

**“Unequal Gains, Prolonged Pain: A Model of
Protectionist Overshooting and Escalation”
By Emily Blanchard and Gerald Willmann**

Discussed by Chang Ma

Johns Hopkins University

2018 CEPR Growth/Inequality Conference

Summary

Research Question:

- ▶ What are the underlying drivers for protectionist policies?
- ▶ Why a surge in popular support for such policies?

Answer

- ▶ A natural democratic response to unanticipated macroeconomic changes

Methodology

- ▶ An overlapping generation model with old and young
 - Goods: Unskilled (import) and Skilled goods (export)
 - Production: U uses only labor; S uses education and ability ($x = bh(a, e)$)
 - Agents: Old and Young with labor endowment
 - Young invests in education
 - Old votes on tariff τ , which changes the price of S $p = \frac{p^w}{\tau}$
 - Heterogeneity: different in ability a
 - Tariffs are determined by the median voter
- ▶ Study steady state and impose unanticipated shocks to p^w

Summary

Findings

- ▶ A key statistics is $\Delta(a^m, e(\tau)) \equiv (1 - \alpha)b[h(a^m, e(\tau)) - \int h(a^m, e(\tau))f(a)da]$.
 - A measure of inequity
 - If $\Delta < 0$, want $\tau > 1$.
 - If $\Delta = 0$, want $\tau = 1 \Rightarrow$ Free Trade
- ▶ If $\frac{d\Delta(p^w)}{dp^w} > 0$, Protectionist Overshooting
 - τ increases to an increase in p^w immediately
 - Converges to a lower or higher SS level
- ▶ If $\frac{d\Delta(p^w)}{dp^w} \leq 0$, Protectionist Escalation
 - τ increases to an increase in p^w immediately
 - Converge to a higher SS level
- ▶ The impact of tech shock to b is similar to price shock to p^w .

Comments and Questions

Very cool paper! I like it. I have some questions.

- ▶ Q1: What are labor market frictions in the model? How important are they?
 - Is it due to the OLG setting?
 - Do the results hold if the agents can live forever?
- ▶ Q2: What are the “stickiness” in the model?
 - Due to political voting process?
 - Is there a measure of “stickiness” in the model?
- ▶ Q3: Can we have a diagram for “Unequal gains” and “Prolonged pain”?
 - Unequal gains (Δ)
 - Prolonged pain (Welfare loss in the transition path to a new SS)
- ▶ Q4: What is the optimal Policy?
 - Define a constrained social planner who
 - ▶ cares young and old equally
 - ▶ subject to the same political procedure
- ▶ Q5: Empirical exercise
 - Can we use the dispersion in the skilled product production to approximate for inequality?
 - Prediction in the model: Higher dispersion, higher tariff. True in the data?

In conclusion, very interesting and provocative paper. I learned a lot! Thanks.