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Comment on “Anti-lobbying gains from international agreements” by Giovanni Maggi

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1. Introduction

This is a very interesting paper with potentially far-reaching implications for the economics of trade agreements. It introduces a novel source of gain from trade agreements, what the paper calls the “anti-lobbying” gain. And it argues that this novel source of gain can come in two distinct forms: anti-*domestic*-lobbying gains, and anti-*foreign* lobbying gains.

The idea of anti-domestic-lobbying gains fits with the traditional commitment theory of trade agreements, wherein a government that lacks the ability to make policy commitments to its own private sector may value a trade agreement as an external commitment device. In the traditional development of this idea (see for example Staiger and Tabellini, 1987, and Maggi and Rodriguez-Clare, 1998), the gains from a trade agreement come from the better own-policies that obtain when the government acquires the ability to commit. The anti-domestic-lobbying gains introduced in this paper highlight an additional source of gains for a country that can achieve policy commitments through a trade agreement – the savings of the economy’s resources that would otherwise be devoted to the wasteful process of lobbying for domestic policies – that amplify these traditional gains.

The idea of anti-foreign-lobbying gains joins the commitment theory with the terms-of-trade theory of trade agreements in a novel way. In addition to a domestic commitment element, there must be an international externality element to this gain, because domestic firms must care about the trade policy choices of a foreign government if they would consider devoting resources to lobbying the foreign government to influence these choices; and hence these domestic firms must experience price effects from the foreign trade policy choices, the essence of the international policy externality that travels through induced terms-of-trade movements and that lies at the heart of the terms-of-trade theory of trade agreements (see for example Grossman and Helpman, 1995, and Bagwell et al., 2016; Bagwell and Staiger, 1999; Bagwell and Staiger, 2002). And for this reason, the anti-foreign-lobbying gains from a trade agreement introduce into the traditional commitment theory of trade agreements a reason that a government seeking commitment to its own policy choices through a trade agreement would also seek policy commitments from its trading partner in the agreement. This is a feature that does not arise naturally in the standard commitment theory of trade agreements, because that theory is typically couched in a small-country setting where the policy choices of individual governments do not impose international (terms-of-trade)

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[1] This is a written version of my discussion of this paper at the 93rd meeting of the Carnegie-Rochester-NYU Conference on Public Policy, April 12-13, 2019, held at the Stern School of Business at New York University.

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externalities on trading partners, and where the inefficiencies to be addressed by a trade agreement are then fundamentally domestic rather than international in nature and hence require only domestic own-policy commitments to address. This also suggests that, unlike with the anti-domestic lobbying gain, the anti-foreign-lobbying gain from a trade agreement reflects a commitment problem that even governments with the ability to make commitments to their own private sectors might have difficulty solving without a trade agreement.[2]

Below I offer four sets of comments, which are in the spirit of directions for future work.

2. Comments

On the anti-lobbying gains from a trade agreement. The anti-lobbying gains from a trade agreement could be very large, because the gains from eliminating rent-seeking behavior are not limited to dead-weight-loss triangles (Tullock, 1967). An extreme example of this point is illustrated by the "black hole" tariff equilibrium described by Magee et al. (1989), where lobbying for tariffs in the competition for redistribution involves variable resource costs, and where in equilibrium virtually all of the economy disappears as its output approaches zero due to this wasteful rent-seeking behavior. This could make gains from a trade agreement much larger than the gains from trade per se, an important possibility in light of the limited size of the gains from trade estimates that have emerged from typical quantitative exercises (see for example, Arkolakis et al., 2012). Valuable future work could attempt to introduce these anti-lobbying gains into quantitative evaluations of the gains from trade agreements.

At the same time, Magee et al. (1989) are more pessimistic about simple fixes to wasteful rent-seeking behavior than is the present paper. They suggest that there may be "no solution to the economic waste caused by competitive redistribution," because firms will rationally allocate their resources and efforts across all available productive and redistributive activities to maximize their returns from these activities, and shutting down one redistributive margin may do little good if other redistributive margins remain. This suggests that with only one policy for a lobby to influence, the present paper may make it look too easy to fix the problem. To address this question, future work could introduce into the model exporter government policies (e.g., export subsidy, production subsidy in the export sector) and investigate how comprehensive the trade agreement must be to generate anti-lobbying gains.

