

## Conservative controlled states cut infrastructure and welfare spending in response to increased exposure to global trade.

*The past year has seen growing controversy over the Trans-Pacific Partnership trade deal which is currently being negotiated between 12 countries, the U.S. included. Concerns about economic dislocation stemming from similar trade deals often lead social democratic governments to increase spending on welfare programs to compensate citizens. Given the lack of a U.S. social democratic party, the response of state governments to global economic liberalization is often quite different. In new research, [Brian Krueger](#) and [Ping Xu](#) find that when exposed to higher levels of international trade, left-leaning state governments maintain their levels of welfare and infrastructure spending, while conservative administrations decrease it. They explain these differing reactions may be partly explained by the increasing levels of policy polarization in state governments.*



The past half-century has witnessed a new round of increased global economic openness and integration. In a highly globalized world, international capital can more freely exit from high-tax-high-spending countries to low-tax-low-spending countries, perhaps forcing governments to slash taxes and benefits in order to attract and retain footloose capital. This “race to the bottom” (RTB) logic has become conventional wisdom in many public activist circles, which has fuelled the popular outcry against globalization. Some even suggest that economic globalization implies the demise of the generous European welfare states.

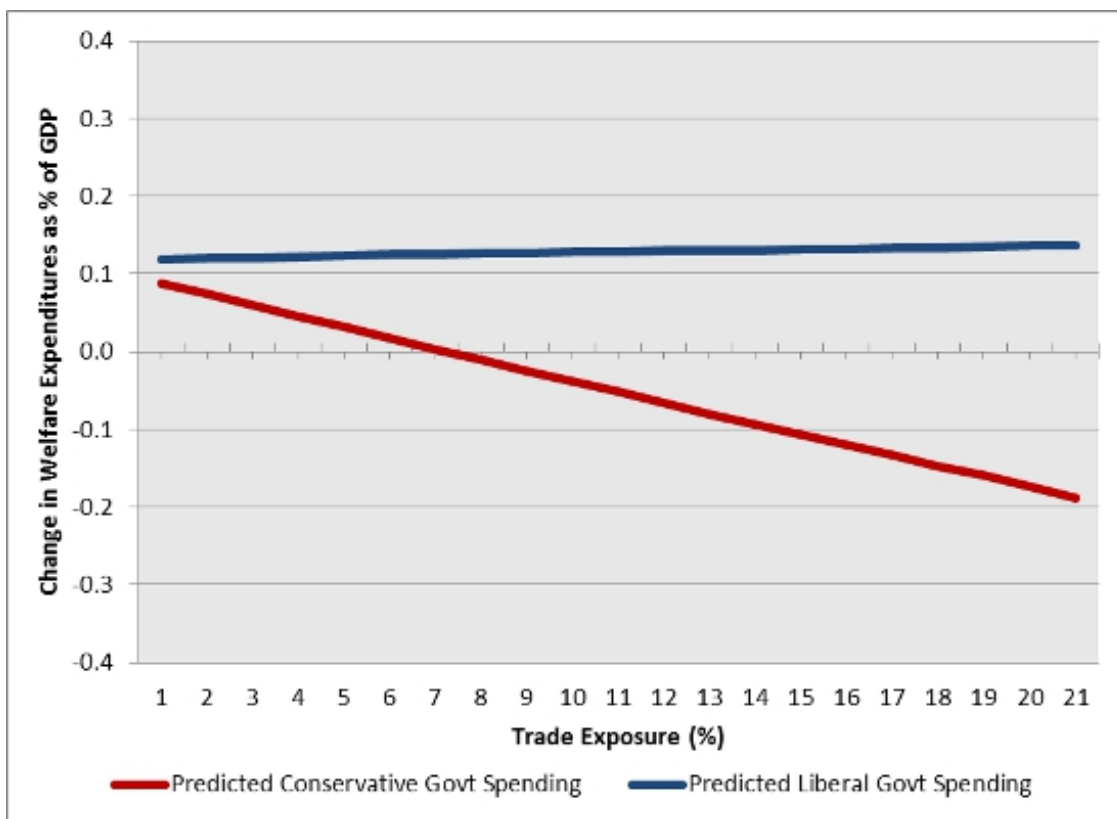
But social scientists found something different when testing this iconic RTB logic. The [evidence](#) most often contradicted the dreams of free marketers and the fears of anti-globalization activists. When advanced democracies are exposed to higher levels of global trade, if they do anything at all, they tend to increase their social spending in order to compensate citizens for the dislocations and economic anxieties associated with economic globalization. More precisely, the evidence suggests that when social democratic or other left parties control governments, global trade stimulates increased spending; without strong social democratic parties, economic openness generally has no effect on government spending.

