectively.

As mentioned above, in any single election there will be an incentive for each party to propose compensation if it is demanded by the losers. If the right party proposes compensation while the left does not, for example, they win the election with certainty and earn the payoff from winning office. In anticipation of this, the left will want to propose compensation as well to avoid losing with certainty and earning nothing. Thus, absent collusion the two parties will end up both proposing compensation (C, C) and will compete with the same probabilities of victory (p and $1 - p$) and payoffs should they win (ψ). However, now the winning party will have to pay the cost of compensation that they proposed (c).

Thus, the parties face a prisoner's dilemma. They are both better off if they can agree to compete without proposing compensation but have a dominant strategy to offer compensation in any given election. If one of the parties does not, the other will win over the

losers with compensation and an electoral backlash will occur for the party that did not compensate.

As is well known, if this game were to repeat indefinitely many equilibria are possible. For many party systems this is a plausible scenario, where parties can reliably expect to meet each other for at least an unknown amount of times (e.g., the SPD and CDU parties in Germany). In this case, future payoffs are discounted by a factor between 0 and 1 (say δ) that captures the degree to which parties value future electoral outcomes relative to the current election.

The possibility of future competition allows for parties to punish each other for offering compensation in the current election. Under tit-for-tat punishment, for example, the left party can threaten to propose compensation in the next election if the right party does so now. The right would then lose in the future and get nothing if the left follows through on their threat and the right returns to not proposing compensation. The right party would have to value the future enough (a large enough δ) for this threat to deter them from proposing compensation in the current election. Additionally, the left can threaten the right with a grim-trigger strategy, where they promise to always propose compensation in future elections if the right proposes compensation now. The power of this threat to deter compensation from the right again depends on how much the right values future election outcomes such that the threat impacts their payoffs.

From Morrow (1994), these threats from the left are powerful enough to deter current compensation by the right if the right values the future greater than δ_R^*:

$$\delta_R^* \geq \max\left\{\frac{\psi - p(\psi)}{p(\psi)}, \frac{\psi - p(\psi)}{\psi - p(\psi - c)}\right\} \tag{1}$$

The first term captures how much the right needs to value future election outcomes to not propose compensation if the left uses a tit-for-tat strategy while the second term captures how much the right needs to value the future to not propose compensation if the left uses a

grim-trigger strategy. The Appendix details how δ_R^* (and δ_L^* below) is determined.

Similarly, the right can threaten the left with the same strategies. These threats are powerful enough to deter the left from proposing compensation in the current election if the left values the future greater than δ_L^*:

$$\delta_L^* \geq \max\left\{\frac{\psi - (1-p)\psi}{(1-p)\psi}, \frac{\psi - (1-p)\psi}{\psi - (1-p)(\psi - c)}\right\} \tag{2}$$

When these two conditions are satisfied, tacit collusion is one possible Nash equilibrium in indefinitely repeating elections. When these conditions are easier to satisfy, tacit collusion becomes more likely and compensation should consequently be less likely to increase. The ease with which these conditions can be satisfied varies with the parameters of the game, namely: the cost of compensation (c), the value of winning office (ψ), the probability that the right wins (p and by construction $1-p$), and the extent to which parties value future election outcomes (δ). In the next section I discuss the implications of each parameter increasing and how I measure them with observational data to test my argument.

Research Design

Firstly, as c increases both conditions become easier to hold. The more costly compensation becomes, the more that each party will want to avoid paying compensation if they win the election. Thus, the parties do not have to value the future as highly to want to tacitly collude and avoid paying the high cost of compensation. This implies that the greater the cost of compensation, the more likely collusion should be and the less likely that compensation increases.

