

**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 alot, 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 losses 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.

ITC as middleman

- 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
 - Its 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