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Transatlantic Trade and Investment Partnership: another free-trade charade?

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Six years into the crisis and the world economy is still struggling to return to sustainable growth. Unemployment levels are still rising in several European countries, in particular among the young, and divergence between the countries of the Eurozone is widening further.

This latest crisis has renewed the interest on the need and importance to put forward alternative economic policies in order to reignite sustainable growth in Europe and in other parts of the world. Within this discourse new trade agreements such as TTIP have played a prominent role as an effective tool to create growth and jobs on both sides of the Atlantic.

A few studies, commissioned by the European Commission, have suggested that the effects of such a trade agreement between the US and Europe are positive for both. In particular, these studies claim that an ambitious and comprehensive trade and investment agreement could bring significant gains as a whole for the EU (119 billion euros a year) and US (95 billion euros a year). Further, these studies argue that the level change of GDP within the next 10 to 20 years would range from 0.3 to 1.6% (a one-time increase) and unemployment will be reduced by up to 0.4% over a 10-20 years period (see e.g. CEPR 2013, CEPII 2013, Bertelsmann/ifo 2013).

Although almost all conservative and some progressive policy makers have fully endorsed the alleged beneficial effects that trade agreements such as TTIP could have on growth and employment, some commentators remain highly sceptical.

This scepticism should not come as a surprise when we consider that projected future growth and employment rates are based on overly simplistic general equilibrium models with stringent and non-realistic assumptions.

TTIP and free-trade

The main discussion on TTIP to date has been formulated and embedded in the old rhetoric that free trade is a win-win proposition. This narrow approach presents two fundamental problems. First, there is no theoretical basis for the argument that free trade stimulates domestic production and employment.

According to free trade theories, trade liberalisation will increase welfare through a better allocation of production and consumption in every country. It will increase domestic competition and lower prices for consumers. It will also stimulate exports and employment as the mirror of the cheaper imports.

However, it is now widely recognised that these theories simply ignore risk, and are based on very restrictive and simplistic assumptions (see e.g. Stiglitz 2014, Deraniyagala and Fine 2001, Weeks 2014). For instance, these theories assume that economy is at full employment, so that workers displaced by globalisation would quickly move from low-productivity sectors to high-productivity ones.

Despite the accepted naivety of such theories, several models, including those used to formulate projections of potential gains from TTIP for the European Commission, are still based on these unrealistic assumptions. Indeed, several reports have now demonstrated that once these assumptions are relaxed, growth and employment gains from TTIP become dismal if not negative (see e.g. Raza et al 2014).

Overestimation of growth and employment gains from trade are not however a novelty for these types of models. In the case of the NAFTA agreement general-equilibrium models, which are also used for TTIP, estimated that GDP and employment rate would significantly increase for all the NAFTA parties. However, ex-post assessments concluded that the impact of welfare and GDP as a resutl of NAFTA for countries such as the US was negligible (Raza et al 2014).

Further, these models fail to take into account macroeconomic and social adjustment costs, such as the social cost of regulator change. Once these costs are accounted for, the benefits of such an agreement are significantly outweighed its costs.

Another cost that has not been accounted for is the costs that countries would incur if the Investor-to-State Dispute Settlement (ISDS) were included in TTIP. In this case social costs will come into two forms: governments might refrain from ratifying new regulation or change it accordingly to investor interests, for fear of being challenged under the ISDS mechanism, second, in case of litigation, governments might face high compensation costs which would have to be financed with public budgets (see Raze et al 2014, Raza and Tröster 2014, and Stephan 2014).

Thus, when all of these factors are taken into account, it becomes clear that the economic effects of TTIP are indeed very small if not negative.

TTIP and a 'managed trade' regime
Further, framing the dominant discussion on TTIP on the alleged benefits of tree trade, also implies that globalization is presented as an on-going and inexorable process of economic change. This conception of globalisation is then associated with the near perfect capital mobility and with a variety of neoliberal economic imperatives. This concept of globalization implies and assumes a world of rigorous tax competition, of an intense struggle for competitiveness secured principally on the basis of cost reductions, cuts in welfare provisions, labour market flexibility and the removal of supply-side bottlenecks. In other words, TTIP, as currently discussed, could become a tool of pursuing 'market-conforming' deregulation.

Indeed, negotiations to date have not focused on the creation of a new trade regime that puts public interests and the protection of fundamental rights first. Instead, negotiations have focused on creating a 'managed trade regime' that puts interests of corporations first.

This is particularly problematic when we consider that the focus of TTIP is predominantly on the harmonization of non-trade related issues such as financial regulations, intellectual property, and other regulation, as trade barriers between the EU and the US are very low.

It is indeed true that harmonization of regulation could benefit society at large, but only when harmonization translates into strengthening regulations to the highest standards. However, when corporations call for harmonization what they really mean is a race to the bottom towards deregulation.

For instance, Airlines for America, has already drawn up a list of regulation, such as the EU Emission Trading Scheme, that they believe imposes a substantial drag on the industry and which they hope would be removed with the introduction of TTIP. BusinessEurope, who represents European oil corporations such as BP, has asked for TTIP to ban U.S. climate initiatives such as tax credits for alternative, climate-friendly fuels (Public Citizen 2014).

How can we spearhead an employment-led recovery in Europe?
Given the very dismal growth and employment perspectives that can be secured by trade agreements such as TTIP what could then represent an inclusive and sustainable growth agenda for Europe? Since the onset of the North Atlantic crisis FEPS has strongly advocated for the need of a new economic paradigm that puts sustainable growth and the creation of quality jobs for women and men at the core. In two recent studies we have highlighted how an additional expansion of the capital of the European Investment Bank (EIB), accompanied by a better utilization of existing EU budget resources could lead to a major boost in investment in the EU. This, combined with the possibility of national government to either maintain or even increase expenditures as a percentage of GDP as part of a reflationary package, could encourage long-term growth and competitiveness, as well as contribute to stimulating aggregate demand for more rapid growth, and higher employment, especially in the European periphery countries (Cozzi and Michell 2013, and Cozzi and Griffith-Jones 2014).

Using the Cambridge-Alphametrics Model (CAM), a non-general equilbrium model wich does *not* assume that in the long-run the world economy tends towards a situation of full-employment equilibrium, we estimate that such a lending and investment plan would lead to the creation of an additional 5million jobs in the EU! This investment strategy would also lead to favourable results in terms of both government debt-to-GDP ratios and fiscal deficits.

In Europe, the main priority is to urgently move away from the detrimental austerity policies implemented so far and adopt a strong and expansionary fiscal and investment plan. Only after a serious reconsideration of such policies it will make sense to discuss the role that trade could play in boosting growth and employment in Europe.

This is not to say that trade could not be conducive of growth and employment. Rather, the way trade cooperation and agreements have been discussed to date do not represent a break away from the simplistic and narrow view that free trade on its own is a win-win situation for all.

A real progressive trade agenda would be one that would create jobs and growth, but at the same time would enhance regulation and would not increase the rights of corporations. Trade agreements such as TTIP should be people-centered, ensure state sovereignty, protect rights of workers, and ensure that the environment is protected.

It is thus of the essence that the debate on TTIP moves away from the old and false rhetoric of free trade. We should stop embedding the discourse on TTIP in the logic of free markets and embark on a serious discussion of progressive economic policies for growth and jobs. This will make the difference between creating a trans-Atlantic new deal where sustainable development and empowerment takes centre stage and an agreement where gains of trade will mainly end up in the hands of a few corporations.

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