Discussion of "Blue States and Red States: Business Cycle Divergence and Risk Sharing"

by David Parsley and Helen Popper

Jonathan Swarbrick [1]
Bank of Canada

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[1] The views expressed should not be interpreted as reflecting the views of the Bank of Canada.

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They find:

1. State-level political difference mirrored by economic differences
2. Still, a lot of consumption smoothing across states
3. Red and blue blocs less synchronized that separate countries, but share risk more

Conclude: political differences do not prevent successful monetary union

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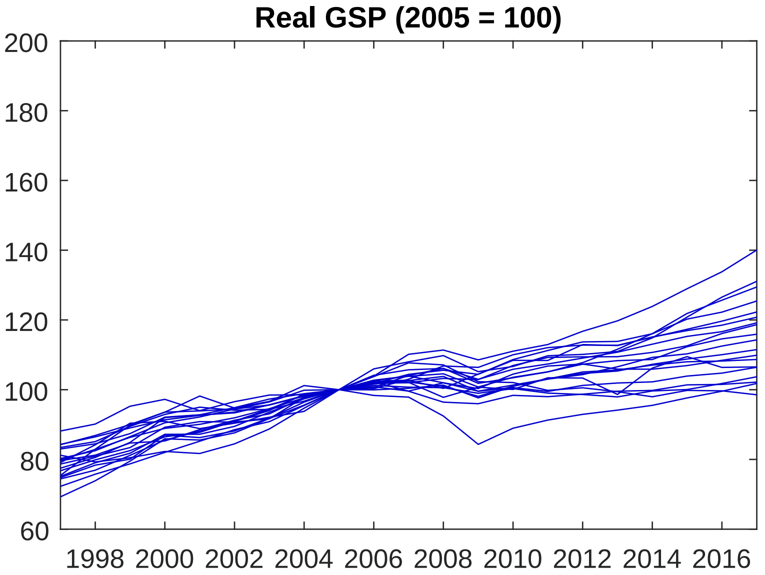
- Industrial composition of states, e.g., red states include big oil sectors (AL, ND, OK, TX)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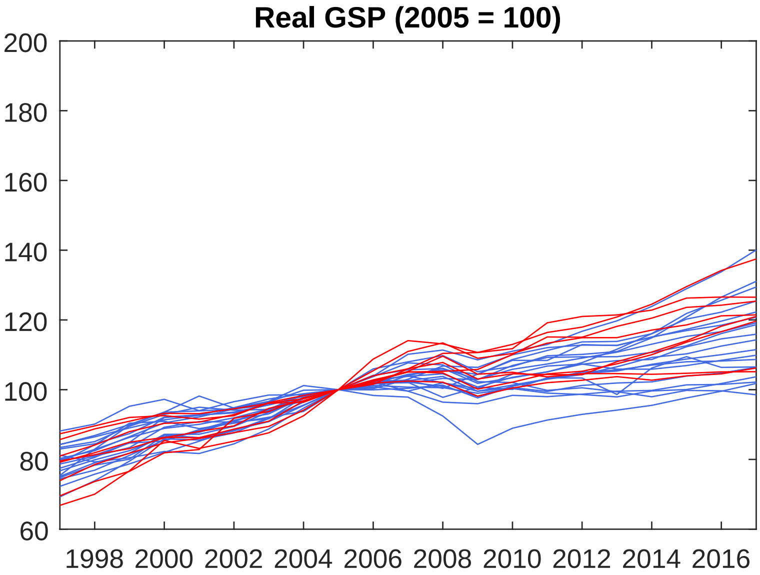
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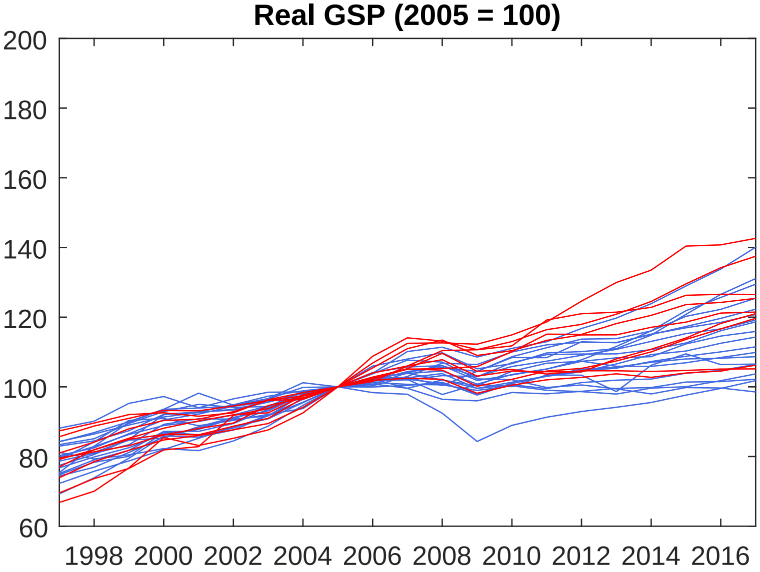

