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Discussion of “Consumption Effects of Trade” by Amit Khandelwal

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Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium’s (IATRC’s) 2017 Annual Meeting: Globalization Adrift, December 3-5, 2017, Washington, DC.

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Consumption Effects of Trade

P. Fajgelbaum and A. Khandelwal

- An important component of “gains from trade”
- Anecdotal and political economy arguments, e.g. a “few pennies” saved by consumers but entire communities are wiped out
- Substantial gains to consumers, especially at the left tail of the income distribution
 - Cross-country evidence
 - Multiple channels – trade/FDI/outourcing



Consumption Effects of Trade (contd.)

- New varieties (products)
 - Feenstra and others have examined such gains
- A key issue in the context of agriculture and food is year-round availability of fresh produce (grapes, avocados, berries, and vegetables)
- Adding these gains to relative price changes implies even greater gains from trade to consumers
 - But, would they be biased more towards the right tail of the distribution, e.g., exotic cheese, wine, high-priced winter produce?



Broader Welfare Gains and Losses

- Trade creates winners or losers (except in the pure Ricardian framework)
 - Rybczynski and Stolper-Samuelson Effects in Heckscher-Ohlin and extensions
 - Disappearing varieties in moving from autarky to free trade in Krugman's framework
 - Extensive margins in the Melitz framework
 - Within extensive margins in the case of multi-product firms



Broader Welfare Gains and Losses (contd.)

- Two key channels have received much attention
 - Labor markets – jobs, wages and income effects
 - Consumption – prices, varieties, availability
- Competition effects- mark-ups/innovations
- Others (externalities – knowledge or environmental)



New Economic Geography and Trade

- We continue to learn and educate the public about trade's winners and losers, but I am excited about the emerging information on the spatial dimension
 - Lining up people by space in addition to their industry or income status
 - Within country (i.e. regional) effects – new economic geography and trade (e.g. Krugman, Melitz, Combes, Ottaviano)
 - Which regions gain or lose firms and employment?
 - Impact on regional development outcomes: wages, quality of life



New Economic Geography and Trade (contd.)

- By focusing on gains from trade within a country (regions) and industry, we stand a better chance of continued trade reform:
 - You need votes in U.S. Congress or European or Indian parliament constituted by regional representatives.
 - Focus on resources specific to regions/industries and their cost of adjustment
 - Bring about a greater focus on losers and identify better safety nets for adjustments
 - Trade adjustment focused on people and industries often ignore factor immobility within countries and the disproportionate effect from trade on specific regions
 - Microdata on people and their choices should help us identify who's genuinely hurt from trade reform and how we can help them
- Continue to improve communication of trade outcomes



Thanks



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