

Understanding De-Globalization: Trade-offs Between Wealth and Sovereignty

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Abstract

This paper establishes a framework to integrate individual voter and nation-state anti-globalization decisions that reduce economic wealth into the standard rational economic model of utility maximization. The central concept is that citizens have preferences for wealth and sovereignty that are in tension. Globalization requires trade-offs between sovereignty and wealth. Given declining marginal values of both, there will be a point at which utility is maximized by increasing national sovereignty, even at the expense of wealth. This framework incorporates preferences for anti-globalization among both citizens who lose wealth from trade as well as those who gain wealth from trade, allowing for a de-globalization outcome despite a corresponding loss of wealth. This is because the gains in utility from greater sovereignty increase total utility. The paper examines specific causes and rationales for greater preferences for sovereignty, incorporating research from psychology, sociology, and anthropology. It applies this theoretical framework in practice, examining the 2016 American Presidential election and the UK's referendum to leave the European Union (Brexit). It finds that decisions to retreat from global integration may be utility maximizing, are more likely among nations that have achieved relative wealth, and are amplified by reductions in labor mobility and increased political importance of regions more susceptible to wealth losses due to trade.

I. Introduction

The liberal international order beginning in 1945 featured sustained increases in multinational trade, commerce, and harmonization of rules and regulations, sparking a period of fundamental multinational cooperation on most economic issues, especially among advanced developed nations (OECD). Increasing global integration of economic, military, and political systems occurred both within and across continents with the creation of the European Union, the passage of the North America Free Trade Agreement and the Asia Pacific Trade Agreement as well as the formation of NATO, APEC, etc. The trend toward globalization also included the creation of new multilateral institutions (United Nations, International Monetary Fund, World Bank) as well as supranational governmental organizations (European Commission, International Criminal Court, etc.). This global order brought about a period of sustained economic advancement and relatively low levels of war (Ikenberry 2019).

In recent years a strong political backlash against globalization has emerged. Political victories favoring deglobalization occurred in some Western nations. The United Kingdom voted to leave the European Union (Brexit). Donald Trump was elected President of the United States, promising withdrawals from a series of multinational trade agreements and organizations. Both of these events caught financial markets, economists, and political experts by surprise (See Flegenheimer and Barbaro 2016, “Trump – Causes and Consequences”). The electoral success of de-globalization requires new thinking to better capture, explain, and predict voter behavior. At a fundamental level, it begs the question as to whether these elections are isolated idiosyncratic moments or if they are the beginning of a substantial turn against the larger movement towards global economic integration that is entering its eighth decade.

This paper proposes a new framework to understand and analyze these events by building upon standard economic theory and considering citizen preferences under a series of rational trade-offs. The framework proposed is a trade-off between wealth and sovereignty. Taking the definition of sovereignty as “supreme and independent power or authority in government as possessed or claimed by a state or community” it is clear that integrating into a globalized economy, signing multi-national trade agreements, and harmonizing rules and regulations reduces national sovereignty, by definition. While past research has focused on the increases in wealth that come from these agreements (Comerford and Mora 2019), this paper considers the trade-off inherent between wealth and sovereignty.

The period between 1945 and 2016 broadly involved globalization whereby nations traded off sovereignty for increased wealth. The success of anti-globalization efforts and platforms at the ballot box indicates that national preferences may have shifted such that countries are willing now to trade off wealth for increased sovereignty. Exiting multinational agreements increase sovereignty at the cost of wealth. Deglobalization is not an inherently suboptimal decision, but rather an alternative placement along an indifference curve of preferences. There are *many* utility-optimizing wealth/sovereignty mixes, and deglobalization is a process by which voters move countries towards a mix that includes less wealth and more sovereignty.

In arguing that de-globalization can occur without diminishing utility, and possibly even increasing national utility, this paper rejects two alternative theories used to explain this behavior: irrational behavior and incomplete information. The first of these theories is that of irrational expectations. This theory is predicated on the belief that some voters supporting deglobalization believe the mistaken idea that deglobalization can increase sovereignty without reducing wealth (or might even end up increasing it). While it is true that there are individuals who stand to lose both wealth and sovereignty from globalization, this is not true for the majority of voters. If it were, globalization would have been far less likely in the first place. The first theory is that a substantial number of voters who stand to lose money during de-globalization mistakenly believe their wealth can be maintained (or increased) by deglobalization and hence do not see a trade off between wealth and sovereignty, but rather a win-win and hence are fooled. The second theory is a weaker corollary, that people do not have complete information on the consequences of deglobalization and are making decisions without a full understanding of the consequences.

This paper argues that support for deglobalization is rational and even utility maximizing for individuals with complete information and a full understanding of the negative consequences of deglobalization on personal wealth, employment status, and national economic well-being. Deglobalization can be incorporated into the standard economic utility-maximizing framework for rational actors best by including a new element in the utility function: preference for sovereignty. Incorporating this metric and considering the substantial changes to sovereignty that have occurred over the 70+-year period of global integration provides substantial insight as to why substantial blocs of citizens in the United States, the United Kingdom, and other nations are expressing strong support for deglobalization. It also reminds economists that GDP is one of a subset of elements incorporated into a nation's utility maximization function. GDP is not a full and complete proxy for utility as is sometimes mistakenly assumed. Likewise, wealth is only one of a subset of factors that are incorporated into an individual's utility. Things that decrease wealth can increase utility by augmenting non-wealth factors of utility.

II. Theory

Globalization makes countries wealthier. A nation gains wealth from international trade by specializing in industries where it has comparative advantages over its trading partners (Ricardo 1817, Mill 1871). In order to trade, rules governing trade must be established. Key rules include legal frameworks to resolve disputes, regulatory standards for quality control, ability of people and goods to move within nations, and standardized labor and environmental standards for production. When two or more nations must compromise on these aspects, there is an inherent reduction in each nation's sovereignty. Thus, the rules governing trade between nations express some compromise or divergence from the preferences of each individual nation's citizens for the rules governing trade. International regulatory harmonization on these rules creates a broad array of efficiencies for countries that cooperate (Bickel 2014).

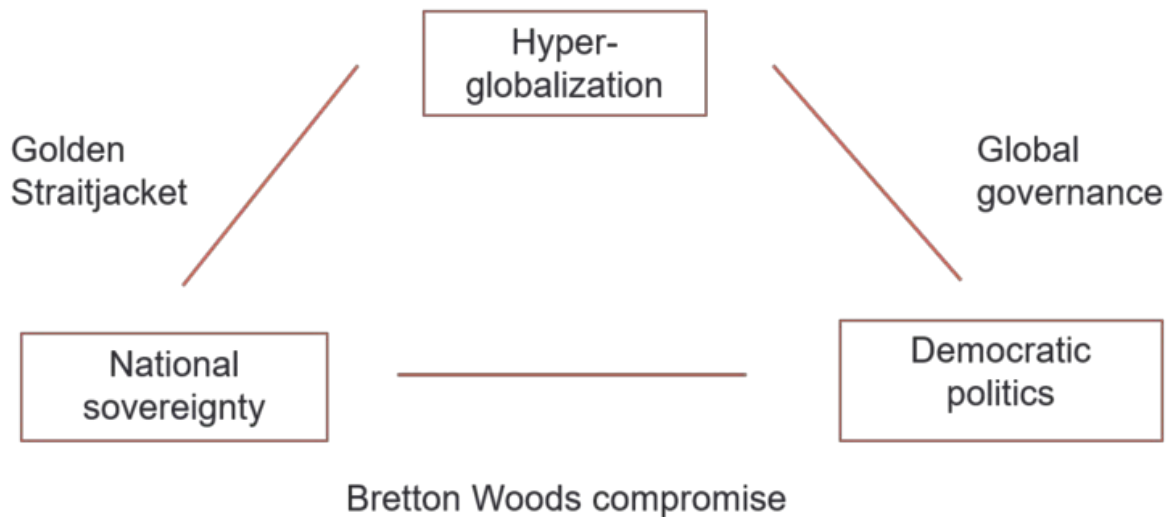
Another aspect of globalization is the movement of people in addition to goods. The free movement of human capital—immigration and emigration—allows nations to realize gains from trade in the same way as exchanging goods and services—by the movement of resources, in this case human resources, to their most efficient uses (Chang 1996). A landmark report by the National Academy of Sciences “revealed many important benefits of immigration — including on economic growth, innovation, and entrepreneurship — with little to no negative effects on the overall wages or employment of native-born workers in the long term” (Blau 2016). This is critical as the economic benefits to the developed nations that receive immigrants are substantial and positive. Debate persists regarding the net impact of globalization on developing countries (opponents sometimes call emigration a ‘brain drain’), but there is broad evidence that “integration has been a positive force for improving the lives of people in developing areas” (Dollar 2004). Nations gain wealth from globalization by capitalizing on gains from trade and realizing efficiencies across their economies.