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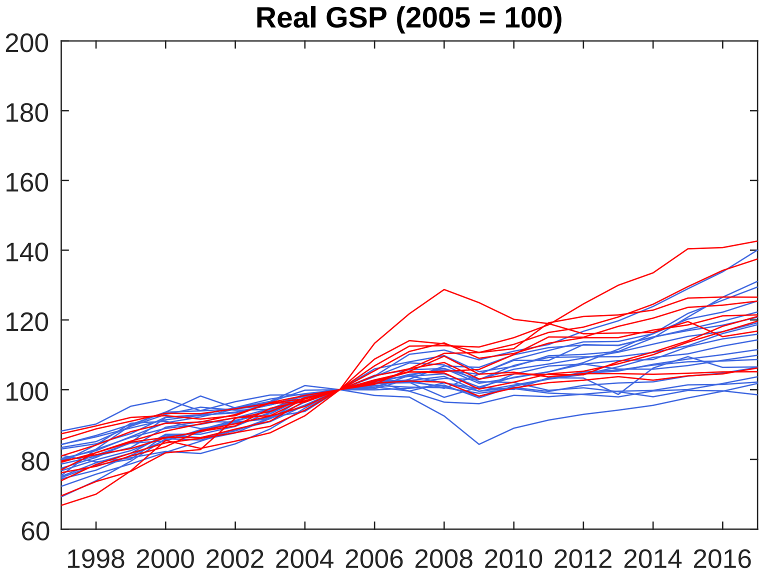
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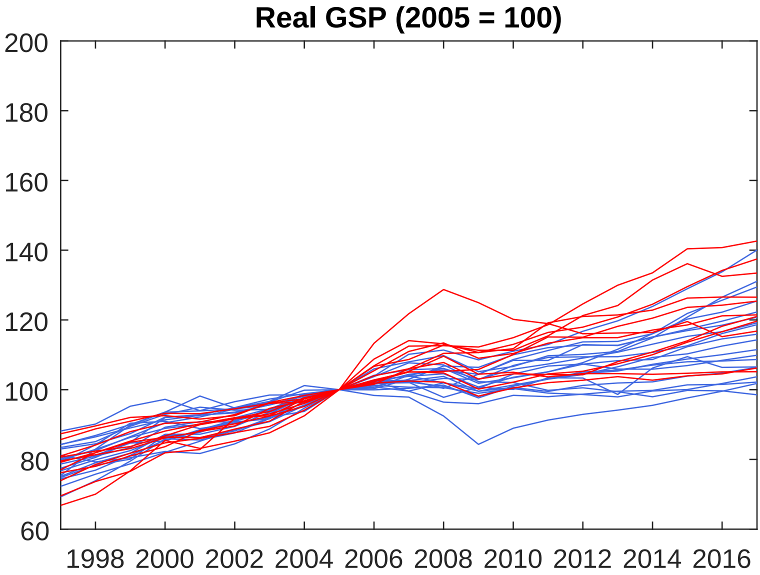