I measure compensation as social spending (as a percentage of GDP) as described and used earlier in my replication of Milner (2021). Social spending is thought to be a likely method of compensation due to how general (and thus less politically contestable) it is (Rodrik 2018). The measure does not include pensions, which makes spending less comparable

across countries. For the cost of compensation, I measure the average yearly percentage change in imports since the previous election (OECD 2023a). The intuition is that as imports grow, the distributional consequences of trade are more likely to occur and more losers will need to be compensated. Hence, the cost of compensation should increase. Assuming that an increase in imports does not affect the other parameters, like the probability of winning for one party (i.e., ceteris paribus), an increase in imports since the last election should make collusion more likely and spending less likely to increase.

The Cost of Compensation Hypothesis : An increase in imports should be associated with no change or a decrease in spending.

Secondly, as the value of winning office increases for both parties collusion becomes more likely because the conditions are easier to hold. Intuitively this is because the more they value winning office, the more the will want to win office in the future. Although they can get a bigger payoff from defecting as the value of office increases, it is also true that the punishments from the other party (i.e., proposing compensation and making the other party either lose or pay a cost if they win) become more harmful. Essentially, opportunity costs increase because the next best alternative to collusion (competing without proposing competition) becomes increasingly worse as winning office becomes more important.

I measure the value of winning office by observing the average district magnitude in the current national legislative election (Bormann and Golder 2022). Greater district magnitude means that there are more seats that can be divided up between candidates in an election and makes it more likely that parties can earn some representation with a small number of votes (i.e., proportionality). However, this means that votes translate to less power for any one party as opposed to a lower district magnitude election where one party can will all possible representation available. Thus, as district magnitude increases the payoff of winning

the election decreases. Cooperation should becomes less likely and spending more likely.

The Electoral Prize Hypothesis : An increase in district magnitude should be associated with an increase in spending.

Thirdly, the probability that one party wins affects the probability that the other wins. As the probability that the right wins the election increases, they become more interested in collusion because they are more confident that will be around in the future to gain from collusion. However, this makes the left party less likely to win and thus makes them less interested in collusion because they would prefer to win now rather than bet on future election outcomes. The probability of collusion is highest when both parties have an equal chance of winning. As the probability of either party winning deviates from 50%, cooperation should be less likely.

I measure the probability of the parties winning by observing the vote share earned by the centrist right party(s) in the previous election (Lehmann et al. 2022). The right party's best guess as to their probability of winning the current election is the percentage of vote share they earned in the previous election. As this vote share deviates from 50%, the right party should be less likely to collude with the left and social spending should increase.

The Electoral Competition Hypothesis : As the vote share of the centrist right party(s) in the previous election deviates in absolute value from 50%, social spending should increase.

Lastly, as each party values the future more collusion becomes more likely. Valuing future election outcomes more allows for the threats from each party to weigh more on the decision to propose compensation. It also allows parties to gain more from collusion because competition yields payoffs over the long term. If parties did not value the future

and thus only wanted to win now, they would be less attracted by a competitive probability of winning in the future. I measure how much each party values the future by observing the effective number of parties in a national legislative election (Bormann and Golder 2022). The intuition is that as the number of effective parties increases, the greater are the chances that a new party will undermine the collusive arrangement between the two main parties. If instead the two parties are thought of as coalitions of parties, more parties means that it may be more difficult to hold the coalition together in the future. In either case, it is more difficult to discipline other parties to allow collusion to occur. Thus, a greater number of effective parties should lead to less collusion and more social spending.

The Party Discipline Hypothesis : An increase in the effective number of parties should be associated with an increase in spending.

I regress social spending in 31 countries on the above covariates between 1980 and 2020. This period includes between 6 to 14 national legislative (lower house) elections depending on the country (see Figure 3). These countries include the wealthy democracies that exhibit the puzzling lack of compensation and several other countries for which data was available (Eastern European countries and Israel, for example). I use the following specification to assess the above hypotheses:

$$\begin{aligned}\text{spending}_{it} = \alpha_i + \beta_1 \text{spending}_{it-1} + \beta_2 |\text{50-vote share}|_{R,it-1} + \beta_3 \text{imports}_{it} \\ + \beta_4 \text{parties}_{it} + \beta_5 \text{magnitude}_{it} + \gamma_t + \varepsilon_{it},\end{aligned}$$

where spending_{it} is a function of a country specific intercept (α_i), the level of spending in the last election (spending_{it-1}), the deviation of centrist right party vote shares from 50% in the previous election ($|\text{50-vote share}|_{R,it-1}$), the percentage change in imports (imports_{it}), the

effective number of parties (parties_{it}), average district magnitude (magnitude_{it}), a dummy variable for each time period (γ_t), and a random error term (ε_{it}).