But globalization, for all of its financial benefits, comes at a cost to national sovereignty. While economists debate precisely how the concept of sovereignty should be understood in the context of globalization, most agree that “any significant international agreement must involve the loss of sovereignty” (Richardson and Stähler 2017)¹. Or as sociologist Saskia Sassen puts it, economic globalization involves the “partial denationalizing of national territory and a partial shift of some components of state sovereignty to other institutions” (1996). Because sovereignty holds considerable value (Rabkin 1999), a state takes into account both the wealth benefit and the sovereignty cost of globalization as it considers opening itself to the world.

This paper proposes that individuals form opinions about globalization by trading off the utility of wealth for the utility of sovereignty. Thus far, we have only discussed the wealth/sovereignty trade-off at the level of the nation-state. We apply this national trade-off to individual citizens by limiting our discussion to nations in which wealth and power are distributed among the population to some extent. In such states, citizens are paid for their labor (so they stand to gain or lose wealth from international integration) and are represented by their leaders (so they stand to gain or lose power/control from national sovereignty). Dani Rodrik describes a trilemma between democracy, globalization and sovereignty. Limiting our discussion to democracies (or “holding it constant” in the trilemma) for the reasons listed above, Rodrik says: “If we want hyper globalization and democracy, we must give up on the nation-state... if we want to combine democracy with the nation-state, then it is bye-bye deep globalization” (Rodrik 2011). In representative systems, there exists a trade-off between globalization and sovereignty.

¹Richardson and Stähler define sovereignty as “the freedom to set policy of ‘territorial-jurisdictional entities with independent powers of making and administering’ laws and economic policy.” This definition is adapted from Rodrik’s definition of the nation-state (2000). While some authors argue that international agreements expand sovereignty, their arguments tend to define sovereignty in more abstract ways.

Figure 1: The Globalization Trilemma - Pick two



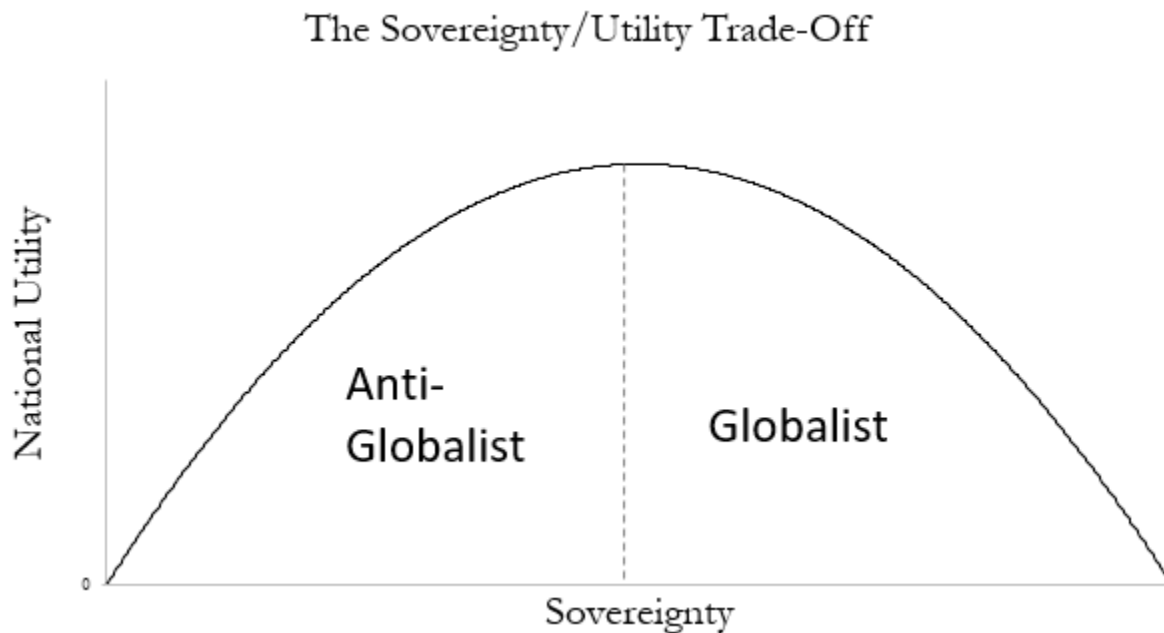
Source: Rodrik 2016

Individuals within nations where wealth and power are somewhat dispersed derive utility or disutility from the wealth generated or lost by international integration. They also derive utility or disutility from sovereignty, because they value nationhood, autonomous home-rule, and independence (DeLamater et al. 1969, Druckman 1994). Thus, globalization has two competing effects on individuals' utility: the utility effect of change in wealth and the utility effect of change in sovereignty. Citizens evaluate trade deals by weighing the financial benefits of trade against the sovereignty they stand to lose. They support economic integration if and only if they expect to gain more utility from new wealth than they stand to lose by giving up sovereignty. The fact that citizens weigh sovereignty against wealth means that opposition to trade can therefore be rational even for those who (1) are made wealthier by it and (2) understand the relevant costs and benefits, so long as they gain relatively little utility from the wealth they gain and/or they lose a relatively large amount of utility from the sovereignty sacrificed in integration .

Figure 2 below illustrates the trade-off between wealth and sovereignty described above. Complete national sovereignty, or autarky, is sub-optimal for most citizens because the nation is like an isolated island, and the individual does not benefit from any gains of trade. If this were optimal for a substantial number of citizens, nobody would support any trade with other nations. In fact it would seem that the internal compromises necessary to sustain larger nation states would be unlikely to remain, since most developed nations are made up of smaller states or provinces which have sacrificed some autonomy to join a larger political community. Complete international integration is generally not utility-maximizing either, because the nation ceases to exist. It is absorbed into a larger body, and the individual loses power and freedom. If this were optimal, it would be difficult to explain the centuries-long persistence of the nation-state model. We represent these two sub-optimal extremes as having zero utility, while we represent the utility-maximizing point as having positive utility. It is not necessary that they end at zero, or

even at the same level, simply that at the extremes they are declining. This utility-optimizing level of sovereignty must occur between the two extremes that we have described: a point at which the individual's nation realizes some gains from trade while retaining some degree of control in domestic affairs. Figure 2 depicts one possible equilibrium.

Figure 2

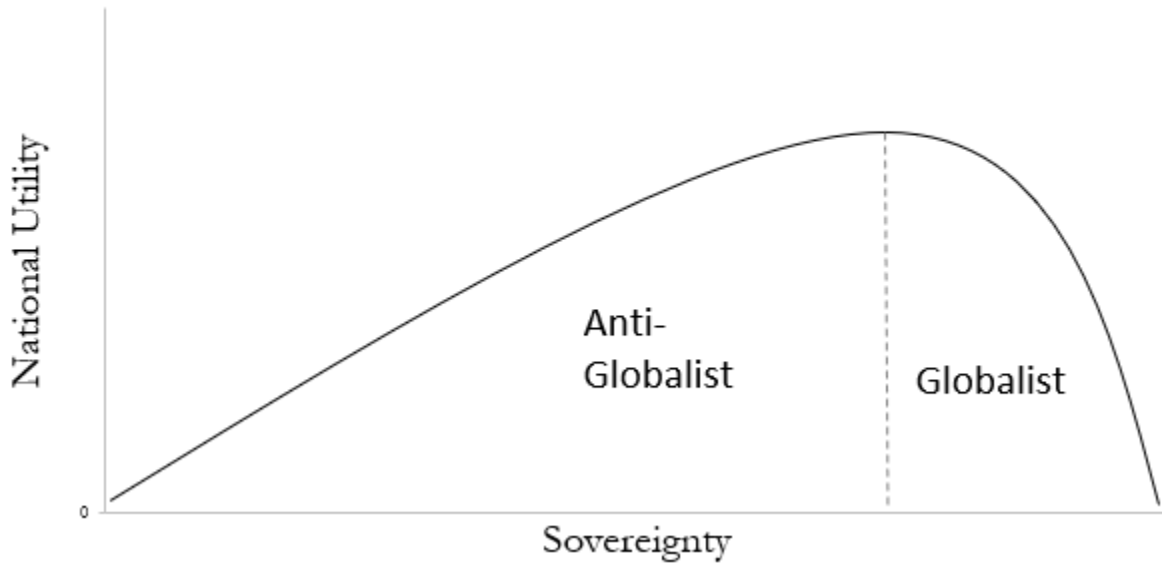


Individual citizens have heterogeneous positions along curves of varying slopes as each person conceives of the sovereignty/wealth trade-off according to his/her unique circumstances and values. If her/his financial situation is not threatened by trade and/or the individual places a higher value on new wealth, he/she will lean towards global integration as trade maximizes his/her material wealth. This “comparatively-advantaged materialist” has a utility-from-trade curve like that shown in

Figure 4. On the other hand, if an individual places a high value on national sovereignty as compared to material wealth, s/he will lean towards protectionism because globalization reduces sovereignty.

