

## PE Shocks To-Do list

December 30, 2015

- From Chad: it's missing intersection with reality
  - Well articulated question / paradox
- From Ben
  - It's particularly interesting that in the presence of a shock the governments will use the escape clause as intended but without a shock a lobby group would always 'step into the breach' and cause it to be abused. I would like to see the paper devote more attention to the conditions under which this problem arises and when it does not.
  - 'Withdrawal of equivalent concessions' (WEC).
    - \* Zissimos (2007): a government 'chooses the severity of its own punishment' by the extent of its initial deviation. In that paper, I took WEC for granted and then played out trade liberalization according to its rules. But this left open the question of why WEC made sense as an approach to punishment. Now I'm wondering whether your framework offers an answer.
    - \* Under WEC, it is worth deviating from the agreement in proportion to  $s$  because your partner deviates to the same extent and that keeps the agreement on track; the point first made by Bagwell and Staiger (1990).
    - \* But WEC might eliminate the incentive to respond to lobbying pressure  $e$  because when your trade partner deviates by WEC this takes away from you exactly (in a symmetrical framework) what you gained from the lobby for implementing a deviation of that size.
    - \* I would find an examination of WEC much more compelling than the approach to punishment that you currently discuss on page 20, whereby two bindings are negotiated: one that applies if the trade partner keeps to the agreement and one that applies if they deviate. As far as I know this latter approach does not mirror at all the institutional features actually set out by the GATT/WTO.

Possible puzzle to explain: WEC has an effect here, and that effect is weakened by the change in EC rules during the Uruguay Round

- Read Chad's "Why Are Safeguards under the WTO So Unpopular?" (World Trade Review 2002), at C:\Users\Kristy\Dropbox\Research\PE\_shocks\Literature\2016

- Need to understand better what changed, both with safeguard and with other policy instruments
- There is this drop off in usage of escape clause (EC) after Uruguay Round (UR) reforms, even though retaliation prohibited for first three years. Why, when retaliation goes *away*?
- I'm not sure there's a way to make sense of Ben's point: in my set-up, government doesn't "get" something different from lobby than it does directly from the shock. Maybe it should.
  - Government feels  $\gamma$  the same whether it's elevated because of  $s$  or because of  $e$
  - What is the neutralizing that happens? Why would the government invoke EC when it knows that WEC is coming anyway? Because it's in another sector where it puts less weight right now?
- Need to go to continuous value of EC tariff
  - There will be optimal tariff for whatever value of  $s$  is realized
    - \* Not sure how fine I want to go with  $s$
  - Lobby will choose its optimal level of  $e$ . Will this be constrained in any way? Probably not, if there isn't a fixed EC-binding.