

Transatlantic Trade and Investment Partnership (TTIP)

A critical orientation guide for the better understanding of the economic impact assessments of the Trade and Investment Agreement between the USA and the EU

The USA and the EU have been officially negotiating the creation of the worldwide largest free trade area, the so-called “Transatlantic Trade and Investment Partnership”¹ (TTIP), since summer 2013. The planned Trade and Investment Agreement shall not only cover a larger area but also broaden and deepen its content compared to previous Trade Agreements, thereby setting new liberalisation standards.

The planned Agreement between the EU and the USA raises numerous questions concerning its objectives and possible impact. Owing to the progressive negotiations, this paper addresses the following key issues in form of “frequently asked questions” (FAQ):

- 1) How does the European Commission communicate the Transatlantic Trade and Investment Partnership (TTIP)?
- 2) How is the TTIP’s economic impact calculated?
- 3) Which costs and risks are associated with the TTIP negotiations?
- 4) Would an increase of 0.5 % economic output be an effective economic stimulus plan?
- 5) What is wrong with 545 euros more per household in the EU? And who would actually benefit from it?
- 6) Can the TTIP really create more jobs?
- 7) Are there any other economic impact assessments, which favour a TTIP?

1) How does the European Commission present the Transatlantic Trade and Investment Partnership (TTIP)?

The European Commission (EC) has developed a special PR strategy for presenting the Trade and Investment Agreement between the EU and the USA, the so-called “Transatlantic Trade and Investment Partnership” (TTIP), which is aimed at directing the debate on the Agreement towards the expected economic gains of a TTIP in order to obtain the necessary approval of civil society (CEO 2013a). At the same time a hint on what the TTIP negotiations are about can be found on the ECs homepage: i.e. that the TTIP would aim at reducing (unnecessary) costs for businesses, which would lead to more wealth for all (European Commission 2013a).

Due to the fact that the average tariffs between the EU and the USA are already at a very low level, the liberalisation debate is focussing on reducing so-called non-tariff barriers (NTBs) to trade. These are various regulatory standards and quality requirements. Basically, however, the definition of NTBs remains very vague and woolly, which gives a lot of scope as regards to the definition of

¹ “Transatlantic Trade and Investment Partnership” (TTIP)

the issues negotiated (see point 2 and 3). Apart from that, the negotiations also include investment protection provisions and look on opening markets for services, investment and public procurement.

According to the European Commission, these liberalisation measures would save businesses “millions of euros”, thereby creating thousands of new jobs (European Commission 2013a). The EU’s economic output would rise by 0.5 %, thereby increasing GDP by additional 120 billion euros, which would give the average household an additional income of 545 euros p.a. (ib.). Hence, the TTIP is argued to be a trade promotion measure, which would boost the economy without increasing public spending (ib.).

In order to give the political recommendations a solid scientific foundation the Commission has prepared an impact assessment² where the data on the economic impacts of the TTIP come from (European Commission 2013b).

2) How is the TTIP’s economic impact calculated?

The TTIP’s economic impact has been calculated in various TTIP simulation studies³ based on gravity equation analyses und “Computable General Equilibrium” (CGE) models. The gravity equation analysis is used to quantify NTBs. The estimated figures are then fed into so-called CGE models. As the nature of such models determines the result from the outset, this method is at best suitable to estimate the pre-determined impact. However, looking at the different results of various TTIP simulation studies, it becomes clear that the CGE method applied is not sound yet and apart from very one-sided results also leads to very vague information (Taylor; Arnim 2006) on the extent of the impact.

In essence, NTBs in the studies mentioned here⁴, have, with the help of a so-called “gravity model” been construed as deviation from a statistically estimated average trade volume. Hence, the reduction of NTBs has by definition been given a trade and economic output increasing characteristic. This means that possible costs, which might incur by the reduction of NTBs, are categorically excluded. In other words: each form of regulation is by definition treated as a measure, which is detrimental to the economy. Moreover any further statement on the impact of the reduction of NTBs – and thereby not clarifying what actually is meant - depends on the underlying model. This leads to several shortfalls. This leads to serious shortfalls concerning the reliability of the impact assessments:

² The impact assessment of the EC refers to two commissioned studies, each of the “independent” studies with significant contributions by Joseph Francois (CEPR 2013; ECORYS 2009).