Two-way fixed effects are employed because there may be unmeasured, country-level differences that affect both levels of spending and political covariates while panel unit root tests indicated that all variables were at least trendstationary. Time period effects are one flexible way to account for trends. A lagged dependent variable is used for both theoretic and econometric reasons, where we know that the best predictor for a budgetary item is its previous value (Lipsmeyer, Philips, and Whitten 2023) and lagged dependent variables have desirable properties for panel data (Beck and Katz 1995). I also cluster standard errors on country and year (i.e., election) in case election specific processes induce heterogeneity and overconfident inferences. Lastly, it should be noted that spending and imports have information at the yearly level while the election specific information does not. I averaged the yearly measures over the years between elections to capture all of the yearly information between elections.

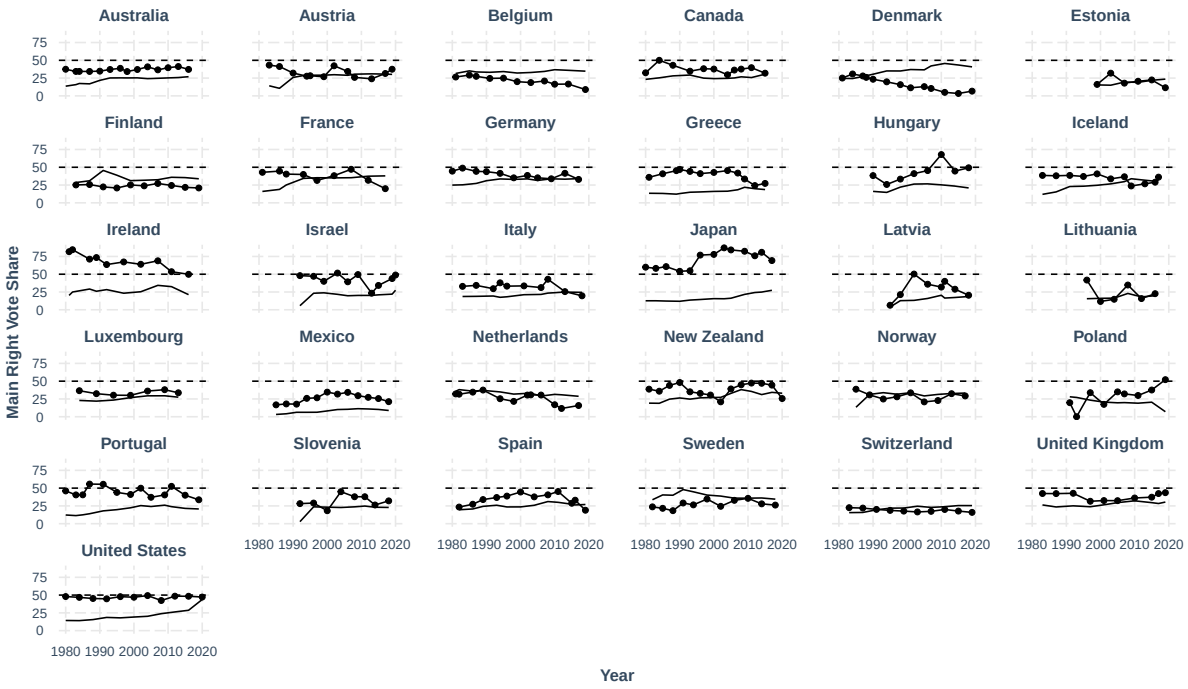

Figure 3: Descriptive information on the vote share earned by centrist right parties in the currrent election (thick dotted line) and social spending (thin line). The dots correspond to elections. The puzzle of compensation failure implies that compensation (here measured as social spending) has been stagnant or decreasing in wealthy democracies over the observed time period. One implication of my argument is that as previous vote share for centrist right parties deviates from 50%, social spending should increase.

