



PROTECTIONISM AND THE BUSINESS CYCLE

By Alessandro Barattiere, Matteo Cacciatore, and Fabio Ghironi

Discussion by Katheryn Russ, UC Davis and NBER

2017 West Coast International Finance Workshop, Santa Clara University



A BIG, CLASSIC QUESTION

- How do trade policies affect the macroeconomy?



A BIG, CLASSIC QUESTION

- How do trade policies affect the macroeconomy?
 - A crucial but underexamined question



A BIG, CLASSIC QUESTION

- How do trade policies affect the macroeconomy?
 - A crucial but underexamined question
 - Fitting that one of the godfathers of the trade-macro nexus should dive into it for us



A BIG, CLASSIC QUESTION

- How do trade policies affect the macroeconomy?
 - A crucial but underexamined question
 - Fitting that one of the godfathers of the trade-macro nexus should dive into it for us
 - He does not disappoint



A BIG, CLASSIC QUESTION

- How do trade policies affect the macroeconomy?
 - A crucial but underexamined question
 - Fitting that one of the godfathers of the trade-macro nexus should dive into it for us
 - He does not disappoint
- Fabio, Alessandro, and Matteo give us a big answer to this big question



A BIG, CLASSIC QUESTION

- How do trade policies affect the macroeconomy?
 - A crucial but underexamined question
 - Fitting that one of the godfathers of the trade-macro nexus should dive into it for us
 - He does not disappoint
- Fabio, Alessandro, and Matteo give us a big answer to this big question



A BIG, CLASSIC QUESTION

- How do protectionist trade policies affect the macroeconomy?
 - A crucial but underexamined question
 - Fitting that one of the godfathers of the trade-macro nexus should dive into it for us
 - He does not disappoint
- Fabio, Alessandro, and Matteo give us a big answer to this big question:
 - They reduce real income and cause recessions!



A BIG, CLASSIC QUESTION

- How do protectionist trade policies affect the macroeconomy?
 - A crucial but underexamined question
 - Fitting that one of the godfathers of the trade-macro nexus should dive into it for us
 - He does not disappoint
- Fabio, Alessandro, and Matteo give us a big answer to this big question:
 - They reduce real income and cause recessions!
 - I believe them



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - “We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables.”



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - “We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables.”
 - Really?



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - “We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables.”
 - Really? What about, say, the impact of, say, commodity price busts?



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - “We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables.”
 - Really? What about, say, the impact of, say, commodity price busts? Or trade-weighted world demand (GDP)?



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - "We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables."
 - Really? What about, say, the impact of, say, commodity price busts? Or trade-weighted world demand (GDP)?
 - "...antidumping investigations respond to trade import-injury due to unfair foreign competition, which is less likely to depend on current macroeconomic conditions in the domestic economy."



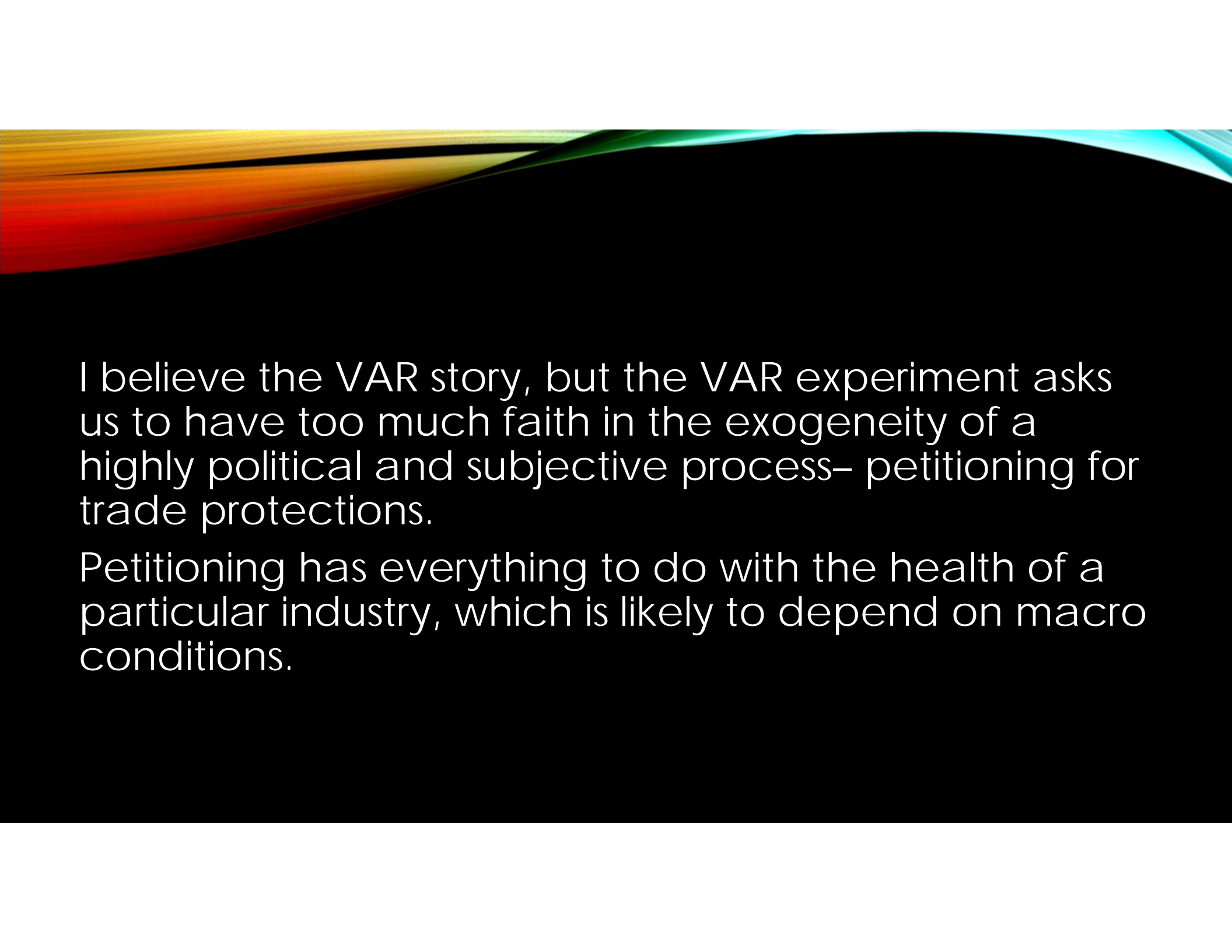
A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - "We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables."
 - Really? What about, say, the impact of, say, commodity price busts? Or trade-weighted world demand (GDP)?
 - "...antidumping investigations respond to trade import-injury due to unfair foreign competition, which is less likely to depend on current macroeconomic conditions in the domestic economy."



