Discussion of

Slicing the Pie: Quantifying the Aggregate and Distributional Effects of Trade

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This paper

- The goal: develop a benchmark framework for quantifying gains and losses from trade, including distributional effects
  - — Much of trade literature moved away from HO and SF models and lost focus on distributional consequences
  - — In particular, the leading quantitative framework, the Ricardian EK model, does not allow for distributional effects

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- Ricardian trade model + Roy labor market sorting model
  - — Country i has comparative productivity advantage in industry s

$$Frechet(T_{is}, \theta) \quad \longrightarrow \quad \lambda_{ijs} = \frac{T_{is}(\tau_{ij} w_{is})^{-\theta}}{\sum_{\ell} T_{\ell s}(\tau_{\ell j} w_{\ell s})^{-\theta}}$$

  - — Workers g have comparative advantage in working in sector s

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- A very elegant and tractable formulation
  An obvious model for a textbook to teach economic intuition.

Main insights

- Sharp characterization of group-specific welfare gains:

$$\Delta \log W_g = \underbrace{\left(-\frac{1}{\theta}\sum\nolimits_s \omega_s \Delta \log \lambda_s\right)}_{=\text{Consumer Gains}} + \underbrace{\left(-\frac{1}{\kappa}\sum\nolimits_s \omega_s \Delta \log \pi_{gs}\right)}_{=\text{Income Gains}}$$

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- Potentially large heterogeneity in outcomes within group g
  - How much residual inequality given estimated κ (dual role)
  - Adjust welfare for residual inequality
  - Are changes in residual inequality consistent with the data?

Skilled vs unskilled

- The paper finds overall gains, which however vary considerably across groups g
  - Groups g in the paper correspond to detailed geography $\times$ two educational bins
- One surprising result is the high correlation (0.87) between the outcomes of high and low skill groups across geographies

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  - Groups g in the paper correspond to detailed geography $\times$ two educational bins
- One surprising result is the high correlation (0.87) between the outcomes of high and low skill groups across geographies
- This seemingly contrasts with the empirical findings of ADH:
  - higher skill workers in affected geographies experience less unemployment and income loss
- What feature of the data ensures this result?

Relationship to the real world

1. The paper focuses on the long-run distributional effects after the adjustment to trade is complete
   - Arguably, the key disruptions empirically are transitory, along the adjustment to trade shocks
   - Yet, these transitions can last very long
   - What is the right model to use?

