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EUROPEAN DISINTEGRATION, UNEMPLOYMENT AND INSTABILITY

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. Yet, is it the right strategy for bringing back growth to Europe?

by Jeronim Capaldo

As is common for trade agreements, TTIP negotiations have been accompanied by a series of econometric studies contemplating net economic gains for all countries involved. In the EU, advocates have pointed to several studies mostly predicting small benefits in terms of GDP (less than 1 percent after fifteen years) and per capita income (545 per household, after more than a decade, in an often cited case). These studies also forecast a gradual substitution of intra-EU trade with Trans-Atlantic trade leading the European Commission, one of the TTIP's main advocates, into a paradox: although its mandate focuses on pursuing closer economic integration among member states its trade policy would favor economic disintegration in the EU.

The TTIP might also lead to other serious consequences for the EU and its members. As critical reviews have shown, the main studies of TTIP resort to economic models based on two assumptions that are hard to justify in today's context. The first is that harmonizing regulations necessarily leads to gainful trade expansion. In fact, stronger competition with the US might lead to a lower trade balance for the EU, even if the total volume of trade increases. The second assumption is that no change in trade can possibly affect employment because, if any sector loses to international competition, wages and social protection benefits can be cut enough to keep every worker employed. Clearly, this does not reflect the reality of the EU where many countries have been struggling with persistently high unemployment while social protection systems have contained the fall of economic activity and avoided widespread social disaster.

To see how the projected benefits of the TTIP change when both assumptions are dropped, we conducted an alternative assessment using the United Nations Global Policy Model (GPM), which is based on a more plausible view of potential trade expansion and economic adjustment. The GPM assumes that a fall of demand leads to higher unemployment as businesses deal with lower sales by dismissing workers.

Our results (see table 1) differ dramatically from those of previous assessments. For Europe we find that:

- The TTIP would lead to 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%).

- The treaty 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%).

- It would also 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).

- The TTIP would lead to job losses. We calculate that approximately 600,000 jobs would be lost in the EU. Northern

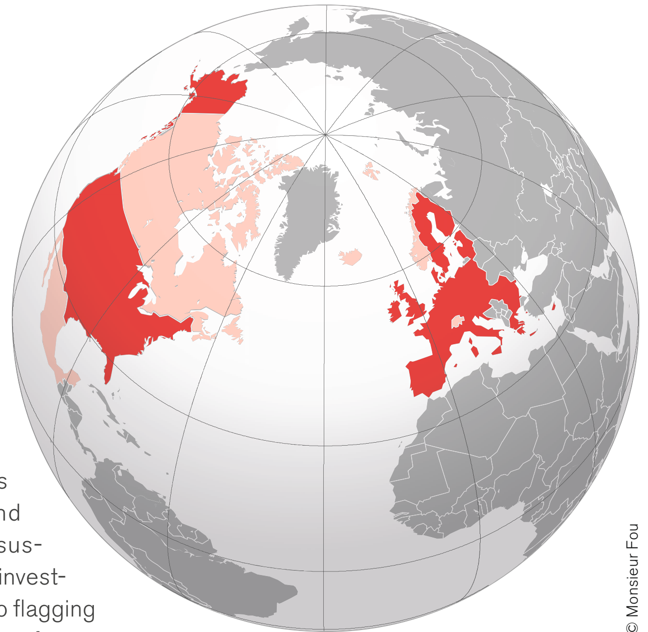
“THE MAIN ASSESSMENTS OF THE TTIP **DO NOT OFFER A SUITABLE BASIS** FOR TRADE POLICY.”

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).

- It would lead to a reduction of the labor share of GDP reinforcing a trend that has contributed to the current stagnation (Figure 1). The flipside of this decrease is an increase in the share of 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 the UK (up to 7% of GDP transferred from labor to profit income), France (8%), Germany and Northern Europe (4%).

- The 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.

- This treaty 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. However, due to 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.



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TTIP countries (dark red) plus NAFTA and EFTA countries (light red).

Our projections point to bleak prospects for EU policymakers. Facing a 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, the main assessments of the TTIP do not offer a suitable basis for trade policy. Indeed, when a more realistic 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. This includes strengthening social protection systems and their ability to stabilize aggregate demand.

ABOUT

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TTIP'S LONG-TERM EFFECTS

	NET EXPORTS	GDP GROWTH	EMPLOYMENT	EMPL. INCOME	NET TAXES	DEPEND. RATIO
UNITS	% GDP	Diff between %	Units	EUR/employee	% GDP	Diff between %
US	1.02	0.36	784,000	699	0.00	-0.97
UNITED KINGDOM	-0.95	-0.07	-3,000	-4245	-0.39	0.01
GERMANY	-1.14	-0.29	-134,000	-3402	-0.28	0.75
FRANCE	-1.90	-0.48	-130,000	-5518	-0.64	1.31
ITALY	-0.36	-0.03	-3,000	-661	0.00	0.02
OTHER NORTHERN EUROPE	-2.07	-0.50	-223,000	-4848	-0.34	1.33
OTHER SOUTHERN EUROPE	-0.70	-0.21	-90,000	-165	-0.01	0.33
EU TOTAL			**-583,000**			

(Own calculations based on United Nations Global Policy Model. Figures are simulated gains and losses for 2025. Net Taxes are indirect taxes minus subsidies. Dependency Ratio is defined as ratio of total population to employed population.)

INCOME FROM EMPLOYMENT AS % OF GDP