International Spillovers and Guidelines for Policy Cooperation

A Welfare Theorem for National Economic Policymaking

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Discussion:

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Main idea

- Provide sufficient conditions under which international spillovers are “efficient” (i.e. do not need international coordination)
  - countries are small
  - governments can use international instruments to undo any effect of domestic policy on foreigners
  - no imperfections in international markets

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- Simple intuition
  - if governments have no incentives to distort international trade
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  - then, they will not distort international trade
- General model that can incorporate different types of spillovers
- Argue that existing models need to be reinterpreted as violating one of these three conditions

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- Having said that...
- The result seems fairly obvious given the assumptions, yet the model is very unclear
- The (explicit and implicit) sufficient conditions for efficiency are actually very strict
  - model is not really general and its results do not seem to apply to other models in the literature
- Thus, I do not think that the paper as it stands helps us much in understanding international spillovers

Why might spillovers call for coordination?

- Countries might want to restrict trade in goods and over time to affect terms of trade and interest rate
- Macro policies that address aggregate demand at home can affect aggregate demand abroad
- Financial mismanagement ex ante and financial crises ex post can affect financial markets abroad

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- Financial mismanagement ex ante and financial crises ex post can affect financial markets abroad
  - agents can trade today goods that are delivered at any date and in any state in the future (i.e. they have commitment)
  - there are no financial frictions so the model has nothing to say about this important channel

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- I look forward to next draft