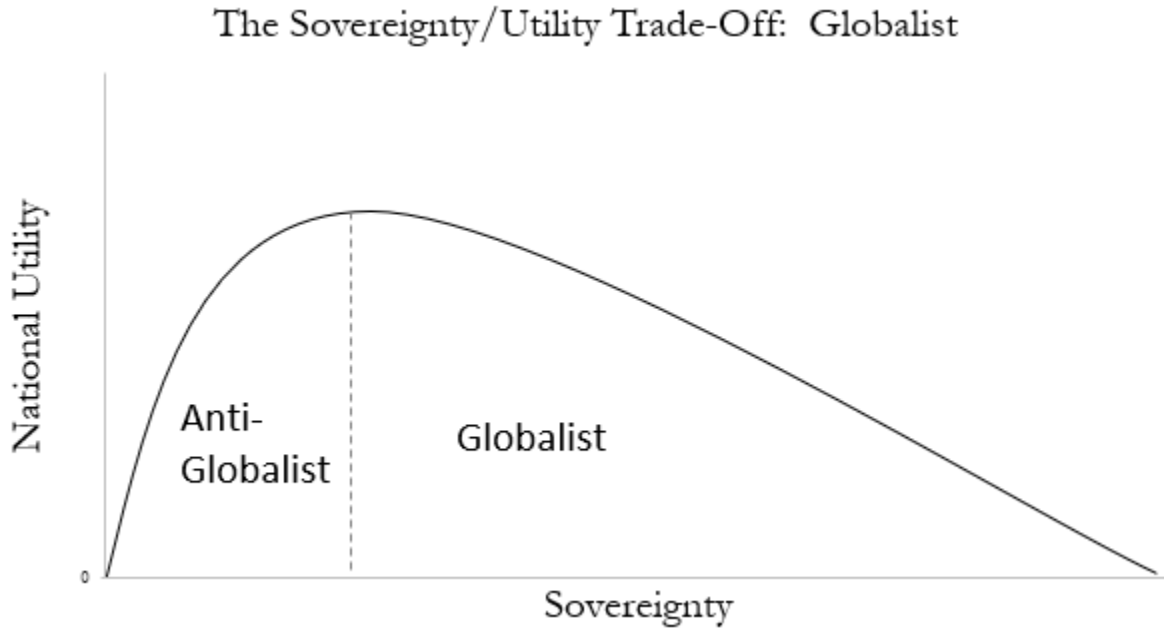
Figure 3

The Sovereignty/Utility Trade-Off: Anti-Globalist



There is another group that is likely to oppose globalization because they lose material wealth as well as sovereignty. This group is generally a minority, of varying size, but deserves independent attention. These are the individuals whose employment (or wealth if they are capital holders in certain areas) is hurt by globalization and who place a high value on national sovereignty. These people will see their wealth get “traded away” as they lose their economic standing as a result of global competition. This “economically-displaced nationalist” has a utility-from-trade curve like that shown in 3.

Figure 4



Equation 1

$$\text{Individual Utility} = (\alpha \times \Delta \text{Wealth}) + (\beta \times \Delta \text{Sovereignty})$$

This individual function can be summed on a national level over all citizens as such.

Equation 2

$$\text{National Utility} = \sum_i^n [(\alpha_i (\Delta \text{Wealth}_i) + \beta_i (\Delta \text{Sovereignty}_i))]$$

Those Who Lose Wealth By Trade

Much attention has been paid to those who are displaced by global trade and lose both wealth and sovereignty. Algebraically, the Δ wealth is negative for the set of individuals who stand to lose economically as globalization increases. This set of individuals can be identified as a subset of i , call it j who have a negative delta in wealth in Equation 1. Those people (j) are most likely exposed in industries and geographies that are hurt by trade. In the more recent American context, those are fields of low-education manufacturing, apparel, or other trade exposed sectors. They may not work in those specific industries, but be located in areas exposed to those industries to the extent that damage ripples through the community (e.g. work a restaurant in a mill town where the mill will close). The probability p that any two people who have a negative delta of wealth in equation 1 are geographically proximate is greater than for any two random people.

Further analysis can make the trade-off function more complex if geographic mobility is introduced for the subset whose wealth are harmed by globalization. The wealth impact for globalization can be further decomposed into the direct impact for the subset of populations that is geographically stationary, which is negative per assumption, and the potential for a wealth gain if the person moves to a new location. If the wealth impact of this population is $Wealth_j$, then $\Delta Wealth_{fixed} < 0 < \Delta Wealth_{mobile}$ for all people j within the subset J .

Geographic mobility comes with cost so the equation for these individuals is now a combination of the negative impact if stationary plus the potential positive wealth impact if they move to an area where they can reclaim their prior level of wealth and receive the benefits of trade. The net impact of this then becomes a combination of the cost of displacement and the probability of reclaiming equal economic footing. This has the effect of further decreasing the value of gains of trade by the cost of displacement. Notice that the corresponding negative impact does not exist on the sovereignty side of in equation 3.

Equation 3

$$Utility\ of\ J = \sum_j^J [(\alpha_j (\Delta Wealth_j + cost\ of\ displacement_{mobile}) + \beta_j \Delta Sovereignty_j)]$$

This advanced analysis focusing on those most economically disadvantaged from globalization has led some leading economists to focus on place-based policies that attempt to more effectively redistribute the benefits of trade on a targeted basis, often to those in the most directly harmed geographies. Austin, Summers and Glazer (2018) build on Autor, Dorn and Hanson (2013) examining the impact in America to Chinese trade and find it impacts “not working rates more in commuting zones with higher historic levels of non-employment.” While this work is important in refining approaches to the standard model of how to benefit the losers from trade (for a long time in the US under the program known as trade adjustment assistance (TAA)), it continues to focus on the narrower subset of people who are wealth losers from trade. It ignores the group of voters who may be wealth beneficiaries from trade but maximize utility from greater sovereignty.

Deriving utility from sovereignty

The model of a utility trade-off is supported by research on political behavior. Rankin (2001) demonstrates how individuals weigh sovereignty in forming opinions on trade. He defines sovereignty in terms of territorial ownership, autonomous decision-making, and the protection of cultural symbols. To do so, he draws on the theory of symbolic politics, which suggests that the public forms opinions based on “symbolic” signals that cue a stable set of attitudes and affections. He then assesses views on sovereignty using poll questions on foreign ownership of US land (which get at territorial ownership), foreign programming on US television (which assess cultural protectionism), and whether America should follow its interests even if doing so

provokes conflict (which indicates autonomous decision-making). Through regression analysis of trade attitudes, Rankin demonstrates that more restrictive views on sovereignty have an important role in explaining both general anti-import and specific anti-NAFTA views. He echoes the notion of a utility trade-off when he concludes that “a higher affective value attached to restrictive conceptions of national sovereignty and cultural integrity appears to conflict with more positive views toward freer trade, a process symbolically associated with diverse transnational economic and cultural forces impinging on the national community” (Rankin 2001). In other words, a robust belief in sovereignty works to erode otherwise favorable attitudes towards trade and steer individuals towards protectionism. Rankin cites Edward S. Cohen in concluding that voters consider trade attitudes alongside pocketbook concerns; the “material and symbolic dimensions of politics are increasingly intertwined” (Cohen 2001, Rankin 2001).