Results and Discussion

The results are presented in Table 1. There is evidence in favor of the electoral competition and cost of compensation hypotheses but not the party discipline or electoral prize hypotheses. As past vote shares for the center right get farther away from 50%, there is an associated increase in average social spending. This would imply that as parties become less competitive, they become less likely to collude and avoid costly compensation. An average increase in the percent of imports since the last election is associated with a decrease in social spending on average, implying that the more costly compensation is the more likely collusion is to occur. However, the number of effective parties has a an oppositely predicted sign but is imprecise. Average district magnitude is correctly signed but also imprecise. Thus, the

variables that are precisely estimated provide support for my argument but the evidence is not conclusive.

Table 1:

	Dependent variable:	
	Spending	
	(1)	(2)
Spending Lag	0.565^{***}	0.577^{***}
	(0.081)	(0.081)
|50-Centrist Right|	0.090^{***}	0.085^{***}
	(0.025)	(0.027)
%Δ Imports	-0.103^{***}	-0.106^{***}
	(0.037)	(0.038)
# Parties	-0.283	
	(0.297)	
Avg. Magnitude		0.055
		(0.060)
Observations	285	285
R^2	0.415	0.411
Adjusted R^2	0.216	0.212
F Statistic (df = 4; 212)	37.567^{***}	37.055^{***}
Note:	*p<0.1; **p<0.05; ***p<0.01	

Further work is needed to provide a more convincing test of my argument. While I offered some qualitative examples of collusion occurring, it is not clear to what extent collusion may be happening in competitive multiparty systems. Relatedly, more theoretical work can be done to establish how increasing the number of parties or players changes expected collusive behavior.

In conclusion, I offered an explanation for why governments have not provided more compensation despite extensive distributional consequences from trade and their negative political implications for governments. Governments have an incentive to avoid paying

costly compensation when political parties competiting for office can collude to minimize the possibility of an electoral backlash.

Appendix

Milner Replication

	(1)	(2)
China Shock	2.269*	19.40*
	(0.961)	(7.848)
FDI	-0.229	0.137
	(1.781)	(1.188)
Immigration	-19.30	-7.373
	(14.59)	(8.765)
Post Crisis	22.85***	142.1***
	(2.727)	(19.72)
Automation	2.110	-0.697
	(1.589)	(1.667)
RTI	7.072*	1.128
	(2.870)	(2.018)
Lagged DV		0.554***
		(0.0979)
Spending		-14.64***
		(2.110)
China Shock×Spending		-0.991*
		(0.431)
Intercept	-0.730	197.5***
	(1.161)	(28.58)
N	1150	964

Standard errors in parentheses

$^{+}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

Table 2: Populist right party vote shares and covariates. Both models have country and year fixed effects and standard errors clustered on region.

	(1)	(2)
China Shock	0.239	0.413
	(0.621)	(2.152)
FDI	-0.704	-0.0856
	(2.126)	(0.864)
Immigration	-7.943	-3.297
	(10.52)	(6.961)
Post Crisis	7.933***	-70.42***
	(2.159)	(4.886)
Automation	0.256	-0.164
	(1.931)	(1.593)
RTI	-7.927*	-1.753
	(3.515)	(1.451)
Lagged DV		0.886***
		(0.0398)
Spending		7.686***
		(0.579)
China Shock×Spending		-0.00420
		(0.126)
Intercept	2.427*	-102.8***
	(1.162)	(7.895)
N	1150	964

Standard errors in parentheses

$^{+}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

Table 3: Populist left party vote shares and covariates. Both models have country and year fixed effects and standard errors clustered on region.

