

Discussion of “Trade Liberalization and Self-Control Problems”, by Jennifer Abel-Koch

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The paper mixes a behavioral economics hypothesis with international trade theory, i.e.,

- time-inconsistent preferences;
- mutual profitability of trade.

Main Result

If agents have time-inconsistent preferences, **trade may not be mutually advantageous.**

Experimental and econometric evidence suggest that there are situations in which the individual rationality is an inappropriate assumption.

Consequence

The **effectiveness** of economic policies depends on the acknowledgement of these behavioral anomalies in individual and collective decision making.

Some previous examples are:

- climate change policy (Gowdy 2008, JEBO),
- international business and FDI (Hosseini 2005, JSE; Markusen 1995, JEP)

AN ALTERNATIVE APPROACH

Let's assume that sin goods trade does not lead to reciprocal gains.

This can be attributed to self-control problems, but also to other factors.

Alternative explanation

Altruistic motives: agents might like sin goods, but they also think that these consumption goods are bad for society due to future health costs.

Consequences:

- agents tend to consume more sin goods if the prices decrease due to trade liberalization;
- an aggregate increase of sin goods consumption affects negatively agents' welfare.

→ Agents might support barriers against sin goods in order to reach optimal consumption decisions.

The paper suggests a tariff on imported sin goods in order to avoid overconsumption.

Problem

Feasibility: given a status quo of free trade, imposing a tariff is not a Pareto-improvement, even if trade with tariffs is still mutually better than autarky.

In order to reduce consumption of sin goods in regions with self-control problems, it might be better:

- to use government intervention as a commitment device to get around time-inconsistency.
- to promote self-control improving, demand-oriented policies;

The problem: sin goods are bad for individuals and for society as a whole.

Claim

It is better to avoid trade liberalization of sin goods since it might worsen the suboptimality of consumption.

But in presence of a **persistent high demand**:

- governmental limitations of supply do not decrease profitability;
- informal economies, such as organized crime and smuggling, substitute evident businesses.

Possible Consequences

Consumption does not decrease significantly, illegality causes higher prices, and low self-controlled individuals experience negative income effects.

Examples: alcohol bans, illicit drugs, garbage.

The culprit of the overconsumption of sin goods is in the demand side, not in the supply:

- lack of information and self-control problems;
- scarce legislative consumer protection;
- informational asymmetries between the individuals and the public.

Possible **alternative policies**:

- legalization of all previously illegal sin goods to make the informal economy emerge;
- public agencies and enquiries about developing consumption habits to reduce informational asymmetries;
- maximal feasible limitation of sin goods advertisement and public campaigns to deter from sin goods consumption to increase public awareness and individual self-control.