Recent work has explicitly acknowledged the sovereignty-wealth trade-off. Three political scientists conducted a study entitled “National Sovereignty vs. International Cooperation: Policy Choices in Trade-Off Situations.” The authors look at the case of the European Union and find that, “international cooperation... has often led to growth and prosperity. However, an increasing number of international regulations have also limited the ability of national governments to meet the specific demands of their electorates” creating a “tension between benefits of international cooperation and the loss of national sovereignty” (Emmenegger et al. 2018).

The existence of the European Union and tension within it demonstrates the trade-offs inherent between globalization, sovereignty, and wealth. The common market and free movement of citizens between the member nation states has increased the overall wealth of the citizenry. As French Finance Minister Bruno Le Maire (2019) recently stated, “When 11 countries in Europe joined the Europe in 1999, they freely relinquished their national currencies. They didn’t just say yes to a new currency as a medium of exchange; they consciously decided to transfer part of their sovereignty to the European level.” The rationale for doing so was the wealth gains derived from the Euro.

However, individual nations have lost sovereignty not only on key economic issues, such as monetary policy, but also on immigration and regulation of industry. The limits on the willingness of countries to cash in sovereignty for wealth are apparent in the desire of Euro nation-states to have a common currency and monetary policy, but not a common central fiscal policy (Issing 2006).

From micro preferences to macro revelations

How does the individual-level (micro) model we’ve described relate to the global (macro) rise in nativist protectionism? What individual-level changes explain recent national political shifts? Are these new changes among citizens, or have the preferences existed for quite some time without voice? These are all questions this new framework is able to integrate and provide insights.

To start this analysis, it is useful to begin with the following framework: “The electoral fortunes of populist parties are open to multiple explanations which can be grouped into accounts focused upon (1) the demand-side of public opinion, (2) the supply-side of party strategies, and (3)

constitutional arrangements governing the rules of the electoral game” (Inglehart and Norris 2016). The wealth/sovereignty trade-off described is a microeconomic model for potential voters, who comprise “the demand-side of public opinion.” The rest of this section will explain the factors that influence individuals’ demand curves and how individuals interact with the “supply-side” of politics. The next section will explain how the particular “constitutional arrangements” in specific countries have converted political-economic changes into victories for anti-globalists.

Our model implies three ways in which a voter could develop protectionist desires. First, is the scenario where an individual faces substantial loss of wealth from globalization. Though nations become wealthier by giving up sovereignty, individual citizens may not; these individuals may lose wealth even as their nation loses sovereignty. These voters (Figure 3 in the earlier section), face a lose-lose trade-off as globalization reduces both wealth and sovereignty. To the extent that changes in the nature of globalization increase the number of people in this category, then the political backlash for de-globalization will build.

The second scenario is when a diminished valuation of wealth would make it easier for somebody who does benefit from globalization to sacrifice wealth for sovereignty. For this person, the declining marginal utility from increased wealth creates a point when the marginal value of sovereignty would exceed the marginal value of wealth. The core insight into this group is that this tipping point is likely to occur only after substantial accumulation of wealth. The definition of “substantial” should be thought of as enough to move out of poverty or fear of poverty, not necessarily the idea of a movement into the top decile or top one percent. That is to say a person in or near poverty is likely to express a strong utility desire for greater wealth. But research shows once a minimum level of wealth is achieved that eliminated poverty from a potential outcome, marginal increases in wealth are not associated with substantial (or any) increases in happiness. Research has put this figure around \$75,000 in the United States (Kahneman and Deaton 2010), a level that corresponds to roughly the 61st percentile of national household income.²

Individuals in this group are likely to have highly heterogeneous preferences on this trade-off. However, it is not necessary that people have uniform preferences. The point is that for a subset of people who have achieved this level of wealth accumulation, it becomes more likely that the preference for increased sovereignty among a subset of them would trump the desire for increased wealth.

Finally, a heightened valuation of sovereignty would lead one to exchange more wealth for sovereignty. Thus, policies or environments that lead to a greater preference (or increased marginal valuation) for sovereignty would tip certain voters away from a preference for globalization and towards a preference against it. This would increase the β in Equation 1 discussed above. This can be expressed in terms of political movements or moments that increase the value of sovereignty. Historically, wars, tragedies, or perceptions of threat or danger from outside groups or countries have been factors elevating preferences for sovereignty.

² Percentile estimated using the DQYDJ 2017 Household Incomes Brackets and Percentiles estimates: <https://dqydj.com/united-states-household-income-brackets-percentiles-2016/>

Further analysis of this area is important, but one observation is that it is possible to elevate preferences of sovereignty among a subset of the population, without elevating it among all. A national tragedy or unifying moment that elevates sovereignty for the nation-state broadly may be the first cause that comes to mind (e.g. the terror attacks of September 11 in the United States), but political leaders may also stimulate attachment to sovereignty within a specific sub-group of the wider population. This can take the form of incentivizing long-standing ethnic divisions, or cultural ones. Take, for example, the US debate about the handling of Confederate monuments. This can increase sovereign preferences in the American south. Political leaders and exogenous events have the ability to alter the value of sovereignty, and hence the trade offs desired between sovereignty and wealth among individuals and hence national preferences.

Gains from trade are not distributed evenly across society. Citizens who lose out may support tilting their country's sovereignty/wealth mix towards sovereignty because they stand to gain utility from enhanced sovereignty and from "regaining" the wealth they lost from globalization, even though the nation as a whole will lose wealth. These individuals whose utility optima occur closer to 100 percent sovereignty will prefer protectionism to integration unless and until the nation's sovereignty/wealth mix optimizes their personal utility.

Declining Marginal Utility of Wealth

Economics is built upon the principle of declining marginal utility. Both theory and empirical evidence on personal well-being show that wealth has declining marginal utility (Bentham 1781). People who value wealth less are more willing to sacrifice it for sovereignty. The economic literature and research of well-being is growing but still in an earlier phase of research and empirical analysis (Kahneman and Krueger 2006). Early work indicated that there was a paradox known as the 'Easterlin paradox,' which argued that there was no link between a society's economic development and its happiness. Stevenson and Wolfers (2008) presented international cross country analysis arguing that there continues to be absolute gains to utility even as incomes rise among developed nations, refuting some arguments that utility was based on relative incomes not absolute and bringing into question the Easterlin paradox.

Regardless of the relative vs. absolute levels of income as it relates to marginal utility, the core point for this framework is only that marginal utility of wealth declines with income. That this coefficient of decline exists above a certain income level, that is there are not constant returns of happiness per dollar of income or wealth, among the middle to upper middle to upper class, is broadly assumed. Given that reality, the question comes about the marginal value of sovereignty. A subset of individuals, call them S , where $S = \{i, j, \dots\}$, and $S \in N$ will place a relatively greater value of marginal sovereignty than on marginal wealth. Returning to equation 1, that would mean that $\alpha > \beta$ if marginal wealth and sovereignty were able to be represented equally in units of utility (utils).

Equation 4

$$National\ Utility = \sum_i^n [(\alpha_i (\Delta Wealth_i) + \beta_i (\Delta Sovereignty_i))]$$

If sovereignty's marginal value is uncorrelated with wealth, then as wealth grows across a society, then number of individuals belonging to subset J grows. At some point J will become large enough to where the marginal value of additional sovereignty trumps that of wealth for the full set N.

This insight helps explain why the backlash to globalization is occurring among nations that have relatively high wealth. Average wealth per adult in the US in 2018 is over \$400,000, vs. that in the UK is reportedly \$280,000.³ Instead of viewing this movement as a backlash against globalization it could be thought of as a secondary stage. In the first stage the political consensus for globalization builds as greater wealth is distributed and the marginal value of that wealth is greater than that of the loss of sovereignty. However, as wealth builds and is distributed, its marginal valuation falls, allowing sovereignty's marginal value to extend beyond it some. Eventually, a tipping point p is reached where the valuations from equation 2 are such that political measures to re-exert sovereignty are more valued, even at a cost of wealth.

