Large Scale CGE Modeling at the United States International Trade Commission

Where we’re going and why...
Describe the context for the large scale CGE modeling at the United States International Trade Commission

The market for economic analysis of trade agreements

Highlight efforts to improve our models to meet certain characteristics of customer demands – which, in many ways haven’t changed for years.

describe our role as middlemen between policy modelers and policy makers and the challenges that arise

- Frandsen presentation at learning session relevant here
- Kehoe keynote speech on evaluating performance also very relevant
The current state of supply in the market - some sources

- Academia – produces a lot, often not readily consumable - timing, presentation, and focus

- Govt institutions – eg ITC, ERS – draw on academic advances, better placed to address timing, presentation, and focus. Goal of passing academic inspection.

- NGO’s – large number – usually narrow interest, often but not always, present information that is very readibly consumable in the policy debate. Frequently poorly done.
China accession example.

- ITC study suggests bilateral trade deficit between US and China rises slightly
- Overall trade deficit decline
- EPI uses bilateral trade deficit number to “project” job loses at the state level – Congress jumps on these numbers
- Flaw – with EPI methodology we eventually have trade surplus, and so extending their work another 10 years has rapid job growth to infinity
Context for large scale CGE modeling at ITC

- ITC independent agency, not part of the Presidential Administration or Congress
  - Though we receive our funding from Congress
- A major function is provide economic “advice” to United States Trade Representative, House Ways and Means Committee, and Senate Finance Committee
- Not a policy making agency
- Demand for economic analysis increasing…
Statutory (legal) requirement for the ITC to provide economic assessment of changes in trade policy

– Objectivity

Current trade legislation – formerly Fast Track, now Trade Promotion Authority, has new requirements for ITC, among others…

– Report on economy wide effects of each new agreement signed under TPA
– Report on economy wide effects of all past agreements signed under Fast Track
– Report on all agreements signed under TPA before renewal.
Our customers expect useful analysis that is understandable.

- Must meet academic quality, but be useful to policymakers who are non-economists.

For Congress in particular the interest is for insights on how policy changes might affect their specific constituents.

- Given aggregation of most data this is a challenge, let alone the aggregation of most CGE models – even greater challenge.
On the Congressional side policymakers typically want to know how the policy change will affect them – at their constituent level – state or ideally, district level.

- How many jobs and what kind?
- What will happen to production, consumption, and investment?
- Imports and exports?
- Incomes? Distribution of incomes.
- Next year, and 5 years from now?
- They don’t know what EV is. They don’t know what CGE is. Your results come first, then they may ask questions on how you came about your results.

At that point you must have an impressive case to defend your approach.

But first you have to get them to take the product off the shelf, before they will read the label.
Supply = Demand?

While significant progress in applied models in late 80’s and 90’s, and policy makers are asking for more insights…

Most of our models are aimed more at academic audiences – not tailored to final consumer of policy analysis.
In 1986 Bhagwati - “How can CGE models that have recently come into vogue be utilized to analyze the problems of international trade policy?”

Srinivasan and Whalley (1986) suggested these models were ready for prime time, with some well placed investments in
  – Model structure
  – Parameterization

A lot of work on model structure

not much on parameterization – why not?
The CHALLENGE

- Your model needs to provide information at a level that’s relevant to the policymaker – produce a product that better meets demand in the market.

- Know what qualities and attributes policy makers demand in the process and final product.
  - For a broader, exhaustive and detailed discussion see Frandsen
  - It’s far from a journal article in its final form

- And produce sensible results now and when people look back (Kehoe)

- Despite impressive history of work at ITC – see latter part of the paper - leads us to a new framework
  - drawing on one of the most successful policy models in this area – the Monash model
  - And significant investment in parameterization