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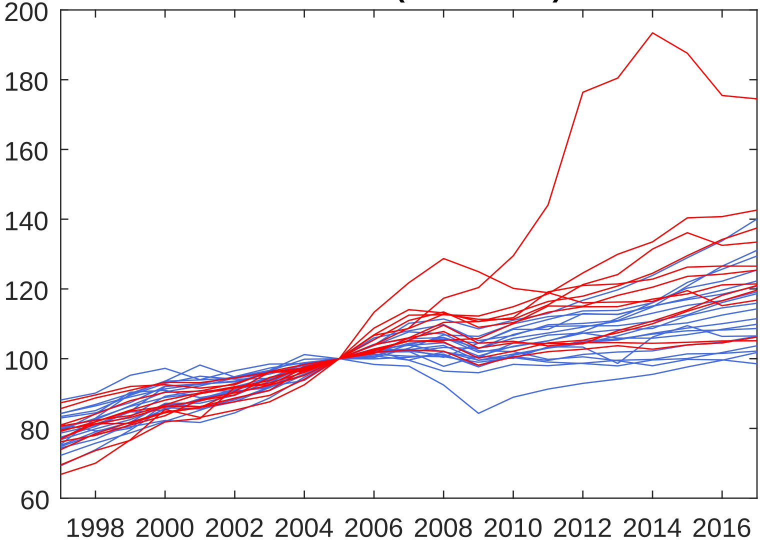

Consumption smoothing and risk-sharing channels

- Consumption risk is shared within US, even between red-blue blocs, much more so than internationally
- Channels differ between blocs, capital markets most important
  - Reds have (much) more unshared risk and much greater role for fiscal channels

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  - Rich - higher capital market participation, purchase more durables, more mobile
- I didn't really understand the 'even between *Blue* and *Red* regions'.
  - Why would this prevent risk-sharing? Particularly given absence of fiscal equalization program.
  - One expects a lot where barriers are limited (financial, fiscal, migration etc)

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- Great job of studying channels and quantifying risk sharing
- Was not convinced by *Red* versus *Blue* emphasis
- Perhaps focus on sectoral concentration and demographics
    - Would help application to other unions

Small points/suggestions

- On p.9 you state: "... a coefficient equal to one would imply that the states are individually in autarky." I do not think this is true unless the MPC = 1. Perhaps I have missed something. It would suggest nation states are even closer to risk-sharing autarky than it seems on first impression.
- I wonder about the effect of medium/longer run structural change on your results. You capture divergence, if, e.g., the midwest is under relative decline over a longer period, but this is not business cycles.
  - Perhaps you could de-mean the measures of growth, which Kalemli-Ozcan, Papaioannou & Peydra (2013) do for one measure. Could just be a useful robustness check.
- You might also capture additional divergence due to difference in the volatility of cycles. You might be interested in this divergence too, although it is not asynchronicity.
  - You could scale each growth series by the standard deviation as a robustness check.

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- Asdrubali, Sorensen & Yosha (1996) (ASY) show the change in risk sharing channels over time. This is interesting i.e., unshared risk goes from nearly 40% in 1964, to less than 5% in 1978, back up to 40% in 1990. There are some interesting medium run, structural cycles here, Perhaps you could show these shares change over your sample and say something about them?
- ASY also find composition of risk sharing changes significantly when varying the frequency of the observations, in particular, via the credit channel. This channel is not even significantly different from zero when enlarging up to 5 years. This mainly adds to uninsured rather than other channels. Can you say something about this in your sample?
- Lots of countries have formal fiscal equalization programs (Canada, UK, Belgium, France, Australia, Germany) but the US does not. Perhaps out of scope, but it would be interesting to see how important these channels are, and how a program might affect risk sharing in the US.
- It would be interesting to see the determinants of risk sharing channels - e.g., wealth, education, income. I'd like to understand the why a bit more. I liked the discussion on fiscal transfers across red/blue/swing and why this channel differs, in particular, why it might be so low in swing states.