

Review of “Welfare effects of Intellectual Property in a North-South model of endogenous growth with comparative advantage” by Gilles Saint Paul.

The paper deals with the short run and long run effects on growth and welfare of not enforcing Intellectual Property (IP) in less developed countries. The paper skillfully combines in a model the dynamic incentives to R+D in a model with trade based on comparative advantage. It builds a two-country model of trade with two types of goods. R+D take the form of inventing new goods and occur exclusively in the developed economy. The author focuses on the case where countries fully specialize in the type of good where they have a comparative advantage. The less-developed country always obtains a benefit from not enforcing IP in the short run (it does not pay the monopoly rents from patents to the developed country). However, this stops R+D in the good it produces. The main results are: (1) if the share of this good in consumption is high, both countries' welfare may be reduced in the long run; and (2) if consumption in the less-developed country is biased towards this good (i.e., a home bias), its non-enforcement of IP may again reduce its long run welfare.

This is an important topic in an ongoing debate, though the paper concentrates on welfare issues related to consumption diversity which is probably less attractive than other points in the debate which are related to technological innovation, productivity, and growth.

Comments:

1. The case in which the author focuses (complete specialization of both countries) requires the less-developed country to be “not too big” but “not too small” either, relative to the developed country (the author only emphasizes the first condition). Furthermore, result (1) above requires both countries spending much of their consumption in the good where the less-developed country has a comparative advantage. This further requires the less-developed country to be large as a producer and exporter, and further reduces the set of possible parameters. Since this is one of the main results, it would be convenient that the author explicitly discusses these conditions and its empirical relevance.

2. Result (2) depends on the importance of the less-developed country's consumption home-bias for goods where R+D is important. There are several reasons why this set of goods may be not quantitatively important. It would be interesting if the author can provide arguments against the following possible criticisms:

2.A. Models of product lifecycle suggest that innovation is directed towards high quality varieties that are consumed and produced in the North, whereas low-quality varieties produced and consumed in the South tend to convey little or no innovation effort. In other words, the goods with larger share (in relative terms) in the less-developed countries'

consumption tend to be in the mature phase of the product lifecycle where innovation is not important.

2.B. Differences in the composition of consumption may be more the consequence of differences in income and non-homotheticities than differences in preferences. If this is the case, the key question is whether or not the non-enforcement of IP promotes growth since, if growth is attained, the composition of consumption would be the same.

2.C. There is at least a very important exception to the argument in point B: drugs for illnesses with higher incidence in non-developed countries. In this particular issue, there is a series of papers emphasizing that the income of potential buyers of these drugs is too low to make viable a conventional approach to the problem. Since the case of drugs is in fact one of the pieces cited for the initial motivation of the paper it might be interesting to have a discussion of the issue in light of the results in the paper.

3. The non-enforcement of IP in developing countries seems to be more of a transitory policy (until the country reaches some higher stages of development) than a permanent one (an example is the US in the ninetieth century which is cited in the introduction of the paper). May this be, in fact, an optimal policy in the model in this paper? (it may be recalled that the interesting results in this paper arise only for low intertemporal discount factors, so that the long run is important).

4. In the long run, the share of workers specialized in R+D (which is assumed constant in the model) will not be constant but depend on the incentives to innovation. Hence the increase in innovation in one good as a result of the absence of IP protection in the other good may not occur (as found in the model).

5. The model is close to Gancia (2003) paper (see revised version with changes in title in 2006). The author of this paper points out that the key difference between his paper and the one by Gancia is that in the case without IP enforcement, he assumes competition in the less developed country instead of monopoly. It is unclear in which aspects and results this implies a crucial differences (in fact, Gancia argues that his qualitative results would be the same assuming perfect competition in the case of no enforcement). Hence it would be convenient to clarify and detail the arguments on this issue.