

COMMENTS ON MAGGI: ANTI-LOBBYING GAINS FROM INTERNATIONAL AGREEMENTS

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Introduction

- A very interesting paper
- Introduces a novel source of gain from trade agreements:
anti-lobbying
 - anti-*domestic*-lobbying gains; fits with the traditional commitment theory of trade agreements
 - anti-*foreign*-lobbying gains; joins the commitment theory with the terms-of-trade theory in a novel way
- The anti-foreign-lobbying gains from a trade agreement introduce into the commitment theory
 - a reason that a country seeking commitment through a trade agreement would care about the tariffs of its *trading partner*
 - a reason that an international agreement may be *necessary* for solving the problem (alternative: foreign law bans lobbying of domestic gov?)

On the anti-lobbying gains from a trade agreement

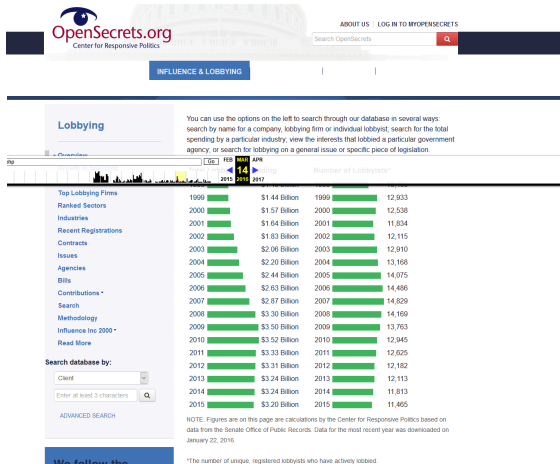
- The anti-lobbying gains from a trade agreement could be very large
 - gains from eliminating rent-seeking behavior are not limited to DWL triangles (Tullock, 1967)
- This could make gains from a trade agreement much larger than the gains from trade per se
 - the “black hole” tariff equilibrium of Magee, Brock and Young (1989), where lobbying for tariffs in the competition for redistribution involves variable resource costs
 - and virtually all of the economy disappears as its output approaches zero

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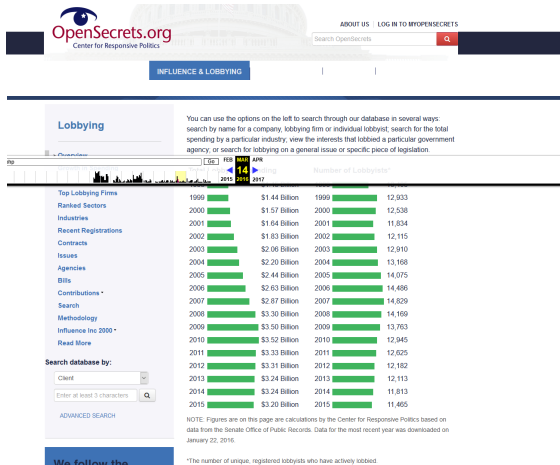
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- ⇒ Suggestion: include some further descriptive statistics on the potential importance of the anti-foreign-lobbying gains

On the anti-lobbying gains from a trade agreement

- Magee, Brock and Young are more pessimistic about simple fixes than the present paper
 - they suggest that there may be “no solution to the economic waste caused by competitive redistribution”
 - firms will rationally allocate their resources and efforts across all available productive and redistributive activities to maximize their returns from these activities
 - shutting down one redistributive margin may do little good if other redistributive margins remain
- With only one policy for a lobby to influence, the present paper may make it look too easy to fix the problem

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- With only one policy for a lobby to influence, the present paper may make it look too easy to fix the problem
- ⇒ Suggestion: introduce into the model exporter government policies (e.g., export subsidy, production subsidy in the export sector)
 - investigate how comprehensive the trade agreement must be to generate anti-lobbying gains

On the anti-lobbying gains from a trade agreement

- 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, Brock and Young, 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

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 - and has direct trade consequences as a result, even for a fixed applied tariff level
- ⇒ Suggestion: if you were to add this feature to your model
 - 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 to the interpretation offered by Limao and Handley (uncertainty reduction)

On Shallow Integration

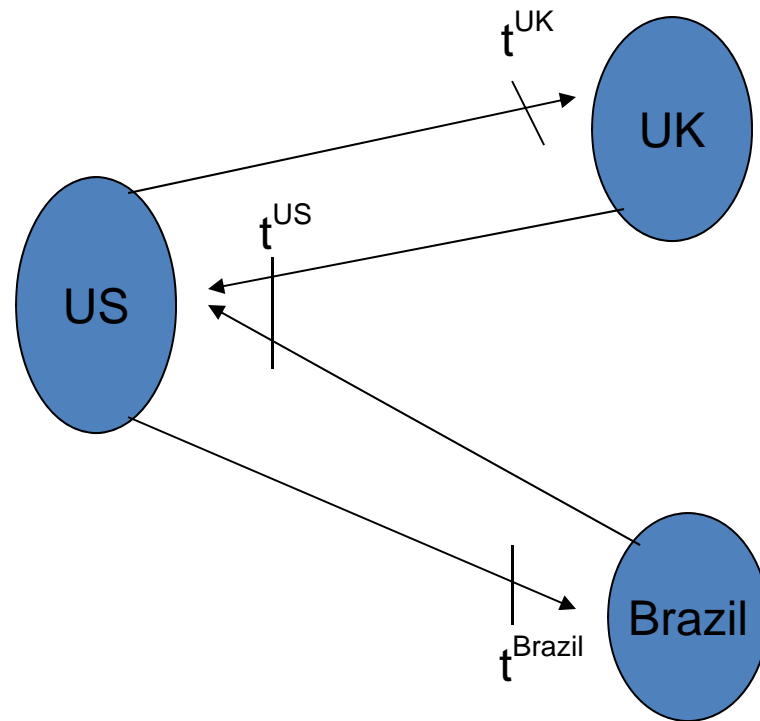
- The terms-of-trade theory provides a foundation for a shallow approach to integration
- The commitment theory suggests that deep integration is required
- In the model of the present paper
 - the anti-domestic-lobbying gain is a commitment gain that requires deep integration, as implied by the traditional commitment theory
 - the anti-foreign-lobbying gain is a commitment gain that *doesn't* require deep integration, because it works through the terms of trade

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- \Rightarrow Suggestion: introduce into the model a domestic policy (e.g., production subsidy or regulatory standard) in each country
 - and show that deep integration is required, but only to deliver anti-domestic-lobbying gains

- The terms-of-trade theory 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 its 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
 - terms-of-trade movements are neutralized
 - and the free-rider problem can be minimized/eliminated

Figure 1: Reciprocal MFN Tariff Cutting



- 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
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 - but this does *not* eliminate third-party effects
 - because the anti-foreign-lobbying gain remains
- \Rightarrow Suggestion: develop these and other features of your model that distinguish it from central features of the terms-of-trade and commitment theories

On Tariff Caps

- Discretion in trade agreements poses a challenge for the model of this paper, as it does for the commitment theory more generally
 - Maggi and Rodriguez-Clare (2007) is a notable exception that offers support for tariff caps 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

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- 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
- ⇒ Suggestion: perhaps introducing into the model the possibility of ex-ante misallocation of resources
 - along the lines of Maggi and Rodriguez-Clare (2007) or Mueller (2019)
 - could introduce the tradeoffs needed to understand the circumstances where these design features would be warranted

Conclusion

- A very interesting paper!