



Testimony regarding the 2016 Draft Trade Policy Assessment
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September 15, 2016

Please accept the following testimony on the 2016 Maine Trade Policy Assessment. The draft Assessment reviews five studies containing projections of the Trans-Pacific Partnership's (TPP) economic effects. These include the study by Jeronim Capaldo, Alex Izurieta, and Jomo Kwame Sundaram (2016) published by the Global Development and Environment Institute at Tufts University under my direction. It is often referred to in the media as the "Tufts study".

The authors of the Assessment criticize the Tufts study for having "serious methodological flaws" and for not fully disclosing the underlying calculations. They also point out that the study has no connection with Tufts University's Economics Department. Unfortunately, the authors of the Assessment offer little detail to substantiate their critiques and provide a selective bibliography that includes similar critiques of Capaldo and Izurieta's study but excludes their published responses to those critiques. In particular, Capaldo and Izurieta have written relevant responses to analyses by the Government of New Zealand¹, economists from think tanks and universities including the Peterson Institute² for International Economics and Harvard University, and the Congressional Research Service³. The assessment also does not mention the praise of Capaldo and Izurieta's analysis of TPP by Nobel Laureate Joseph Stiglitz⁴.

In dismissing Capaldo and Izurieta's study, the authors briefly mention three substantive points: their own view that the model used is only appropriate for the short-term; the fact that Capaldo and Izurieta assume TPP to facilitate fiscal austerity leading to worse outcomes; the fact that Capaldo and Izurieta assume unemployed workers to remain unemployed for a long time. However, the authors of the Assessment fail to cite the many commentaries published by Capaldo and Izurieta in response to similar questions over the past two years. In these commentaries Capaldo and Izurieta have explained why their model is in fact appropriate to analyze long-term effects and clarified the reasons for their assumptions on austerity and unemployment.

Based on Capaldo and Izurieta's writing (available on GDAE's website) the reasons for their assumptions are straightforward. Their reading of recent history is that liberalization forces many governments to reduce deficits in the hope of attracting foreign investment. At the same time, Capaldo and Izurieta reject the assumption that full employment naturally establishes itself – an assumption extraordinarily frequent in analyses of trade liberalization and common to the other four studies reviewed in the Assessment. By contrast, Capaldo and Izurieta assume that during

¹ See A. Izurieta, *Reply to the Commentary by the New Zealand Ministry of Foreign Affairs and Trade*, GDAE Globalization Commentary, March 2016:

<http://www.ase.tufts.edu/gdae/Pubs/rp/IzurietaTPPNewZealandMar2016.pdf>

² See J. Capaldo and A. Izurieta, *Modeling TPP: A Response to Robert Z. Lawrence*, GDAE Globalization Commentary, February 3, 2016: <http://ase.tufts.edu/gdae/Pubs/rp/GC96Feb16CapaldoIzurieta.pdf>

³ Forthcoming in GDAE's Globalization Commentary

⁴ <https://www.youtube.com/watch?v=kTmA2rKXZ8Y&feature=youtu.be&t=29m40s>

economic downturns firms lay off workers, rather than renegotiating their salaries, and that laid off workers do not easily find jobs in expanding industries.

It seems only appropriate for a study that analyzes the economic effects of TPP to not rule out unemployment by assumption. Yet the other studies reviewed in the Assessment do just that. They also rule out any worsening of inequality and increases in the trade deficit, all phenomena that have been associated with past trade agreements and about which many citizens are legitimately concerned. These unrealistic assumptions strongly bias projections in favor of liberalization projects such as TPP. However, these shortcomings and their impacts on projected outcomes are not analyzed in the Assessment. Neither does the Assessment clearly point out that all reviewed studies, except Capaldo and Izurieta (2016), use the same economic model, whose assumptions virtually guarantee pro-liberalization outcomes.

If the Assessment's bias does not emerge from its misleading review of Capaldo and Izurieta's assumptions, it shows clearly in the remark that Capaldo and Izurieta do not disclose their calculations fully. To be sure, this is true: Capaldo and Izurieta do not disclose their computer code and other details of their projections. But neither do the authors of any of the other studies reviewed in the Assessment. In published commentaries, Capaldo and Izurieta explain why they choose to abide by the disclosure standard of international organizations, for a model housed at a UN agency, and withhold their computer code. Disturbingly, these commentaries are not mentioned or considered in the Assessment⁵.

Finally, despite the biased review it provides, one statement made in the Assessment is indisputably true: there is no connection between Capaldo and Izurieta's (2016) study and Tufts' Economics Department. The study has been produced as part of a research program at Tufts University's Global Development and Environment Institute (GDAE), affiliated with the Fletcher School of Law and Diplomacy and the Graduate School of Arts and Sciences. Capaldo is a GDAE Research Fellow. Thanks to a research collaboration with the United Nations Conference on Trade and Development, GDAE has contributed to developing the United Nations Global Policy Model (GPM) since 2014. This research has so far led to three analyses of the economic effects of modern-day trade agreements: a study of the Trans-Atlantic Trade and Investment Partnership (TTIP), the study on TPP and a forthcoming study of the EU-Canada Comprehensive Economic and Trade Agreement (CETA).

As is customary in academic research, all three studies have been initially published as GDAE Working Papers. Subsequently, the study of TTIP, the first in the series, has been published in a peer-reviewed journal⁶ while the study on TPP has been submitted to a journal and has received a favorable first review. The study on CETA will be released as a working paper this month and it will subsequently be submitted to a journal.

Based on these facts, the opinion expressed in the Assessment that Capaldo and Izurieta's (2016) TPP study would not pass a peer review seems off the mark. The Maine Citizen Trade Policy Commission should continue to take the findings seriously if it is concerned with possible TPP impacts on unemployment and inequality, which other studies exclude by assumption.

⁵ See J. Capaldo, *Overcooked Free-Trade Dogmas in the Debate on TTIP*, GDAE Globalization Commentaries, May 3, 2016: http://www.ase.tufts.edu/gdae/Pubs/rp/CapaldoTTIP_Rejoinder.pdf

⁶ See J. Capaldo, "The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability", *Economia & Lavoro*, n. 2, 2015.