The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability

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Executive Summary

The European Union and the United States are currently negotiating the Trans-Atlantic Trade and Investment Partnership (TTIP), a major trade agreement intended to further integrate their economies.

As is common for trade agreements, TTIP negotiations have been accompanied by a series of econometric studies projecting net economic gains for all countries involved. In the EU, advocates have pointed to four main studies mostly projecting small and deferred net benefits alongside a gradual substitution of intra-EU trade with Trans-Atlantic trade. This leads the European Commission, TTIP's main advocate in Europe, into a paradox: its proposed policy reform would favor economic dis-integration in the EU.

TTIP might also lead to other serious consequences for the EU and its members. Recent literature has shown that the main studies of TTIP do not provide a reliable basis for policy decisions as they rely heavily on an unsuitable economic model.

We offer an assessment of TTIP based on a different model and more plausible assumptions on economic adjustment and policy trends. Using the United Nations Global Policy Model we simulate the impact of TTIP on the global economy in a context of protracted austerity and low growth especially in the EU and US.

Our results differ dramatically from existing assessments. We find that:

- TTIP would lead to net *losses in terms of net exports* after a decade, compared to the baseline "no-TTIP" scenario. Northern European Economies would suffer the largest losses (2.07% of GDP) followed by France (1.9%), Germany (1.14%) and United Kingdom (0.95%).
- TTIP would lead to *net losses in terms of GDP*. Consistently with figures for net exports, Northern European Economies would suffer the largest GDP reduction (-0.50%) followed by France (-0.48%) and Germany (-0.29%).
- TTIP would lead to a *loss of labor income*. France would be the worst hit with a loss of 5,500 Euros per worker, followed by Northern European Countries (-4,800 Euros per worker), United Kingdom (-4,200 Euros per worker) and Germany (-3,400 Euros per worker).
- TTIP would lead to *job losses*. We calculate that approximately 600,000 jobs would be lost in the EU. Northern European countries would be the most affected (-223,000 jobs), followed by Germany (-134,000 jobs), France (- 130,000 jobs) and Southern European countries (-90,000).
- TTIP would lead to a *reduction of the labor share* of GDP reinforcing a trend that has contribute to the current stagnation. The flipside of this decrease is an increase in the share of

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profits and rents in total income, indicating that proportionally there would be a transfer of income from labor to capital. The largest transfers will take place in UK (7% of GDP transferred from labor to profit income), France (8%), Germany and Northern Europe (4%).

- TTIP would lead to a *loss of government revenue*. The surplus of indirect taxes (such as sales taxes or value-added taxes) over subsidies will decrease in all EU countries, with France suffering the largest loss (0.64% of GDP). Government deficits would also increase as a percentage of GDP in every EU country, pushing public finances closer or beyond the Maastricht limits.
- TTIP would lead to higher financial instability and accumulation of imbalances. With export revenues, wage shares and government revenues decreasing, demand would have to be sustained by profits and investment. But with flagging consumption growth, profits cannot be expected to come from growing sales. A more realistic assumption is that profits and investment (mostly in financial assets) will be sustained by growing asset prices. The potential for macroeconomic instability of this growth strategy is well known.

Our projections point to bleak prospects for EU policymakers. Faced with higher vulnerability to any crises coming from the US and unable to coordinate a fiscal expansion, they would be left with few options to stimulate the economy: favoring an increase of private lending, with the risk of fueling financial imbalances, seeking competitive devaluations or a combination of the two.

We draw two general conclusions. First, as suggested in recent literature, existing assessments of TTIP do not offer a suitable basis for important trade reforms. Indeed, when a well-reputed but different model is used, results change dramatically. Second, seeking a higher trade volume is not a sustainable growth strategy for the EU. In the current context of austerity, high unemployment and low growth, increasing the pressure on labor incomes would further harm economic activity. Our results suggest that any viable strategy to rekindle economic growth in Europe would have to build on a strong policy effort in support of labor incomes.