

Discussion: Offshoring and Inflation by Comin and Johnson

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This paper: Offshoring is Inflationary!

- ▶ Insightful paper. Important question. Ex-ante surprising but ex-post intuitive answers.
- ▶ Contribution: extend textbook SOE NK model to incorporate a rich trade structure. Evaluate the causal effect of offshoring on inflation through the lens of this model.
- ▶ My intuition: three effects of offshoring (i.e. expected future permanent decline in domestic sourcing)—permanent phase-in rise in terms of trade
 - Lower inflation of imported goods \Rightarrow inflation \downarrow
 - Income effect \Rightarrow current consumption, inflation \uparrow
 - Quasi-productivity effect (amplified by GVC) \Rightarrow current consumption, inflation \uparrow
- ▶ Ultimately a quantitative question.

Comment I: Interpretation

- ▶ Falling domestic sourcing shares ($\hat{\lambda}_{Ht}, \hat{\lambda}_{Ht}^C$) can be driven by trade barriers, productivity growth differential, domestic distortions, structural change
- ▶ This paper: intentionally agnostic about the drivers
- ▶ From CES aggregation

$$\hat{p}_{Ct} = \underbrace{\gamma [\mathbf{I} - \mathbf{A}']^{-1} \alpha \hat{p}_t^v}_{\text{Offshoring } \uparrow} + \underbrace{\left(\frac{1}{\eta - 1}\right) \gamma [\mathbf{I} - \mathbf{A}']^{-1} [\mathbf{A}' \circ \hat{\lambda}'_{Ht}]}_{\text{Offshoring } \downarrow \pi} \iota + \underbrace{\left(\frac{1}{\eta - 1}\right) \gamma \hat{\lambda}_{Ht}^C}_{\text{Imported C } \downarrow \pi}$$

where $\hat{p}^v = \hat{w}_t - \frac{1}{1-\alpha} \hat{z}_t$

- ▶ This paper: Offshoring is associated with rising \hat{w} in GE SOE NK.
- ▶ What about \hat{z} ?

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- ▶ What about \hat{z} ?
- ▶ Falling domestic productivity can simultaneously drive offshoring and inflation. Bluntly, “*falling productivity is inflationary!*”
- ▶ Suggestion: endogenize $\hat{\lambda}_{Ht}$, $\hat{\lambda}_{Ht}^C$, simulate the model with productivity shocks only. what happened to inflation and $\hat{\lambda}_{Ht}$, $\hat{\lambda}_{Ht}^C$?

Comment II: Offshoring causes wage inflation

- ▶ Even more counter-intuitive
- ▶ First-order issue associated with offshoring—unemployment/income distribution
- ▶ Would an alternative model with unemployment/income distribution suggests the opposite? Missing mechanism warrants some discussions/mentions
 - Offshoring raises unemployment (empirically debatable), repressing wage inflation
E.g. plant-level evidence positive productivity effect of offshoring raises domestic employment at the establishment (Moser et al. 2009).
 - Higher income inequality lower interest rate (Kumhof et al. 2017)
- ▶ More generally, without model validation, how comfortable are we with the current model?