

Literature on Asymmetric Punishments

New section on asymmetric punishments (addresses, in part, Giovanni's #7)

- Constrain to T -period class, now asymmetric—punish deviator more
- There is literature on this
 - Bown 2002/2004
 - * Shocks, no enforcement
 - * Distinction is between legal and illegal
 - Legal: TOT terms cancel, local effect only
 - Illegal: TOT effect + local effect
 - Beshkar 2010 EER (a)
 - * truthful revelation, no transfers, one shot
 - * asymmetry in size of punishment: compensation award through tariffs doesn't have to be as big as initial harm in order to induce truthful revelation
 - Beshkar 2010 JIE (b)
 - * GATT's instantaneous reciprocity rule (p. 39): immediate suspension of concessions under GATT escape clause
 - * 4 years with no retaliation under WTO Agreement on Safeguards
 - * No asymmetry as far as I can see on quick skim
 - Martin and Vergote
 - * Private info (random shock to import-competing sectors), no transfers, repeated game
 - * Retaliation is the cost for overstating one's own value of γ —it's what delivers incentive compatibility
 - * Distinction is between reciprocity and retaliation
 - Reciprocity: higher contemporary tariff (they have pre-play communication in a mechanism design framework)
 - Retaliation: higher tariffs in the future
 - * In contrast to Riezman 1991 (who has symmetric equilibria à la Green and Porter and then necessarily lower welfare), they have the same welfare level in punishment, just redistributed across players
 - My note: this has flavor of the two different types of renegotiation issues: move inside the frontier or along it

- * They have an optimal level of asymmetry
- * They show that asymmetry is necessary to deliver the efficient outcome (FLM Folk Theorem)
- Hungerford 1991
 - * Asymmetric shocks, TOT is signal, NTBs
 - * Retaliation by going to optimal tariff level
 - * Retaliatory period: one country retaliates for past defection, defecting country plays BR (defect before other country can react)
 - * GATT (p. 364)
 - Add cost of retaliation, but fast so retaliation starts in period $t + 1$ for trigger in period t
 - Investigation is domestic (hence cost), but must “detect” NTB in order to punish
 - Countries don’t spend enough on investigation to discourage NTBs entirely because they can’t always detect them
- Riezman 1991
 - * Symmetric punishments
- Bagwell (2008): commensurate vs. disproportionate retaliation
 - * disproportionate retaliation can compensate trading partner, who otherwise loses trade volume
 - * here, degree of disproportion increases in size of original violation: has to compensate for larger trade volume loss (p.15 of pdf)
- Bagwell 2009: shocks are persistent
- Furusawa 1999: larger δ not always beneficial (fn 46, p. 42 of BBS lit review)
- Ludema 2001?