Comments on “Dissecting the Impact of Imports from Low-Wage Countries on Inflation” by Carluccio, Gautier, Guilloux-Nefussi

CompNet Conference
June 24, 2020

Steven Yamarik†
†California State University, Long Beach, CA, USA
The authors use micro-level data to quantify the effects of imports of consumption-goods from low-wage countries (LWC) on French inflation. They first decompose consumer inflation into three channels:

- *Substitution* of LWC for domestic varieties
- *Imported inflation* from changes in shares of LWC in imports
- *Competition* from lower prices of domestic varieties
They gather data on trade flows and French household consumption for 1994-2014.

- **Product-country level imports and exports** at CN8 level
- **Household product consumption expenditures** at CN3 level
- **Import countries** are classified into *high-wage* (HWC), *low-wage* (LWC) and *very low-wage* (VLWC) based on relative real GDP per capita.
They quantify the impact of imports from VLWC / LWC on French inflation into four channels:

- *Substitution Effect* is -0.05 pp
- *Imported Inflation* is -0.06 pp
- *Competition* is -0.06 pp
- *Contribution from HWC* is ?

They quantify the impact on CPI vs. COLI inflation

- *pure price* of CPI / COLI is -0.05 pp
- *taste shift + Contribution from HWC* of COLI is -0.12 pp
French CPI inflation rate

- Potential inflation with no LWC is 1.70%
- Realized CPI inflation is 1.65%
The paper is generally well written and accessible to a non-specialist like myself.

The methodological contribution seems important but needs to be better articulated.

The empirical contribution to France also appears important.

The estimated effects, especially for CPI, seem very low and even insignificant.
The topic needs to be better motivated and put into the context of a literature.

- A discussion of the decrease in CPI inflation for developed countries, especially since 2000, is a potential motivation.
- You should discuss the literature that estimates the contribution of LWC imports on inflation in the introduction.
- You should restate your contributions. The first contribution of section 2 is methodological in that you decompose realized inflation into four channels. The second contribution of sections 3-5 is empirical in that you apply your methodology to France and calculate effects on inflation and welfare.
### Related Literatures

- Auer and Fischer [2010]
- Auer et al. [2013]
- Redding and Weinstein [2020]

**Table B: Contribution of LWC Imports to Import Price Inflation: an International Comparison**

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Impact of LWC imports on import inflation</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>1995-2005</td>
<td>-0.48 pp</td>
<td>This study</td>
</tr>
<tr>
<td>Austria</td>
<td>1995-2005</td>
<td>-0.66 pp</td>
<td>Glatzer et al. [2006]</td>
</tr>
<tr>
<td>Finland</td>
<td>1996-2005</td>
<td>-1 pp</td>
<td>Bank of Finland [2006]</td>
</tr>
<tr>
<td>Portugal</td>
<td>1998-2006</td>
<td>-0.2 pp</td>
<td>Cardoso and Esteves [2008]</td>
</tr>
<tr>
<td>United States</td>
<td>1993-2002</td>
<td>-0.8 to -1 pp</td>
<td>Kamin et al. [2006]</td>
</tr>
<tr>
<td>France</td>
<td>2000-2005</td>
<td>-0.74 pp</td>
<td>This study</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2000-2005</td>
<td>-0.7 pp</td>
<td>Mac Coille [2008]</td>
</tr>
</tbody>
</table>

Note: this table reports estimates of the contribution of LWC imports to import price inflation in different countries. These estimates are obtained using a very similar methodology presented in section 2 and correspond to our “imported inflation effect” (Channel 2). Differences in methodologies may come from the definitions of country categories and also from the level of product disaggregation. Results presented for France are calculated over two different periods (1995-2005) and (2000-2005) to facilitate cross country comparisons.
The implementation of your procedure should be clarified.

- You should start by defining CPI and COLI inflation.
- You may want to define your notation in the beginning - $j$ is variety, $i$ is tradable good, non-tradable good, $s$ is sector. $D$ is domestic, $F$ is foreign, $LWC$ is low-wage, $HWC$ is high-wage.
- I would drop eq. (4) and add eq. (3) at some aggregate level so that the reader can see which channels are being referenced.
- A brief preview of how you will use aggregate (3) to estimate the effects of LWC on inflation would be helpful. You could derive the contributions of the channels by taking derivative of aggregate (3) w.r.t. LWC to get equations (5), (7) and (9).
I only have minor suggestions and questions.

- Move Figures 1 and 2 to section 3 so that the reader knows that they are stylized facts and not actual estimates. You may also want to include graphs of actual CPI and COLI inflation.

- The further decomposition of imported inflation into imported substitution and inflation differential is confusing. If these effects are important, why not present them individually.

- Why must you estimate $\psi$ using equation (8) rather than using observed expenditure and import data like the others?

- A brief preview of how you will use (3) to estimate the effects of LWC on inflation.
Section 5

- Section 5 as it stands adds little to the main message of the paper.
  - CPI vs. COLI of section 5.2 should be moved to end of section 4.
  - The welfare implications of 5.1 are interesting but do not warrant its own section.
  - The CES vs. Cobb-Douglas Preferences of section 5.3 is awkward. You show how the preferences impact pure-price vs. taste shift estimates but your analysis in section 4 is on the four channels. It only shows that the taste shift + contribution of HWC can be higher but says nothing about the channels themselves.