A BIG ANSWER MUST WITHSTAND SCRUTINY

- The VAR analysis does not, yet.
 - "We identify exogenous trade policy shocks by exploiting the contemporaneous exogeneity of antidumping investigations with respect to macroeconomic variables."
 - Really? What about, say, the impact of, say, commodity price busts? Or trade-weighted world demand (GDP)?
 - "...antidumping investigations respond to trade import-injury due to unfair foreign competition, which is less likely to depend on current macroeconomic conditions in the domestic economy."
 - Aren't current macroeconomic conditions in the domestic economy correlated with commodity prices and trade-weighted world demand (GDP)?



I believe the VAR story, but the VAR experiment asks us to have too much faith in the exogeneity of a highly political and subjective process– petitioning for trade protections.

Petitioning has everything to do with the health of a particular industry, which is likely to depend on macro conditions.



WE NEED MORE TO BE FULLY CREDIBLE

- Why not just control for the influence of these conditions on petitioning, or show us that petitioning is unrelated to, rather than jump to claiming exogeneity?



WE NEED MORE TO BE FULLY CREDIBLE

- Why not just control for the influence of these conditions on petitioning, or show us that petitioning is unrelated to, rather than jump to claiming exogeneity?
- Figures 1 and 2 may suggest to some that big spikes sometimes but not always occur around the time of big-ish downturns in GDP growth.



WE NEED MORE TO BE FULLY CREDIBLE

- Why not just control for the influence of these conditions on petitioning, or show us that petitioning is unrelated to, rather than jump to claiming exogeneity?
- Figures 1 and 2 may suggest to some that big spikes sometimes but not always occur around the time of big-ish downturns in GDP growth.
- If that is not true, some quick statistical assessment should show it.



WE NEED MORE TO BE FULLY CREDIBLE

- Why not just control for the influence of these conditions on petitioning, or show us that petitioning is unrelated to, rather than jump to claiming exogeneity?
- Figures 1 and 2 may suggest to some that big spikes sometimes but not always occur around the time of big-ish downturns in GDP growth.
- If that is not true, some quick statistical assessment should show it.
- The endogeneity issue may be most pronounced for primary goods, could consider just excluding those HS6 categories.



HOT-BUTTON ISSUE

- Protectionist policies do improve the current account in the VAR results and the model



HOT-BUTTON ISSUE

- Protectionist policies do improve the current account in the VAR results and the model
 - Why is the effect “slight”?



HOT-BUTTON ISSUE

- Protectionist policies do improve the current account in the VAR results and the model
 - Why is the effect "slight"?
 - What do we mean by "slight"?



HOT-BUTTON ISSUE

- Protectionist policies do improve the current account in the VAR results and the model
 - Why is the effect "slight"?
 - What do we mean by "slight"?
 - Policymakers may point to say this paper and say protectionism achieves its goal if we are not careful to fully, front-and-center, explain what is going on with this very small increase in the CA.



HOT-BUTTON ISSUE

- Protectionist policies do improve the current account in the VAR results and the model
 - Why is the effect “slight”?
 - What do we mean by “slight”?
 - Policymakers may point to say this paper and say protectionism achieves its goal if we are not careful to fully, front-and-center, explain what is going on with this very small increase in the CA (might also consider charting the TB).
 - We could really use more elaboration, as well, regarding the negative correlation between the CA (also TB) movement and investment in the model.