³ There are further simulation studies apart from the EC studies, which favour a TTIP (see point 7).

⁴ CEPR (2013): Reducing Transatlantic Barriers to Trade and Investment and ECORYS (2009): Non-Tariff Measures in EU-US Trade and Investment

Firstly, it is possible to arbitrarily determine how NTBs are to be interpreted in the political debate. As the quantification of NTBs is based on limited datasets (ECORYS 2009b) the definition of NTBs remains vague. This enables those players, who can characterise the contents of TTIP negotiations, independent of the validity of the CGE models, to read all their aspirations into the definition of NTB. Hence, the ambiguous and broad definition of NTBs renders the studies an unsuitable instrument to give political recommendations a solid scientific foundation.

Secondly, the model, which is used to argue the impact of cost reduction - hence the decrease of NTBs -, is a static and focuses purely on the supply side. This does not adequately depict economic reality. In the argumentation of the TTIP studies mentioned above, the reduction of market access hurdles leads to lower prices for businesses, to more competition due to lower market access costs, to higher productivity and thus to real wealth effects for consumers and entrepreneurs, which par for par would lead to greater demand. However, this argumentation is based on the assumption of rational and representative agents, whose activities in free markets automatically lead to an optimal equilibrium. If this result was true there would be neither unemployment, nor would it be possible that rational agents on financial markets would miscalculate. Hence, the current recession in the European Union cannot be explained, meaning that the studies mentioned above, are hardly able to credibly assess the impact of a TTIP in the prevalent situation.

Thirdly, realistic assessments of European trade structures point to the dominant role of both single market and domestic demand, which has not been able to recover in all countries since the outbreak of the crisis. Instead of focussing on strengthening domestic demand, the US as well as export orientated countries in the EU concentrated on intensifying trade relations with China, East and South Asia and Mexico (Stephan, Löbbing 2013; Behringer, Kowall 2013). As a result, both the EU and the USA were able to benefit from the rising demand for goods by these countries (Stephan; Löbbing 2013; Behringer; Kowall 2013). Due to the fact that intra-EU trade plays the largest role as regards to Europe's trade flows, the unsolved problem of the crisis-induced slump of domestic demand, of growing structural trade imbalances as well as of aggravating this situation by the current austerity measures (Stephan; Löbbing 2013; EUROMEMO 2013) cannot be solved by liberalising transatlantic trade relations.

That trade promoting measures could result in more economic income, is not called into question. However, the question has to be asked how this additional income will be distributed and used (Bivens 2007) and who will have to bear the economic, social and environmental costs. But neither the vague definition of NTBs nor the postulated one-sided view of economic mechanisms in the TTIP studies show that the free trade negotiations adopt measures, which could actually result in a social and environmentally compatible increase of economic income.

3) Which costs and risks are associated with the TTIP negotiations?

Whilst the European Commission makes an effort to steer the debate towards possible benefits of a TTIP, the risks associated with the Agreement cannot be overlooked. Even though negotiations are mainly held behind closed doors, enough information is getting through to vehemently criticise

the key contents of the TTIP, to show the dangers for achievements of the welfare state and to illustrate how democratic decision-making mechanisms are undermined through the backdoor.

Due to the broad definition of NTBs, the negotiations also include debates on the liberalisation of areas of public interest, such as services in the health-, finance-, transport- sector or employment insurance (Scherrer; McGuire; Beck 2013); hence, predominantly areas of general interest, which could be hardly promoted during recent liberalisation efforts within the scope of the WTO negotiations - not least because of the opposition of trade unions and civil society. That 93 % of meetings with stakeholders during negotiation preparations of the European Commission included lobbyists of major concerns (CEO 2013b), reflects the undemocratic character (Wallach 2013) of the negotiations.

Apart from that, the Agreement is to include a chapter on investment protection. This shall contain exclusive rights for investors, enabling them to sue states if they see their expected profits reduced by measures such as minimum wages, environmental standards and so forth. The IMK researcher Sabine Stephan regards this as a way to undermine labour, social, consumer and environmental standards (Stephan 2013).