Because a viable social democratic party does not exist in the United States and because it ranks near last on every left-labor power metric, the United States is often viewed as an empirical outlier that does not fit neatly into these studies that reserves a special role for left parties. It is not fully understood if and how economic globalization interacts with the special features of American political institutions to influence government spending. This lack of attention is unfortunate given the U.S.’s outsized importance in the global economy and the retrenchment of some social programs in the U.S. over time. Luckily, the 50 American states have significant variation in exposure to global trade, differ widely in the ideologies of their state governments, and control much of the public spending due to the United States’ high level of fiscal decentralization. By focusing on the U.S. states over the past few decades, we can see the long-term relationship between global trade exposure and state government spending in areas such as social welfare and infrastructure.

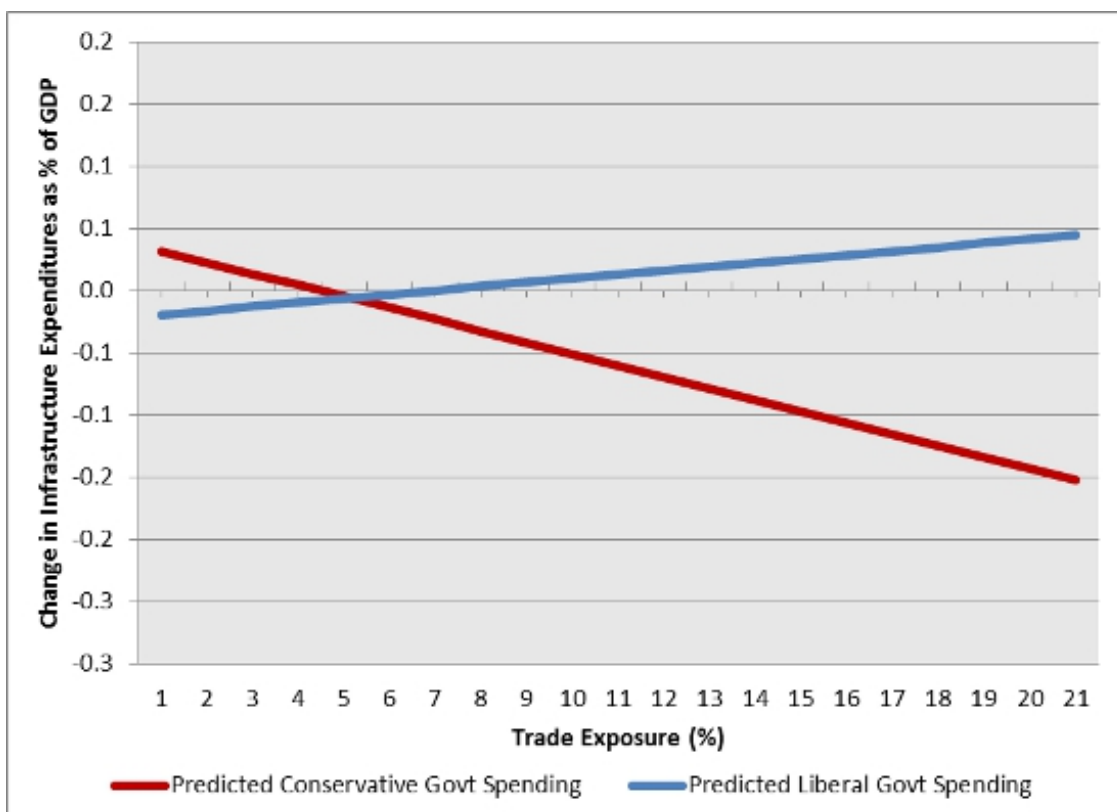
[Our latest study](#) suggests that global trade is an important element in creating state-level policy polarization in the U.S. We find that after accounting for a variety of other factors, liberal and conservative American state governments have quite different strategies in adjusting state social welfare spending when heavily involved in global trade. As shown in Figure 1, when exposed to higher levels of international trade, liberal state governments maintain their commitment to moderately growing welfare spending. Yet, the pattern for conservative states is strikingly different. When increasingly exposed to international trade, conservative state governments will first reduce their support of social welfare and then eventually cut welfare spending. A very similar pattern is observed for state-level infrastructure spending, as shown in Figure 2. When responding to the pressures of higher global