Marginal Valuation of Sovereignty

Turning to the marginal valuation of sovereignty, it may be the case that there is greater heterogeneity of valuation within a society. In this paper, we argue that social dominance contributes to a wealth-from-trade curve that resembles Figure 3 because it contributes to a heightened valuation of sovereignty. Societies feature hierarchies based on racial, ethnic, religious, age, or gender characteristics. In sociology, those who hold superior status in such a hierarchy are called “socially dominant.” The authors clarify, we do not endorse the underlying assumptions built on social divisions and privilege—these individuals are not actually ‘superior or inferior’ with respect to others. Individuals that carry a “socially dominant” standing in social hierarchies can hold attitudes and affections that lead them to having differing values on sovereignty. That expression of differing values leads one group of individuals to, on the aggregate, express more valuation of sovereignty relative to wealth, which in turn makes them more politically likely to support de-globalization policies. The key finding from research in this space is that this is particularly true when a group's dominant status is perceived as threatened.

Citizens who identify with “socially-dominant characteristics” (i.e. men, white Americans, and other privileged groups) are particularly drawn to valuing sovereignty, especially if expressed in nationalistic terms highlighting their group as rightfully dominant. As anthropologist Ghassan Hage (1998) puts it, these privileged groups have “national cultural capital” and may be (incorrectly) perceived to be “more national” than others. This creates an effect which sociologist Michael Skey (2013) calls “I belong to the nation, the nation belongs to me,” wherein members of “dominant groups” experience heightened national identification and benefit disproportionately from the feelings of belonging and attachment that make nation-states sociologically appealing. Beyond mere national attachment, socially dominant groups express a heightened sense of ‘national superiority’ when compared with their marginalized counterparts (Mutz et al. 2017; Carter and Pérez 2016; Cebotari 2015).

³ Data reported by Statista: <https://www.statista.com/statistics/203941/countries-with-the-highest-wealth-per-adult/>. Median wealth would give different figures and there is substantial dispersion and inequality within countries. The point here is that both are relatively wealthy countries by global or even G20 standards.

This relative comparison point is important, particularly in heterogeneous societies. Goldstein and Hall (2017) connect the first of Trump's major political nationalist theories, that President Obama was not born in America (birtherism) and hence not eligible to be President, with his official campaign slogan of 'Make America Great Again' finding, "surreal mix of nostalgia and racism embedded" that connect the two. Furthermore, the extent to which one prefers in-group superiority over equity is associated with nationalism (Pratto et al. 1994).

Heightened national attachment among "socially-dominant groups" can explain support for protectionist thinking. Nationalist sentiment is strongly associated with opposition to international trade (Sinnot et al. 2001; Mayda and Rodrik 2005). In their analysis of American whites' opposition to trade, Mutz et al. (2017) attribute much of the race gap in protectionist attitudes to social factors: "That [American non-whites] are particularly pro-trade stems from their relative youth, their weaker sense of national superiority, and lower levels of racial prejudice" but not from "the fact that they tend to be lower skilled, earn less, experience greater unemployment, and have less economic education than whites."⁴

There is evidence that geography may also play a substantial role that is obfuscated by using racial variables. Minorities tend to "live in areas that are not dependent on manufacturing," an economic factor driving their relative support for trade. However, actually being employed in trade is not a relevant factor in their analysis. This distinction means that trade employment matters in trade attitudes at a local or regional level, but not at the individual level where our analysis takes place.

Political Implications of Sovereignty Preference for Certain Groups

In political terms, dominant groups seek to maintain their power through policies in domestic government. Crafting policy through international negotiation diminishes the authority of the national government, in turn diminishing the power of dominant groups. Members of privileged ethnic groups are likely to associate their national identity with their group identity, while national and ethnic attachment stand in tension with one other for non-dominant ethnic groups (Sidanius et al. 1997). Nationalism runs counter to the cosmopolitan ethos of multilateral cooperation (Nussbaum 1994). Because both of these mechanisms (political and cultural) link sovereignty to group status, members of dominant social groups can find sovereignty especially valuable when they perceive their group's status to be threatened.

Nationalism can provide psychological benefits to members of a society's dominant group, especially when they perceive their status to be threatened. Perceived group status threat occurs when a dominant group sees themselves as relatively disadvantaged (known more formally as group relative deprivation, or GRD). GRD has been linked to depression (Abrams and Grant, 2012) and dissatisfaction with life (Osborne and Sibley 2013; Schmitt, Maes, and Widaman 2010). Recent work in New Zealand showed that GRD is positively associated with nationalism among whites, and nationalism with greater well-being. This finding suggests that heightened

⁴ Note that in Mutz's language (unfortunately common place in economics) the term 'lower skilled' is a reference to lower levels of formal education and should not be taken as an absolute reference on the abstract level of skill inherent in an occupation or among a group of workers.

national feelings can buffer the psychological harm experienced by dominant-majority group members who fear status threat (Sengupta, Osborne, and Sibley, 2019).

Sovereignty offers a sense of control to socially dominant groups that perceive their dominant status as threatened. This is the case even when said group already has substantial privilege or higher economic or social benefits relative to other groups. Retreating from globalization and increasing the primacy of national governments can be accurately perceived as “taking back control” from international bodies and agreements. This language should sound familiar to those who have studied the rise of anti-globalization political campaigns in the US and the UK.

Yen et al. (2016) have shown that threats to sovereignty exert an influence on trade preferences, and that this effect is mediated by national attachment and outgroup threats. This paper’s analysis also captures economic self-interest by asking trade deals will increase or decrease personal income and national economic well-being. They find that respondents’ reactions were closely tied with information on personal income unless the trading partner was China, which does not recognize Taiwan’s sovereignty at a very fundamental level. In other words, “outgroup threat in a realistic political setting is strong enough to overcome economic self-interest” because “national threat influences trade preferences” and that “this effect is moderated by national attachment.” It is somewhat difficult to generalize the ingroup/outgroup dynamics in a homogenous society like Taiwan’s to more diverse populations. But the notion that group threat can override economic self-interest, and that this effect depends on an individual’s level of national attachment, demonstrates the dynamics we’ve described in this paper so far.

III. Cases: US and UK

America’s Turn Against Globalization

The 2016 U.S. election marked a sharp turn in American politics against globalization, as it saw the election of a candidate who ran on an anti-trade, ‘America First’ agenda. This was the first time in generations that America elected a Presidential candidate on an overtly and explicit anti-trade, anti-globalization agenda. However, it was also the first time in generations that Americans had the option presented to them by a major political party. A review of Presidential platforms and political parties over the pre-2016 period demonstrates how the two major parties had embraced trade’s underlying benefits and increased trade as a means to generate wealth.

The bipartisan consensus between Democrats and Republicans that trade and global integration is a goal of American policy lasted from the implementation of Bretton Woods, ITO, and GATT, until the election of Donald Trump. Ronald Reagan made free trade a centerpiece of his conservative revolution during his successful 1980 campaign (Griswold 2004). Generally speaking, the Republican Party was viewed as the party that was more ‘pro free trade’ as part of its pro-business alignment. Mitt Romney in 2012 promised to “champion free trade” in 2012 (Lester 2012). The 1984 Republican platform’s international policy section says “we will work with all of our international trading partners to eliminate barriers to trade, both tariff and non-tariff” (“1984 Republican Party Platform”). However, the rival Democratic Party was by no means anti-trade. In fact, the Democratic Party’s platform in 1972, arguably the year when it ran its most liberal candidate, Senator McGovern, stated: “In a prosperous economy, foreign trade

has benefits for virtually everyone. For the consumer, it means lower prices and a wider choice of goods. For the worker and the businessman, it means new jobs and new markets. For nations, it means greater efficiency and growth” (“1972 Democratic Party Platform”). Similar platform messages that are inherently pro-trade can be found in the 1988 Democratic platform whose trade section begins, “WE BELIEVE that America needs more trade” (“1988 Democratic Party Platform”) and the 1992 platform that states, “Multilateral trade agreements can advance our economic interests by expanding the global economy” (“1992 Democratic Party Platform”).