In view of the costs and risks associated with the TTIP, it does not come as a surprise that its supporters try to focus the debate on the positive effects of a TTIP. Nevertheless it is necessary to ask the question, in how far these are in relation to possible negative effects.

4) Would an increase of 0.5 % economic output be an effective economic stimulus plan?

The 0.5 % higher economic output is based on the assumption that 50 % of all the politically influenceable NTBs can actually be done away with. However, due to the broad definition of NTBs this is a very unrealistic scenario (George 2013). In addition, the value only represents a one-off increase of the economic output within a ten-year period. Hence, as regards the still very optimistic "less ambitious scenario" the CEPR Study of the European Commission forecasts an annual economic growth of 0.02 percentage points for the one-off period of 10 years.

In the CEPR Study commissioned by the EC, the authors calculated in the event of an "ambitious scenario" a rise in economic output by 0.5 percentage points. This is based on an assumption of a reduction of the still existing tariffs by 100 %, a reduction of all NTBs by 25 % as well as an expansion of public procurement by 50 %. The figure of 25 % of all NTBs is misleading, as they only refer to those measures, which can be influenced by political decisions (DeVille; Siles-Brügge 2013). Hence, the "ambitious scenario" is based on the unrealistic case that 50 % of all politically reducible NTBs will be removed.

With regard to the still very optimistic case of a “less ambitious” Agreement - reducing tariffs by 98 %, all NTBs by 10 % and opening the market for public procurement by 25 % - the authors only calculate a rise of GDP by 0.27 percentage points over a 10-year period (CEPR 2013:46).

Due to the fact that the studies are static models where a basis scenario is compared with a “TTIP scenario”, these figures do not represent growth figures but the difference of economic output after a period of 10 years. Hence, 0.27 percentage points would be equivalent to a linear annual economic growth of 0.027 percentage points within a one-off 10-year period.

This cannot be distinguished from a statistical measuring error. In other words it hardly can be expected to be a sufficient economic stimulus plan. An effective economic stimulus plan would have to actively tackle the structural imbalances within the EU, which strengthen domestic demand and put an end to the current recessive austerity policy (EUROMEMO 2013).

5) What is wrong with 545 euros more per household in the EU? And who would actually benefit from it?

If one calculates the additional per capita income with the still very optimistic 0.027 percentage points of annual growth, what remains is little more than one euro per month and capita - for the one-off 10-year period. Even this is only true if one bases the calculation on the unrealistic assumption that the additional income generated by the TTIP is distributed equally.

The 545 euros more per household mentioned by the EC (European Commission 2013a) do not present a pay rise, but first and foremost an expanded market share, which has to be covered by an increase in production. The studies of Bertelsmann-Stiftung, IFO Institute and European Commission (CEPR 2013; Francois; Pindyuk 2013; IFO 2013; Bertelsmann 2013) basically work on the assumption that reducing the costs for businesses results in more competition on the markets resulting in an increase of productivity as less competitive businesses would be forced to exit the market. Hence, it is expected that more can be produced and automatically also sold if the TTIP was implemented. However, if one looks at the distribution of income within the European Union, it is not possible to maintain the claim that the expected higher sales would equally flow into the income of the productive forces, let alone on average be distributed among all EU households. Yet, the studies criticised assume this without any further clarification.

Basically, the methods applied in the studies can hardly shed a light on distribution effects. The studies work on the basis of disaggregated business data, which enables the authors to model sectoral shifts. Hence, information on shifts of the production volume among different sectors can be drawn. However, due to the model assumptions it is not possible to provide details regarding the distribution of income among agents or households.

6) Can the TTIP really create more jobs?

Even though the European Commission stands by its claim the TTIP would create millions of new jobs, it nevertheless admits in a paper to explain the studies that the commissioned studies are not able to provide information on employment effects (European Commission 2013c:2). The statement concerning "millions of newly created jobs" was based on the Commission's own unpublished calculations (ib.), which was therefore beyond any scientific verifiability.

The situation is different as regards the studies of Bertelsmann-Stiftung and IFO Institute as well as in respect of the case study for Austria. These declare they were indeed able to provide details on employment.

