

Lobbying, Trade, and Endogenous Misallocation (Jaedo Choi)

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114th Annual Conference on Taxation
November 17, 2021

This Paper

Questions

- ▶ How does lobbying affect the resource allocation in an economy?
- ▶ What are the effects of corporate lobbying on aggregate TFP?

Framework

- ▶ Open-economy model with heterogeneous firms & misallocation manifests in firm-specific distortions
- ▶ Melitz (2003) + Hsieh and Klenow (2009)

Main Findings

- ▶ Lobbying raises aggregate TFP in the United States
- ▶ Without lobbying, the TFP of the U.S. economy would be 4-7% lower

Mechanism

- ▶ More productive firms have higher (pre-lobbying) distortions \Rightarrow Lobbying \Rightarrow Reduction in misallocation

Lobbying and Misallocation

Two opposite views

- ▶ **Lobbying Decreases Aggregate TFP:** Resources are allocated on the basis of firms' political connections rather than productivity
- ▶ **Lobbying Increases Aggregate TFP:** With the pre-lobbying distortions, lobbying can improve the aggregate TFP (**this paper**)

More productive firms face higher pre-lobbying distortions in the U.S.

Key Object: Covariance between firm productivity and exogenous wedges driven by pre-lobbying exogenous distortions

$$\log(TFP) = \dots - \underbrace{\frac{(\sigma - 1)\sigma\theta}{(1 - \sigma\theta)^2}}_{> 0} \times Cov(\log(\phi), \log(1 - \bar{\tau}^Y))$$

Lobbying and Misallocation: A Few Comments

Pre-lobbying wedges?

- ▶ A black box
- ▶ Theoretically, they create a scope for policy
- ▶ In practice, it is notoriously difficult to identify them
- ▶ Industrial policies
- ▶ Microfoundations? Size-dependent policies (e.g., France) can be a good example

Firm size and productivity

- ▶ Firms with larger sizes tend to lobby more at both intensive and extensive margins
- ▶ In manufacturing, bigger firms have higher productivity
- ▶ Manufacturing accounts for a small share of the economy
- ▶ Size-productivity premium is significantly weaker in market services (Berlingieri, Calligaris, and Criscuolo, 2018)

Conclusions

Great paper and thought-provoking result!

- ▶ Old question, new angle, new results

Makes us to think harder about the interaction between economic efficiency and political processes

- ▶ Increase in political polarization

Scope for policy recommendations