The 1992 Presidential election was a key moment in American politics around trade. The North American Free Trade Agreement (NAFTA) became a top tier issue in the campaign. Both the Democratic nominee (Bill Clinton) and the Republican nominee (sitting President George Bush) endorsed the core premise behind NAFTA. This closed the door for any American voter to express a preference against trade/NAFTA and opened the door for a third party candidate, H. Ross Perot, who made opposition to NAFTA a centerpiece of his campaign. Perot gained substantial traction in that race, at one point leading in the polls and scoring a memorable line in the debate that NAFTA would be the ‘Giant Sucking Sound’ destroying American jobs (Porter 2019). Ultimately, Perot would go on to have the strongest performance of any third party candidate in America since 1912 (when former President Theodore Roosevelt ran as a third party) winning 19 percent of the electorate, roughly half the number of votes that sitting President Bush won (“1992 Presidential General Election Results”).

Subsequent to 1992, neither political party nor any viable third party candidate ran on expressly anti-trade or anti-NAFTA message until Donald Trump became the Republican nominee in 2016. However, the results of the 1992 election demonstrate that a substantial number of American citizens viewed multi-lateral trade agreements such as NAFTA with deep skepticism even though neither mainstream political party offered them an outlet for these views. Roughly 20 percent of Americans were willing to cast their votes for a third party candidate – a figure that has never been approached in any election subsequently – on an anti-trade platform. This is a sizable minority of American voters. Just because they did not have subsequent opportunities to express an anti-trade or anti-globalization preference at the ballot box, it is not accurate to assume that their preferences changed or that they disappeared as a potential constituency to be mobilized.

Perot’s demonstration that a substantial share of the electorate expressed opposition to a single trade agreement—NAFTA—is a useful reminder that trade was a more politically mixed issue than the consensus between the two major parties implied. But there is a long way to go to establishing the other parameters regarding the trade-offs between wealth and sovereignty this paper proposes. An alternative explanation of the nearly 20 percent of support an anti-NAFTA candidate received in 1992 could be explained by simply considering an estimate of the share of voters who thought they or their immediate family’s wealth would be negatively impacted (trade losers) as opposed to the 80 percent of voters who would benefit (trade-winners).

A more wholistic incorporation of how voters perceive the benefits of sovereignty is necessary. Sovereignty includes not only the nation's ability to control its own rules in trade, but also to govern its own citizenry. This leads to two distinct but intertwined issues: the substance of the accounting benefits and costs of globalization (particularly on trade and immigration), and the question of who is 'in control'. Control is a critical and often underappreciated element of sovereignty. This section will examine the ideas and values behind control and then turn to those regarding trade and immigration.

Who is in Charge

Sovereignty at its core assumes the nation's ability to govern itself, or to exert control over its citizens and territory. The loss of control indicates the loss of sovereignty. After all, someone who is unable to control or a nation state that lacks the authority or ability to exert control has lost sovereignty. Thus the linkage between loss of sovereignty, and loss of control is central to the message and argument being put forth by the anti-globalization effort.

Among Donald Trump's most used language is the phrase 'out of control' (Kurt 2018). The notion of a loss of control is frequently used in relation to immigration where the status quo was presented as a loss of sovereignty because many perceived "a lack of control" at America's southern border. Or as Trump put it in his speech claiming the Republican nomination, "Americans want relief from uncontrolled immigration" It is worth noting that this sentence on the control of immigration is followed three sentences later by his message on trade, linking the two issues in voter's minds: "I have a different vision for our workers. It begins with a new, fair trade policy that protects our jobs and stands up to countries that cheat." He goes on to link his vision in direct contrast to that of NAFTA, "America has lost nearly-one third of its manufacturing jobs since 1997, following the enactment of disastrous trade deals supported by Bill and Hillary Clinton." As Harvard's Lamont et al. (2017) write, "he also voiced ardent support for stronger border control (symbolizing stronger policing of symbolic boundaries through spatial boundaries)."

The conception of borders as both spatial boundaries inside which sovereign rule is enforced and where the government has control are two key components of how the message regarding immigration and border security are wrapped into the broader concept of promoting sovereignty. Trump's signature policy proposal regarding immigration proposed building a wall between the US/Mexico border. This proposal aims to halt border crossing by perceived "out-groups" from the south and leverages a sense of sovereignty among socially dominant groups in the US that perceive a lapse in security. As Trump said in his Oval Office address to the nation in January 2019, during the height of the border wall debate while the government was shut down over the debate, "politicians... don't build walls because they hate the people on the outside, but because they love the people on the inside". Trump construes his immigration proposals not as a way of punishing would-be immigrants, but as a way for Americans to establish control.

Academic research is beginning to appreciate the value of sovereignty and the threat to sovereignty as motivating forces in support for Trump and his de-globalization agenda. As Stewart Patrick (2017) wrote in *The Sovereignty Wars*, "The tenacity with which Americans

cling to sovereignty and resist symbolic incursions on their constitutional prerogatives has had – and continues to have – a profound influence on national political life, US foreign policy, and prospects for international cooperation.” Importantly, the transition to discussions of sovereignty have group identity and racial elements that often run counter to implied assumptions about wealth. Reny, Collingwood, and Valenzuela (2019) study on vote switching between those who supported Obama and then Trump found that: “vote switching was more associated with racial and immigration attitudes than economic factors, and that the phenomena occurred among both working class and non-working-class whites, though many more working-class whites switched than non-working class whites.”

Combining attitudes towards (de-)globalization, immigration, and race is complicated and heterogeneous. However, in the American context there are clear links between these factors and preferences for sovereignty. These preference shifts occur irrespective of wealth, that is they occur within some individuals of racial groups regardless of financial standing. Consider the research of Ostfeld (2018) who found that, “as White Democrats learn about Democratic outreach to Latinos, they become less supportive of Democrats.” This is an aggregate finding, but it highlights the inherent difficulty in sustaining a multi-ethnic coalition, particularly as the previously dominant group encounters real or perceived economic and social threats. It makes clear the political advantage the other party can achieve by taking advantage of those fissures by promoting an argument of sovereignty.

Shifts in individual preferences should not be confused with supply-side effects. A rise in protectionist support does not necessarily indicate a change in voter preferences—instead, it could imply a change in candidate/party positions. Even if a voter is a strong supporter of protectionism, s/he can only vote for an anti-globalist agenda if such an agenda is offered by a candidate, referendum, or ballot initiative. To evaluate a macro shift in election outcomes, one must take into account the possibility of a shift on the supply side: a change in candidate platforms.

Supply-side effects contributed to what was observed in the 2016 US Presidential campaign in which Donald Trump radically altered the Republican Party away from its multi-generational support of increased global economic and military integration, and into its current standing as a party that is deeply skeptical of globalization and exerts strong preferences for national control. As shown earlier in the paper, Trump’s candidacy offered American voters the ability to express an anti-trade, anti-immigration, and anti-globalization preference that no prior major party candidate had offered in a very long time. And while the data is thin for any analysis, the 1992 candidacy of Perot, whose almost 20 percent share of the electorate is far outside historical experience of non-major parties, substantial support for these positions may have existed for quite some time, simply without any political factions offering the supply-side opportunity necessary to catalyze a backlash. Further research is necessary in determining why politics left an unmet supply for so long.

Finally, beyond supply and demand, institutions and rules that convert supply and demand into election results structure a country’s political economy. This is one critical area where the US and the UK (to be covered in the following section) differ. Presidential elections in the US are

not governed by the principle of “one person one vote,” nor by plurality or majority. Instead the Electoral College structure weighs voters differently by state and states differently by population from the most recent decennial census. Mixed with the natural political distribution of voters between states and the set of ‘swing states’ that determine the outcome of Presidential elections are heightened in importance.

In 2016, those states were concentrated in the industrial Midwest, a region that was particularly reliant on manufacturing and disproportionately impacted by China’s accession to the WTO. It is also an area that swung from the Democratic Party to the Republican Party in the 2016 election, delivering the decisive margin of victory for Donald Trump (specifically Michigan, Wisconsin, Ohio, and Pennsylvania, which straddles the line between the East Coast and industrial Midwest). Michigan, Wisconsin and Pennsylvania were part of the so-called ‘Blue Wall’ states that had voted reliably Democratic in every election this century. The political impact is a combination of the total impact of population and the geographic weighting that sector has given a political electoral system.

As Autor et al. (2013) demonstrate, the “losers” of globalization are significantly clustered by geography in the United States. That cluster was disproportionately located in these states, specifically in prior manufacturing areas of the so-called ‘Rust Belt’. As Baily and Bosworth (2014) found, “The emergence of sustained trade imbalances will lead to major shifts in the size and composition of the domestic manufacturing sector.” Since 1998, Ohio has had 368,500 manufacturing jobs, representing 6.8 percent of total jobs, Michigan has lost 340,000 jobs or 7.6 percent of its total employment base, and Pennsylvania 314,000, 5.7 percent of its total (Bivens 2015).