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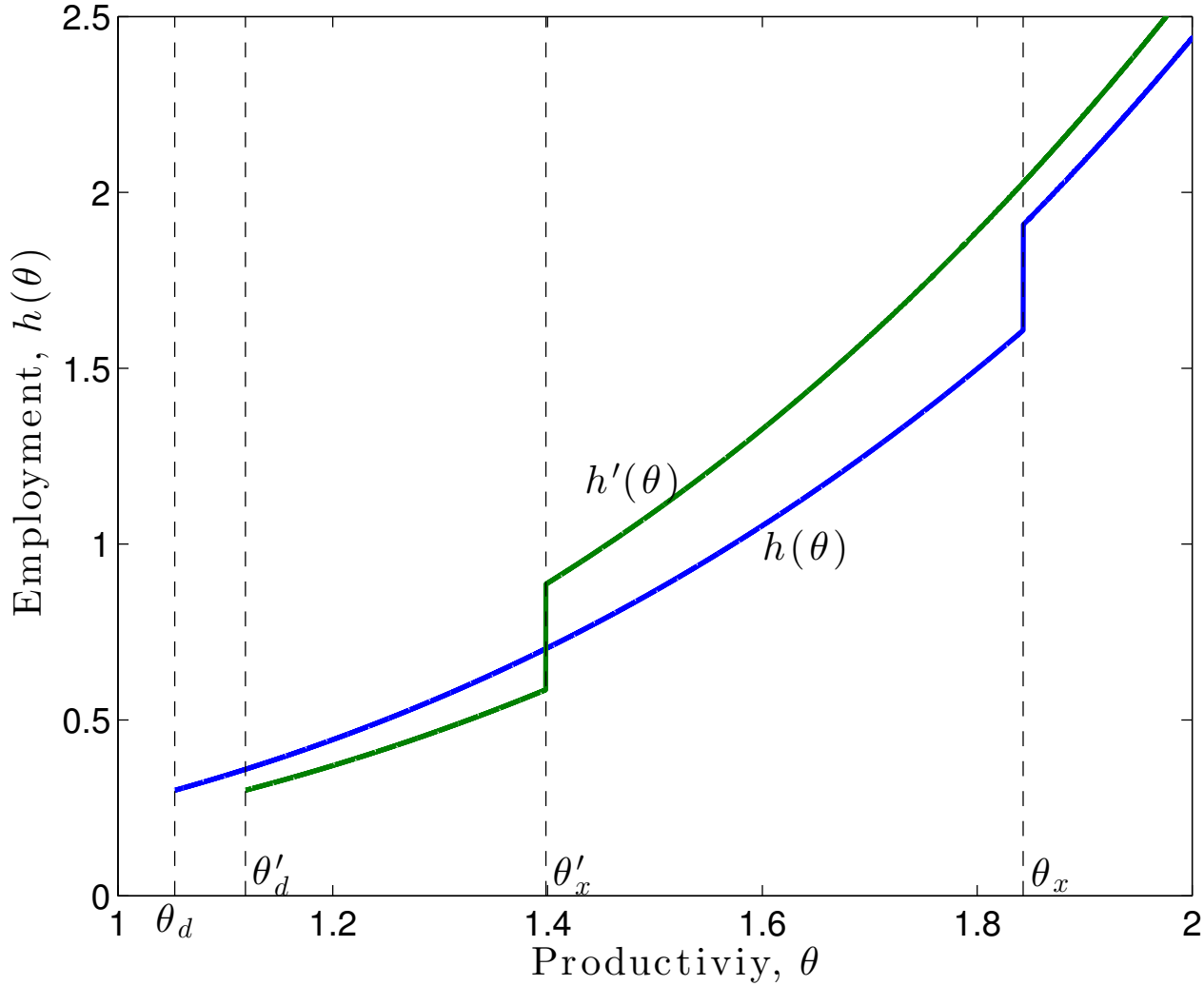
3. The model features no unemployment and no non-employment, two important margins in the data

