Interpreting Language as Data, Historical Cycles, and Domestic Roots of International Policy: A Comment on “Geoeconomic Pressure”

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Important Questions

- Geoeconomics
  - Global competition among Nation States
  - Potential for fragmentation and macro-financial instability

- Geoeconomic Pressure
  - What policy tools do “hegemons” use to gain advantage over or weaken opponents?
  - How do the use of these policy tools impact firms?
  - How do firms and markets respond?
  - Can such policies be “self defeating” and have unintended consequences?
    - Examples: Sanctions and role of the dollar; Chip bans and innovation; Tariffs and supply chains

Novel Approach using LLMs

- Amazing data to exploit
  - Earnings calls, language, etc.

- Clever use of new tools
  - Reasonable categorization
  - Good robustness approaches with alternatives LLMs and humans (!)

Outline of Comments

- 1) Innovative LLM Method and Interpretation of Language as Data
- 2) Historical Cycles in the Use of Geoeconomic Pressures
- 3) Domestic Drivers of International Economic and Financial Policy
    - Interest, Institutions, and Ideology

1) Method and Interpretation

- How to interpret public statements by executives?
  - Fundamental method point raised by using language as data
  - Leo Strauss: Exoteric versus Esoteric
  - Do people mean what they say or do they have an agenda below the surface?
    - Examples: Blame policy shocks; use as an excuse; influence policy/lobby

- Thus, “Subjective Causal Effect” may not be causal at all
  - Subjective yes; Causal not so sure
  - Perhaps “Reported Linkages” or “Reported Impact Effects”

2) Cycles in Use of Geoeconomic Pressure: Hegemonic Leadership versus Balance of Power Rivalry in History

- Brezis (2026) “Geopolitics, National Sovereignty and Trade Policy in Historical Perspective” finds correlation between use of “geoeconomic pressures” and periods of “balance of power rivalry” (1910-1945 and 2015 to today) versus periods of “hegemonic leadership” (UK 1850-1910 and US 1945-2015) when freer trade tends to prevail

- Brezis emphasizes linkages between international policy choices and domestic economic interests and politics

3) Domestic Roots of International Policy

- *“Foreign policy is really domestic policy with its hat on.“*

-- Hubert H. Humphrey, former Vice President of the US (1966)

- *"Foreign policy is in danger of turning into a subdivision of domestic politics instead of an exercise in shaping the future.”*

--Henry Kissinger, former US Secretary of State (2014)

- *Sailing the Water’s Edge: The Domestic Politics of American Foreign Policy,* Helen V. Milner and Dustin Tingley (2015)

3a) Role of Domestic Interests, Institutions, and Ideology

- Irwin and Kroszner (JLE 1999): How did the US move from strong support for protectionism in 1920s/1930s, e.g., Smoot-Hawley, to decades of support for free trade as US becomes the post-WWII "Hegemon"?
- To explain the development of and sustainability of a bi-partisan consensus for trade liberalization:
  - Interests: WWII shocks increases export sector and export opportunities
  - Institutions: Reciprocal Trade Agreement Act (1945) empowered export interests and delegated negotiations to the President
    - Explain votes switches in Republican districts with change in local economic interests
  - Ideology: Measures of "ideology" explain residual
- Kroszner and Stratman (AER 1998): Competition among interest groups plays crucial role, interacting with the committee structure of Congress

3b) Endogenize the Choice of Tools: Use LLMs to Measure the Roles of Interests, Institutions, and Ideology

- 1) What are chosen as the chokepoints?
  - Analyze which sectors that would have the characteristics of "chokepoints" (dependence, elasticity, alternatives) not chosen
  - Can domestic economic interests/lobbying explain the cross-section, what is chosen and what isn't?
  - Also, can economic interests/lobbying explain **exemptions** and **carve outs** from tariffs?
- 2) Can information from press accounts and disclosures about lobbying and campaign contributions help to explain which tools/sectors are chosen?
- 3) Can campaign contributions and political affiliations of executives and board members be useful in "interpreting" their language? Or create new measures of "ideology" based on language?

Conclusions

- Important Questions
- Innovative Methods and Data
  - What are the endogenous responses of firms that might undermine the policy and/or have unintended consequences and macro-financial risks?
- New Challenge: How to Interpret Language as Data
- Competing Hegemons and Use of Geoeconomic Pressure in History
  - How to explain the policy transition for Hegemons?
- Add Role for Domestic Economic Interests, Institutions, and Ideology
- New Methods and Data Can Shed Light on the Political Economy and Risks