trade, liberal state governments reject the “race to the bottom” logic. For liberal state governments, regardless of whether the state has high or low global trade exposure, infrastructure investments do not significantly differ. Yet again, conservative governments react to increased global trade by sharply reducing the spending on infrastructure just as the RTB logic predicts.

**Figure 1- Predicted change in welfare spending as trade exposure varies under liberal and conservative state governments**



**Figure 2 – Predicted change in infrastructure spending as trade exposure varies under liberal and conservative state governments**



---

Our findings about global trade in the American states somewhat mirrors those from cross-national studies.

[Cross-national evidence](#) suggests that economic globalization leads to the acceleration of spending on welfare state programs when social democratic parties are in power, whereas economic globalization tends to have a null or modestly negative effect under more right-leaning governments. U.S. state government ideology also conditions the effect of global trade on government spending, but compared to cross-national patterns, the center of gravity shifts in the American states dramatically towards lower spending. Put another way, in the American states, global trade exposure has either no effect or a negative influence on public spending, which contrasts sharply with the positive or no influence on public spending found in most cross-national studies.

Our results also suggest that increased trade exposure may be part of the story about the increased policy polarization in the United States. Polarization has become a heated topic in American politics but the bulk of attention has focused on mass and elite ideology. Our results suggest that we should pay more attention to policy polarization across the American states. After all, the policy environment is what actually affects people's lives. And as we show, elite ideological differences only sometimes translate into different policy outcomes. For example, with low reliance on trade, a condition more common in the past, conservative and liberal governments grew social welfare and infrastructure programs at a similar rate. Yet, we find that liberal and conservative government spending patterns diverge dramatically when state economies are highly exposed to international markets. Conservative U.S. state governments tend to cut social welfare programs when in a high trade environment; liberal states generally maintain their policy of modest increased investments regardless of trade levels.

Because this is not a common pattern across other advanced democracies we speculate about why U.S. conservative governments are especially successful at translating their ideological policy preferences into policy outcomes under high levels of trade exposure. We know that sizable parts of the U.S continue to support laissez-faire solutions to policy problems and U.S. faith in free market solutions far [exceeds](#) that of most other advanced democracies. One possibility is that conservative U.S. state governments, already inclined to cut spending on certain programs, take advantage of the pressures of globalization, and the well understood story of capital flight, to better convince various policy stakeholders that reductions are now unavoidable. It may well be that the U.S.'s peculiar confidence in market-based doctrine combined with increased global trade could be a driving force for policy polarization in the United States, with only the most market oriented conservative states racing to the bottom.

*This article is based on the paper, '[Trade Exposure and the Polarization of Government Spending in the American States](#)', in *American Politics Research*.*

Featured [image](#) credit: [peoplesworld](#) (Flickr, [CC-BY-NC-2.0](#))

[Please read our comments policy before commenting.](#)

*Note: This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.*

Shortened URL for this post: <http://bit.ly/1EVVOso>

---

## About the authors

**Brian S. Krueger** – *University of Rhode Island*

Brian Krueger is professor and chair of the Political Science Department at the University of Rhode Island. His [research interests](#) include political participation, political mobilization, the impact of new technologies on political behavior, survey research, government domestic surveillance, and emotions.



**Ping Xu** – *University of Rhode Island*

Ping Xu is an Assistant Professor of Political Science at the University of Rhode Island. Her [research interests](#) include political economy, inequality, globalization, the welfare state, and Chinese politics.

- CC BY-NC-ND 3.0 2014 LSE USAPP