	(1)	(2)
China Shock	-1.196	-22.31***
	(1.954)	(8.547)
FDI	-1.347	-1.890
	(3.283)	(1.577)
Immigration	5.458	7.783
	(21.43)	(15.10)
Post Crisis	-16.78***	-58.93**
	(4.853)	(19.91)
Automation	-5.629	-3.389
	(4.728)	(3.168)
RTI	0.111	5.257
	(7.487)	(3.844)
Lagged DV		0.778***
		(0.0545)
Spending		6.871**
		(2.211)
China Shock×Spending		1.275**
		(0.475)
Intercept	39.72***	-94.50**
	(4.133)	(29.70)
N	1150	964

Standard errors in parentheses

$^{+}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

Table 4: Mainstream right party vote shares and covariates. Both models have country and year fixed effects and standard errors clustered on region.

	(1)	(2)
China Shock	-1.140	-8.239
	(1.774)	(7.295)
FDI	1.094	-0.0763
	(2.996)	(1.447)
Immigration	8.299	2.087
	(29.31)	(27.30)
Post Crisis	-9.738*	23.85
	(4.495)	(26.48)
Automation	-2.839	-2.135
	(3.946)	(2.013)
RTI	-3.491	2.400
	(6.166)	(2.258)
Lagged DV		0.855***
		(0.0300)
Spending		-3.639
		(2.990)
China Shock×Spending		0.393
		(0.416)
Intercept	35.59***	62.84
	(4.389)	(40.44)
N	1150	964

Standard errors in parentheses

$^{+}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

Table 5: Mainstream left party vote shares and covariates. Both models have country and year fixed effects and standard errors clustered on region.

Theory

Below is how I conducted comparative statics for δ_R^*. I similarly created functions and evaluated how changes in the parameters made the condition more likely for δ_L^*.

```
#delta R tit for tat####
d_r_tft<-function(p,psi){(1-p*psi)/(p*psi)}
#varying p
lapply(seq(from=0,to=1,by=0.01),d_r_tft,psi=0.5)
#varying psi
lapply(seq(from=0,to=1,by=0.01),d_r_tft,p=0.5)
#delta R grim trigger####
d_r_gt<-function(p,psi,c){(1-p*psi)/(1-p*(psi-c))}
#varying p
lapply(seq(from=0,to=1,by=0.01),d_r_gt,psi=1,c=0.5)
#varying psi
lapply(seq(from=0,to=1,by=0.01),d_r_gt,p=0.5,c=0.5)
#varying c
lapply(seq(from=0,to=1,by=0.01),d_r_gt,p=0.5,psi=0.5)
```

δ_R^* and δ_L^* were derived from Morrow (1994). The conditions for left are similarly derived. Under tit-for-tat, the right has to value the future enough such that the one-shot defections are not worth the consequences they bring in the future from the left:

$$p(\psi) + \delta p(\psi) > \psi + \delta 0$$

$$\delta p(\psi) > \psi - p(\psi)$$

$$\delta_R^* > \frac{\psi - p(\psi)}{p(\psi)}$$

Under grim-trigger, the right has to value the future enough such that collusion is better than a one-shot deviation and punishment from the left forever:

$$\begin{aligned}
\frac{p(\psi)}{1-\delta} &> \psi + \frac{\delta p(\psi - c)}{1-\delta} \\
\frac{p(\psi)}{1-\delta} - \frac{\delta p(\psi - c)}{1-\delta} &> \psi \\
p(\psi) - \delta p(\psi - c) &> \psi - \psi\delta \\
p(\psi) - \psi &> \delta p(\psi - c) - \psi\delta \\
\frac{p(\psi) - \psi}{p(\psi - c) - \psi} &> \delta \\
\delta_R^* &> \frac{\psi - p(\psi)}{\psi - p(\psi - c)}
\end{aligned}$$

Bibliography

Acemoglu, Daron, David Autor, David Dorn, Gordon H. Hanson, and Brendan Price. 2016. "Import Competition and the Great US Employment Sag of the 2000s." *Journal of Labor Economics*.