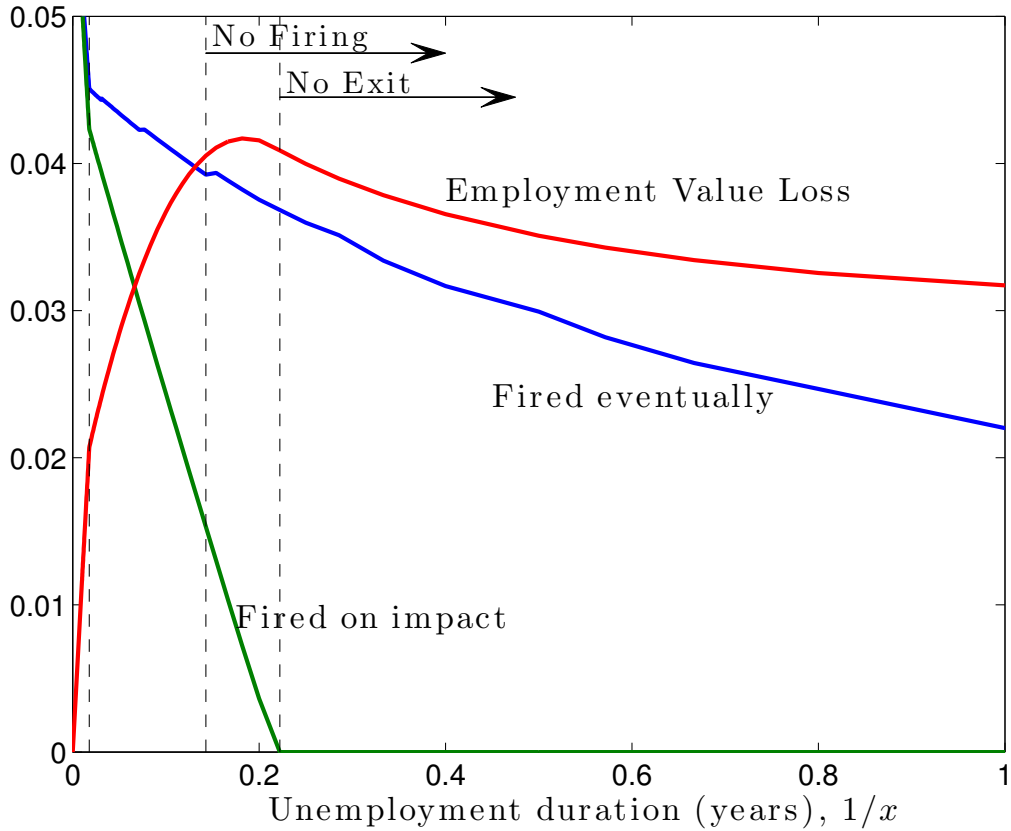
A frictional model

- Itskhoki and Helpman (2015): adjustment to trade in a Melitz model with DMP search and matching friction



A frictional model

- With labor search frictions alone, trade shocks create either little unemployment or little income loss



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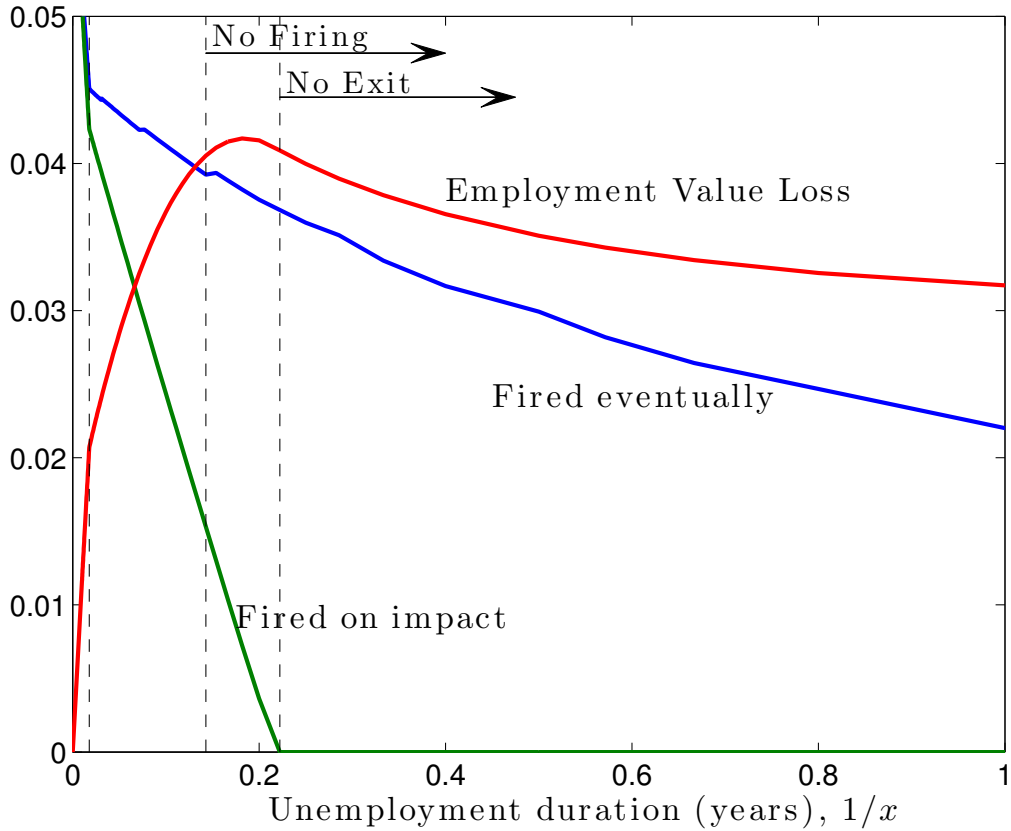

- Two counterfactual features:
  1. if search frictions are large, firms do not fire workers
  2. free entry forces firm to enter where workers are