HOT-BUTTON ISSUE

- Protectionist policies do improve the current account in the VAR results and the model
 - Why is the effect “slight”?
 - What do we mean by “slight”?
 - Policymakers may point to say this paper and say protectionism achieves its goal if we are not careful to fully, front-and-center, explain what is going on with this very small increase in the CA or TB.
 - We could really use more elaboration, as well, regarding the negative correlation between the CA/TB movement and investment in the model.
 - Is the correlation between the CA/TB and investment negative in response to protectionist measures?



WHY SHY AWAY FROM QUANTIFICATION?

- What percentage across-the-board tariff would it take to reduce the current account deficit by X percent?



WHY SHY AWAY FROM QUANTIFICATION?

- What percentage across-the-board tariff would it take to reduce the current account deficit by X percent?
- How conservative are you being by not accounting for the fact (that I learned from another Ghironi paper) that investment is even more import-intensive than consumption and many AD/CVDs are on imported intermediates?



ELEPHANTS IN THE ROOM

- There is no discussion or treatment of unemployment in this paper, the main macroeconomic rationale for protectionist policies



ELEPHANTS IN THE ROOM

- There is no discussion or treatment of unemployment in this paper, the main macroeconomic rationale for protectionist policies
 - Cacciatore and Ghironi (2012) may provide some unexploited benchmarks



ELEPHANTS IN THE ROOM

- There is no discussion or treatment of unemployment in this paper, the main macroeconomic rationale for protectionist policies
 - Cacciatore and Ghironi (2012) may provide some unexploited benchmarks
 - The consumption-side story is promising but doesn't hold a lot of water with followers of Lori Wallach



ELEPHANTS IN THE ROOM

- There is no discussion or treatment of unemployment in this paper, the main macroeconomic rationale for protectionist policies
 - Cacciatore and Ghironi (2012) may provide some unexploited benchmarks
 - The consumption-side story is promising but doesn't hold a lot of water with followers of Lori Wallach
- It appears the authors are assuming full pass-through of the tariff into consumer prices.



ELEPHANTS IN THE ROOM

- There is no discussion or treatment of unemployment in this paper, the main macroeconomic rationale for protectionist policies
 - Cacciatore and Ghironi (2012) may provide some unexploited benchmarks
 - The consumption-side story is promising but doesn't hold a lot of water with followers of Lori Wallach
- It appears the authors are assuming full pass-through of the tariff into consumer prices.
 - How important is this for the size of the drop in investment, since it comes via the drop in savings that occurs due to higher consumer prices?



ELEPHANTS IN THE ROOM


- There is no mention of unemployment in this paper, the main macroeconomic rationale for protectionist policies
 - Cacciatore and Ghironi (2012) may provide some unexploited benchmarks
 - The consumption-side story is promising but doesn't hold a lot of water with followers of Lori Wallach
- It appears the authors are assuming full pass-through of the tariff into consumer prices.
 - How important is this for the size of the drop in investment, since it comes via the drop in savings that occurs due to higher consumer prices?
 - The paper ignores strategic complementarities (like BEJK-type Bertrand competition) that may prevent any pass-through for bilateral AD/CVDs in a multi-country world
 - Logan Lewis (2014) finds these are an important source of price rigidity for traded goods




MERCANTILISTS VERSUS RICARDO

- The early Mercantilists felt imports were a drain on the economy because they drained gold from the nation's coffers (Feenstra & Taylor, Ch. 2).
- Ricardo showed us it was all about terms of trade.
- This paper deals with the mercantilist side (which was represented in the discussion of protectionism in existing ZLB papers– which REALLY should include Eggertsson, Mehrotra, Singh, and Summers 2016)
 - To truly cross-over between trade and macro, we should also be discussing the terms of trade, which is hand-in-hand with your deleterious consumption-side effects from the tariff
- I think this BCG paper, juxtaposed with EMSS, is an interesting rekindling of that debate.

- 
- The background features a large, solid black area that occupies most of the frame. At the top, there is a horizontal band of vibrant, wavy, translucent colors. This band transitions from a bright yellow on the left, through orange and red, to a deep green and finally a bright cyan on the right. The colors appear to be flowing or rippling, creating a sense of movement.
- In short, this is a lovely paper

- 
- In short, this is a lovely paper
 - A great read

- 
- In short, this is a lovely paper
 - A great read
 - One feels that sensible intuition is finally buttressed with rigorous mathematical analysis, kind of like when Eggertsson and Krugman formalized Minsky

- 
- In short, this is a lovely paper
 - A great read
 - One feels that sensible intuition is finally buttressed with rigorous mathematical analysis, kind of like when Eggertsson and Krugman formalized Minsky
 - I merely poke at it with the sticks we all have witnessed (or felt) in the roiling debate over globalization