Andrain, Charles F. 2015. *Political Power and Economic Inequality*. Rowman; Littlefield.

Autor, David, David Dorn, and Gordon Hanson. 2013. "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." *American Economic Review* 103 (6): 2121–68. https://doi.org/10.1257/aer.103.6.2121.

———. 2016. "The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade." *Annual Review of Economics*. https://doi.org/10.1146/annurev-economics-080315-015041.

Beck, Nathaniel, and Jonathan Katz. 1995. "What to Do (and Not to Do) with Time-Series Cross-Section Data." *American Political Science Review*.

Bormann, Nils-Christian, and Matt Golder. 2022. "Democratic Electoral Systems Around the World, 1946-2020." *Electoral Studies*.

Causa, Orsetta, James Browne, and Anna Vindics. 2019. "Income Redistribution Across OECD Countries," no. 23. https://doi.org/https://doi.org/https://doi.org/10.1787/3b63e61c-en.

Colantone, Italo, and Piero Stanig. 2018. "The Trade Origins of Economic Nationalism: Import Competition and Voting Behavior in Western Europe." *American Journal of Political Science*.

Feenstra, Robert C., and Tracy R. Lewis. 1994. "Trade Adjustment Assistance and Pareto Gains from Trade." *Journal of International Economics*.

Frieden, Jeffry. 2019. "The Politics of the Globalization Backlash: Sources and Implications." In *Meeting Globalization's Challenges*, edited by Maurice Obstfeld and Luis Catao. Princeton: Princeton University Press.

Galle, Simon, Andres Rodriguez-Clare, and Moises Yi. 2023. "Slicing the Pie: Quantify-

ing the Aggregate and Distributional Effects of Trade." *Review of Economic Studies*. https://doi.org/https://doi.org/10.1093/restud/rdac020.

Gottlieb, Jessica. 2015. "The Logic of Party Collusion in a Democracy: Evidence from Mali." *World Politics*.

Jensen, J. Bradford, Dennis P. Quinn, and Stephen Weymouth. 2017. "Winners and Losers in International Trade: The Effects on US Presidential Voting." *International Organization*.

Lehmann, Pola, Tobias Burst, Theres Matthiess, Sven Regel, Andrea Volkens, Bernhard Wessels, and Lisa Zehnter. 2022. "The Manifesto Data Collection. Manifesto Project." *Berlin: Wissenschaftszentrum Berlin Fur Sozialforschung (WZB)*. https://doi.org/https://doi.org/10.25522/manifesto.mpds.2022a.

Lipsmeyer, Christine S., Andrew Q. Philips, and Guy D. Whitten. 2023. *The Politics of Budgets: Getting a Piece of the Pie*. Cambridge University Press.

Margalit, Yotam. 2011. "Costly Jobs: Trade-Related Layoffs, Government Compensation, and Voting in u.s. Elections." *The American Political Science Review*.

Milanović, Branko. 2016. *Global Inequality*. Harvard University Press.

Milner, Helen V. 2021. "Voting for Populism in Europe: Globalization, Technological Change, and the Extreme Right." *Comparative Political Studies* 54 (13): 2286–2320.

Morrow, James D. 1994. *Game Theory for Political Scientists*. Princeton University Press.

OECD. 2023a. "Bilateral Trade in Goods by Industry and End-Use (BTDIxE)." 2023. https://stats.oecd.org/Index.aspx?DataSetCode=BTDIXE_I4#.

———. 2023b. "Social Expenditure Database (SOCX)." 2023. https://www.oecd.org/social/expenditure.htm.

Rodrik, Dani. 2018. "Populism and the Economics of Globalization." *Journal of International Business Policy* 1 (1): 12–33.