International Spillovers and Guidelines for Policy Cooperation
A Welfare Theorem for National Economic Policymaking

Anton Korinek

Discussion:

Fernando Broner
CREI, Universitat Pompeu Fabra, and Barcelona GSE
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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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  - if governments have no incentives to distort international trade
  - and they can carry out domestic policies without distorting international trade
  - then, they will not distort international trade
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- 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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- 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
Final remarks

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  - focus on a single type of spillover
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- These two results are potentially interesting
  - countries with better international instruments can “help” other countries (e.g. impose control on capital outflows if other countries cannot control inflows)
  - countries can end up distorting domestic policies if international instruments are imperfect
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- I look forward to next draft