As the figures below demonstrate, these were disproportionately regions where voters moved from Democrat to Republican, as indicated by county-level voting switches from Obama in 2012 to Trump in 2016 on a national level (Figure 5) and in depth in Wisconsin (Figure 6) and Pennsylvania where Trump ran up far greater margins among areas that were only slightly Republican previously (Figure 7).

Figure 5: Seats flipped in the 2016 Presidential Election

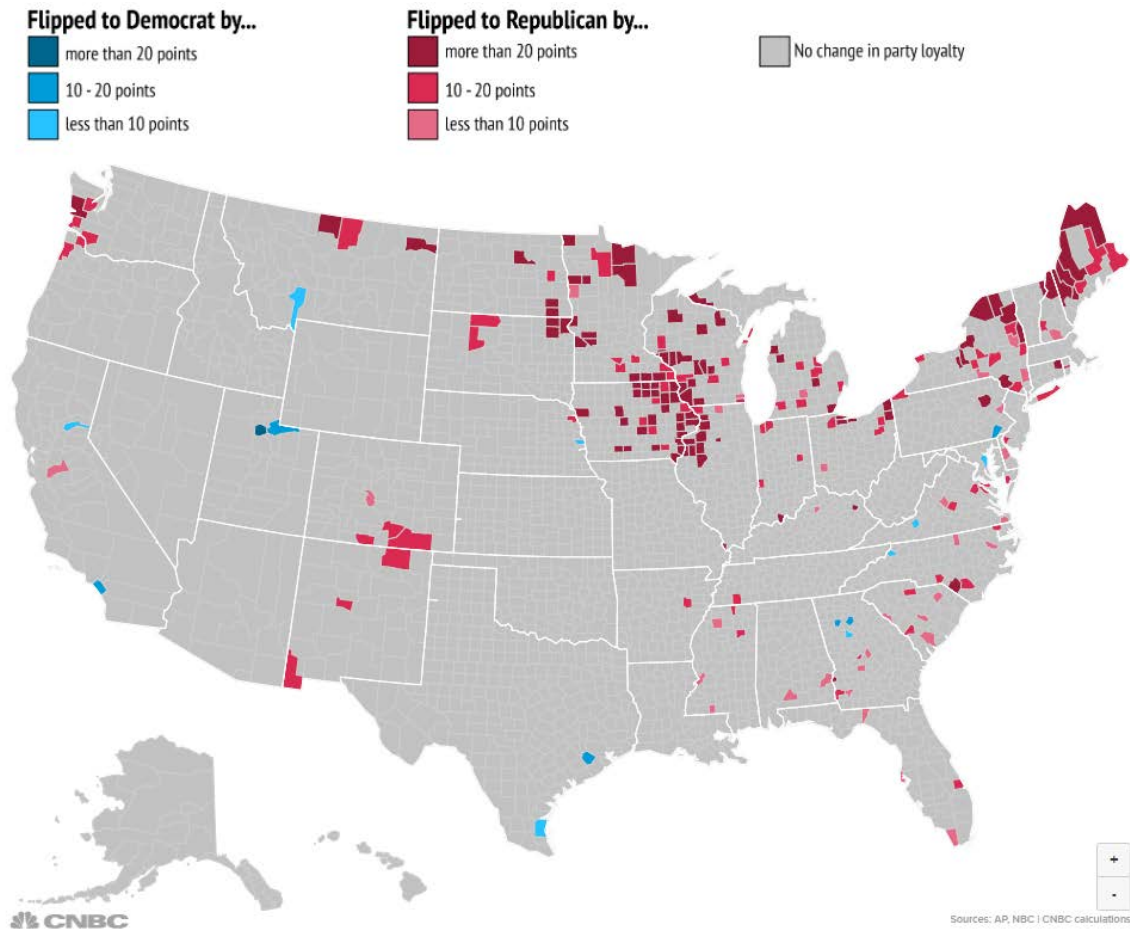
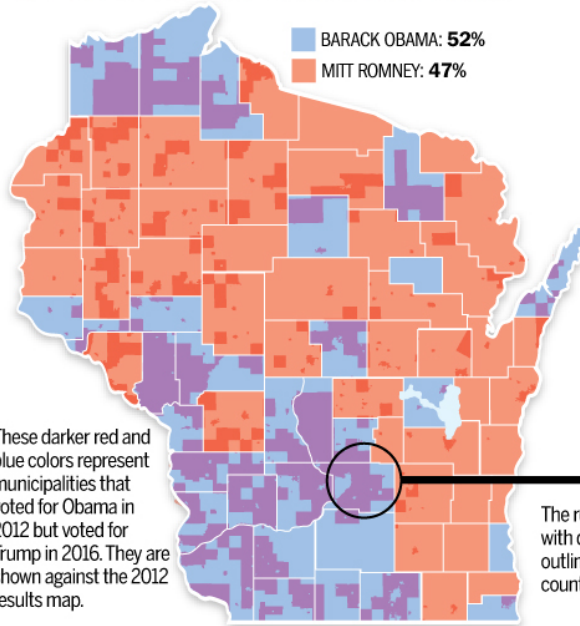


Figure 6

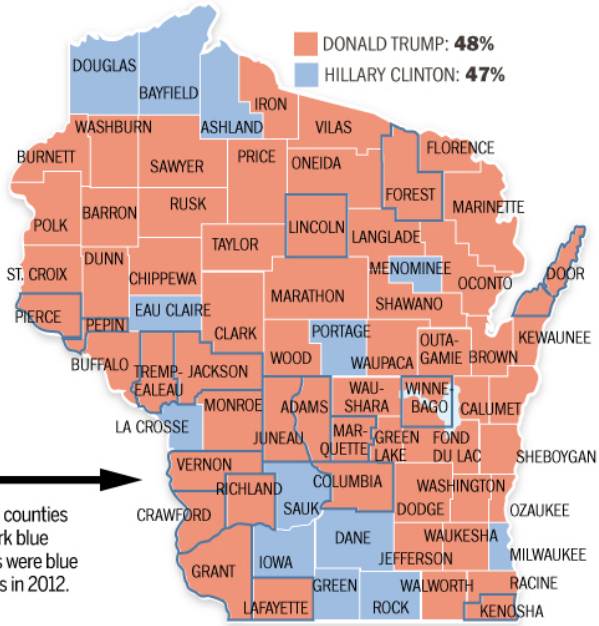
Parts of political map scrambled

Republican Donald Trump won more than 500 cities, town and villages that voted four years earlier for Democrat Barack Obama. These communities were overwhelmingly in northern and western Wisconsin. And while they were mostly small (their median population was under 800 people) they propelled Trump to victory.

2012 presidential race outcome by county



2016 presidential race outcome by county



Source: Washington Post

Key states: How Trump won Pennsylvania

Democrat victory in 2012

Republican victory in 2016

2012

2016

Democrat
Republican

40% 50% 60% +70%

Map shows county level results

⁵ Data from Official Presidential Results: <https://transition.fec.gov/pubrec/fe2016/2016presgeresults.pdf>.

dramatic demonstration of how the structure of a political economy translates the forces of demand (voter preferences) and supply (party/candidate platforms) into outcomes.

United Kingdom/Brexit

The wealth sovereignty trade-off is not unique to America. Applying this to the UK's Brexit decision illustrates its usefulness as an analytic tool. Brexit is a useful test as the issue was simply: should the United Kingdom leave the EU? The vote by popular referendum largely avoids alternative factors and theories endemic in multi-issue elections, or principal-agent issues inherent in a representative democracy's decision making.

The Leave campaign, which ultimately won by a vote of 52-48, (BBC) framed the issue expressly in terms of sovereignty. The official slogan, 'Take Back Control' (Humphreys 2019) is a direct linkage to sovereignty. It framed the argument that entry into the EU seeded sovereignty to the EU (often depicted by Brussels, which hosts the headquarters of the European Commission), thus losing national control regarding a wide set of factors to multinational decision-making. Leaving the EU was thus reasserting sovereignty and re-establishing British control.