In the model of the present paper, the rent-seeking decision impacts the exporter's trade performance only indirectly, through its impact on the tariff level faced by the exporter. In the model(s) of Magee et al. (1989), rent-seeking activity subtracts directly from productive activity in the sector, and has direct trade consequences as a result, even for a fixed applied tariff level. If this feature were added to the model of the present paper, it might deliver an interpretation (anti-lobbying) of the trade impacts of GATT/WTO tariff bindings over and above applied tariff levels that could serve as an alternative and complementary interpretation to that (uncertainty reduction) offered by Handley (2014) and Limao and Handley (2015).

On shallow integration. The terms-of-trade theory of trade agreements provides a foundation for a shallow approach to integration, because the source of the inefficiency runs through policy-induced terms-of-trade movements which can be handled with shallow/border-policy commitments. By contrast, the commitment theory as traditionally presented suggests that deep integration is required, because there is no reason to think that a government's commitment problems are limited only to its border policies. See Bagwell and Staiger, 2016 for a recent and comprehensive statement of this point. In the model of the present paper, the anti-domestic-lobbying gain is a commitment gain that would require deep integration, as implied by the traditional commitment theory, a point that would become clear if there were behind-the-border policies in the model. But the anti-foreign-lobbying gain is a commitment gain that, it would seem, *does not* require deep integration, because it works through the terms of trade.

Future work could introduce into the model a behind-the-border policy (e.g., production subsidy or regulatory standard) in each country, and evaluate the circumstances under which an effective trade agreement must feature deep integration, and where the agreement might get by with a shallow integration approach. The conjecture is that an effective trade agreement would need to feature deep integration in this setting, but only to deliver anti-domestic-lobbying gains.

On MFN. The terms-of-trade theory of trade agreements provides a straightforward way to understand the free-rider problem that arises in MFN tariff bargaining. If the US makes an offer to the UK to reduce the US tariff on imported steel, Brazilian exporters of steel into the US market also enjoy higher export prices into the US market under MFN: the free-rider externality travels through the induced movements in the terms of trade. But according to the terms-of-trade theory, if MFN is joined with reciprocity – whereby the UK also offers tariff cuts of its own and where the bargain between the US and the UK is balanced so that as a result of their agreed tariff liberalization each country can anticipate an increase in the volume of its exports that is roughly equivalent in value to the increase in the volume of its imports – then terms-

[2] I say "might," because this would depend on what commitment abilities such governments possess. For example, if a government had unlimited commitment and enforcement power, a possible solution to both the domestic-lobbying problem and the foreign lobbying problem featured in this paper might be to simply pass a domestic law prohibiting domestic firms from lobbying the domestic government and from lobbying the foreign government, respectively. Alternatively, governments might find a trade agreement useful for solving the foreign-lobbying problem, but the international commitments negotiated in the trade agreement to solve this problem might simply be an agreement from each government to pass a law prohibiting foreign lobbying within its borders. In the first instance, there would in principal be no need for a trade agreement; in the second instance, there would be a role for a trade agreement, but not one with commitments that took the typical form of tariff "bindings."

of-trade movements are effectively neutralized, and the free-rider problem can be minimized/eliminated (see, for example, Bagwell et al., 2016).

In the modeling framework of the present paper, MFN and reciprocity could again neutralize terms-of-trade movements. But this does not eliminate third-party effects, because the anti-foreign-lobbying gain remains for all countries, even third parties, to enjoy. Future work might develop these and other features of the model that distinguish it from central features of the terms-of-trade and commitment theories of trade agreements.

On tariff caps. Clauses that provide government discretion in trade agreements pose a challenge for the model of this paper, as they do for the commitment theory of trade agreements more generally. Maggi and Rodriguez-Clare (2007) is a notable exception that offers support for tariff caps, a prominent example of discretion in real-world trade agreements, from the perspective of the commitment theory.

In the model of this paper, tariff caps can only reduce the anti-lobbying gains from an agreement relative to strict tariff commitments. The issue is not limited to tariff caps: the ability to impose safeguard protection and antidumping duties join tariff caps as prominent opportunities for wasteful ex-post lobbying.

For the model of this paper to further illuminate possible resolutions of this challenge for the commitment theory, future work might introduce into the model the possibility of ex-ante misallocation of resources along the lines of Maggi and Rodriguez-Clare (2007) or Mueller (2019). This could introduce into the model the kinds of tradeoffs needed to better understand the circumstances where these design features would be warranted.

3. Conclusion

I will close these comments as I began them. This is a very interesting paper with potentially far-reaching implications for the economics of trade agreements. I look forward to seeing future work by the author and by others that builds on this promising foundation!

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