In the case study for Austria, Francois and Pindyuk forecast an increase in employment by 0.6 % (Francois; Pindyuk 2013a). This employment growth is attributed to an immense job increase in the automobile sector (about 9 %), whilst according to the study the timber, paper, chemical and transport vehicle industry would see job losses of up to 1.8 % (compare Francois; Pindyuk 2013a:16f.). However, the study does not go into detail how these figures came about; it seems to have been derived from the expected branch-specific changes in production levels. However, even if one would assume that the model would be suitable to make qualified statements in respect of the labour market, this concerns an annual job increase of 0.06 % for a 10-year period (Francois, Pindyuk 2013b). Whether this is sufficient to compensate the costs incurred by job shifting is as questionable as the assumed mobility of labour.

The Bertelsmann and IFO study (IFO 2013, Bertelsmann 2013) forecast an increase of economic output by about 5 % for the EU average and derive from that the creation of 400,000 new jobs over a 15-year period. This would hardly be sufficient to reduce the mass unemployment in the EU.

Methodologically, the authors assume (temporarily) search unemployment and explain unemployment on the basis of costs, which employees and employers incur. Institutional structures which mediate between labour supply and demand (for example the Hartz IV in Germany) have been attributed a cost-reducing role. Unemployment in this model is a question of job placement, but not a structural phenomenon of an economic system. In view of the fact that the models mentioned above do little to explain the unemployment rate in the European Union, not only since the outbreak of the crisis, the models mentioned above are hardly suitable to make qualified statements on the effects of employment.

7) Are there any other economic impact assessments, which favour a TTIP?

Apart from the Commission's study, there is a comparable case study for Austria and two further studies by both Bertelsmann-Stiftung and IFO Institute. All studies named, simulate the impact of a TTIP, applying the same assumptions, according to which a reduction of NTBs results in more trade and higher economic output by various channels. Hence, they mainly distinguish themselves in

quantitative terms; however by a non-negligible factor of 10. Costs, risks and other possible negative effects remain categorically excluded also in these simulations.

In 2013, Joseph Francois, in cooperation with Olga Pindyuk, published a case study for Austria.⁵ With regard to content and method it is not significantly different from the studies commissioned by the EC. However, the authors forecast that with regard to Austria the TTIP would have a stronger economic impact. Based on the assumption that 50 % of all NTBs will be abolished, the study arrives at an increase in economic output by 2 percentage points over a 10-year period. However, it has to be mentioned at this point that 50 % of all assessed NTBs 100% equal politically influenceable NTBs. Based on the method to assess NTBs, the term also subsumes factors such as consumption patterns, which are beyond political regulation. Applying the rule of the thumb, the authors therefore estimate that about 50 % of assessed NTBs are in fact politically influenceable (Francois; Pindyuk 2013). Abolishing half of all NTBs would therefore mean abolishing all politically influenceable NTBs in both countries, which, however, could not be politically implemented. Hence, the 2 percentage points have to be significantly revised downwards.

Under the direction of Gabriel Felbermayer, two further studies of Bertelsmann-Stiftung⁶ and IFO Institute⁷ were published in 2013. Even though the same method had been applied, the authors calculated exorbitant higher effects. Hence, they forecast a growth of economic output by almost 5 percentage points on EU average and about 13.4 percentage points for the USA. In doing so, the studies deviate by a factor of 10 from the EC studies. According to the authors, this difference would result from the quantification of NTBs (Bertelsmann 2013:11), hence the construction and measurement of NTBs. Thus, the metaphysical construction of NTBs and their effects on economic, social and ecological systems is a key for evaluating the studies and once again points towards the arbitrariness of the subjects to be negotiated.

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December 2013

⁵ Francois, Joseph; Pindyuk, Olga (2013): Modelling the Effects of Free Trade Agreements between the EU and Canada, USA and Moldova/Georgia/Armenia on the Austrian Economy: Model Simulations for Trade Policy Analysis. FIW Research Reports 2012/13 No. 03

⁶ Bertelsmann (2013): The Transatlantische Trade and Investment Partnership (TTIP). Who benefits from a Transatlantic Free Trade Agreements?

⁷ IFO (2013): Dimensions and Impact of a Free Trade Agreement between the EU and the USA. IFO-Institute, Leibniz

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