Framing of issues is often the key in influencing behavior (Kahneman and Tversky 2019). The Leave campaign's ability to frame the vote on Brexit as one of sovereignty as opposed to wealth was successful as sovereignty was the most important factor for Brexit supporters, above even economic growth/reducing immigration/income inequality (UCL/You Gov Survey). A careful analysis of polling on Brexit by Prosser et al. (2016), indicated that Leave voters were "concerned primarily about sovereignty and immigration" and that these two issues are not distinct but rather "closely linked in the minds of British voters." It then explains that "the referendum campaign was not a fight about which side had the best argument on the issues: very few people voted leave to improve the economy and very few voted remain to reduce immigration. Instead, the fight was about which of these issues was more important." In other words, people recognized that the vote was a trade-off between financial benefits and sovereignty and voted according to which they saw as more valuable. Or, as Emmenegger et al. (2018) put it, "Whether voters are willing to pay one price or the other depends on their preference hierarchy."

An in-depth analysis of several polls supports this conclusion that sovereignty was the primary motivating factor for Leave voters. A YouGov survey found that 61 percent of Brexit voters saw damage to the economy as a price worth paying to leave the EU, while only 20 percent did not; 39 percent said that they would be ok with themselves or a family member losing their job because of Brexit, while 38 percent said that they would not (Mance 2017) A separate [UCL/YouGov survey](https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/vwj42ojs63/UCL_Brexit_190326_w.pdf)⁶ found that 29 percent of Brexit voters saw sovereignty (in terms of home rule over laws and regulations) as the most important priority for the UK in the next five

⁶ Results of the survey can be seen here:

https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/vwj42ojs63/UCL_Brexit_190326_w.pdf

years, and 13percent saw Britain making its own trade deals as most important. That's more than reported their top priority as economic growth (12 percent), reducing immigration (9 percent), and other issues ranging from inequality to fair pay to preserving traditional British culture. Oxford researcher Noel Malcolm (2019) explains that survey data show Leavers' top reasons for their vote were democracy, then immigration---not austerity or globalization.

A Lord Aschroft survey found that, "the number one issue propelling people to vote "Leave" was their belief that the UK should remain a self-governing entity not responsible to some supranational body writing rules and regulations about the economy and other matters" (Roff 2016). In this survey, 49 percent of Leave voters give a principles decision of sovereignty, "the principle that decisions about the UK should be taken in the UK" as their top reason for their vote, and only one third cited the specific argument of immigration that Leaving provided, "the UK to regain control over immigration and its own borders." These two rationales, regarding the sovereignty of economics and immigration, account for 82 percent of Leave voters' top deciding factors. Compare that to the only six percent who argued that leaving the EU would increase wealth, or as the question put it, "when it comes to trade and the economy, the UK would benefit more from being outside the EU than from being part of it."

Those who supported Remain were motivated by a combination of wealth effects, as well that of a different type of sovereignty: global decision-making. The top two arguments cited by Remain voters were both about the wealth impacts of leaving/benefits of remaining (see Figure 8 below). Interestingly, the third most frequently cited top priority to remain was "a feeling that we would become more isolated by leaving." A different way to interpret that argument is that remaining in the EU gives British citizens some voice in the EU. Leaving reduces that influence. If one wishes to express sovereignty on a European level then remaining in the EU enhances sovereignty and departing it reduces it. Further, if one believes in a stronger ability to express influence on a global stage and also that the UK is in a stronger position to do that as part of the EU than doing so independently, then voting Remain is an expression of greater sovereignty ability. This two-stage logic, admittedly, would be a relatively smaller share of voters. However, it is also the number three factor cited, not among the top two (see Figure 9-8 below). Only 8 percent of Remainers selected control over GB's own laws and regulations as the top issue, and 5 percent for own trade deals.

The sovereignty and wealth arguments cut across traditional party and ideological boundaries. That voters of both major parties cited similar arguments at similar frequencies to justify their votes indicates that this was not an election where segmented messaging reinforced prior beliefs among differing groups. Instead, voters made similar arguments across the political spectrum, justifying similar votes. This offers further evidence that voters were weighing sovereignty and wealth and expressing their preferences in the Brexit vote.

Figure 8

Please can you rank the following in order of how important they were in your decision?

Why Remain voters voted Remain

Overall UK



Conservative voters

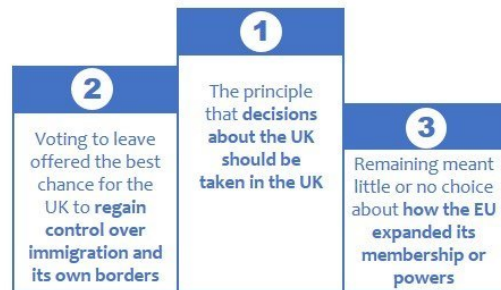


Labour voters

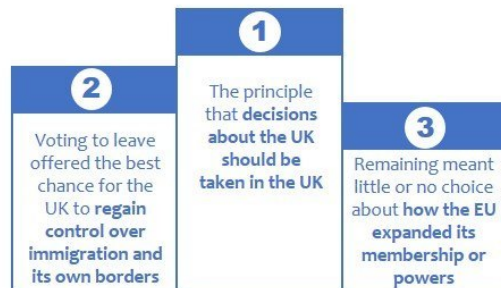


Why Leave voters voted Leave

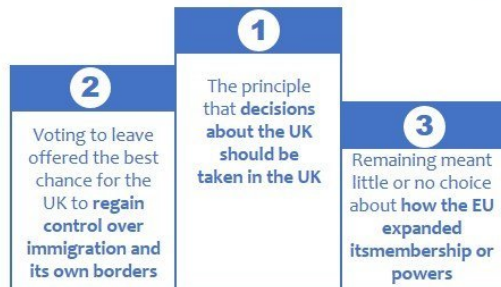
Overall UK



Conservative voters



Labour voters



Lord Ashcroft Polls

@LordAshcroft

This is evidence that the marginal value of sovereignty was placed above the marginal value of wealth in voter's minds. This national survey is backed up by specific data from voter focus groups which reported Leave supporters as giving the following rationales:

- “I voted Leave because Europe was dictating to us”
- “we’ll have a bit more control”
- “I’m looking forward to getting back to how we were: running our own farms, being able to look after ourselves”

This evidence is a reason to reject the argument that Brexit supporters/Leave voters were under the assumption that leaving the European Union would be a wealth-enhancing decision. Yes, that argument was put forward directly by a set of Leave advocates who argued the costs of EU regulation would be able to be recouped and returned to Britain (often coupled as part of a pledge to spend more on national health care). But that argument was not persuasive as the top argument to the vast majority of Leave supporters. Instead, the compelling framework of enhancing sovereignty at an explicit and understood cost of reduced wealth, built the narrow but winning argument for the Leave campaign.

Figure 9



Source: Vox

IV. Conclusion

Global integration of trade by major advanced nations has produced large and substantial increases in wealth for generations. It fostered a long and sustained period of increased economic, political, and regulatory integration between nation states across the globe. Citizens and major political parties across different ideological spectra broadly supported the core tenants of this global world order, disagreeing on tactics and specific items but, not on the general goal of enhanced global economic integration. Large-Significant and surprising political outcomes in the UK and the US have challenged this long-standing trend.

These outcomes should not be considered isolated, idiosyncratic events. They are not the result of irrational or ill-informed voters expressing incoherent preferences. To the contrary, they represent the wishes of a sustainable coalition of individuals who have been hurt by the changing global order coupled with those who prefer increased national sovereignty even if it means the corresponding loss of wealth. Economic analysis that substitutes and GDP for national utility, or income and wages for individual utility must acknowledge that these measures are is a poor proxies for utility. Individuals value sovereignty with varying preferences, just as they value wealth differently. The marginal value of both wealth and sovereignty is declining. However, the trade-offs that democratic nation states are willing to make between sovereignty and wealth have limits.

Whether we have reached those limits remains unclear. It is possible that national preferences for sovereignty will continue to evolve, in either direction. Further-theThe political winning coalitions for both instances were extremely narrow – a small majority in the UK and a geographically well-distributed minority of voters in the U.S. However, economists, politicians, and industry leaders who fail to consider the desires of these voters and fail to fully integrate the value they place on sovereignty are likely to continue to be surprised and perplexed by the backlash against globalism.

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