Trans-Pacific Partnership (TPP) Fact Sheet

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What's in the TPP?

The TPP is a multinational trade agreement with the stated purpose of deepening economic ties between nations, cutting tariffs, and fostering trade to boost growth between countries. Nations within the TPP include: the United States, Japan, Vietnam, Malaysia, Brunei, Singapore, Australia, New Zealand, Mexico, Canada, Peru, and Chile.

Are Agreements like the TPP Really "Free" Trade?

When talking about free trade agreements, it is easy to forget that they don't apply to all goods, services, or even people. In fact, the trade agreements the U.S. has signed can be very **protectionist**. For example, these trade agreements have left in place protections for highly educated and highly paid workers like doctors and lawyers ensuring that their wages will not be reduced as a result of international competition. These deals have also increased protection for some industries by increasing the strength and length of patent and copyright protection.

There is a substantial amount of money at stake with these protections. In the case of pharmaceuticals alone we currently **spend more** than $420 billion a year (over 2 percent of GDP) on drugs that would likely cost about one-tenth this amount in a free market. As a result of these protections, drugs which would be cheap in a free market can be priced out of the reach of tens of millions of people in the developing world. By contrast, low- to middle-wage workers in the U.S. are forced to compete with low-paid workers in the developing world.

The Main Problems with the TPP

Stronger patents and copyrights drive up prices. For example, the **patent protected version of the Hepatitis-C** drug Sovaldi sells for $84,000 for a treatment in the U.S. A high quality generic version is sold in India for less than $1,000. This gap implies that the patent would have the same effect in creating distortions as a 9,000 percent tariff. Because the TPP would strengthen such protections, we can assume that the resulting distortions would increase.

A main goal of the TPP is to impose U.S-type patent and copyright protections on developing countries. The U.S. spends 2.2 percent of GDP a year on prescriptions. Developing countries will not spend this much out of the gate under the TPP, but the pact is a step in that direction.

Corporations can bypass the domestic legal system. Under the TPP, **foreign corporations can sue** the U.S. government, bypassing the domestic legal system. This is the purpose of the **Investor-State Dispute Settlement (ISDS) mechanism**, which is an extra-judicial process that is open exclusively to foreign investors. Under this process, foreign investors — including foreign subsidiaries of U.S. corporations — can challenge any law at the federal, state, or local level. These tribunals can impose substantial penalties for regulations designed to protect labor, environment, or public health and safety.

Digging into what this really means:

- ➔ When a foreign subsidiary sues the U.S. government, the suit is not bound by precedent, which is significant given that any domestic suit is bound by precedent under U.S. law.
- ➔ If a foreign subsidiary challenges a regulation or law and they win, the law itself doesn't get repealed; rather the government that has imposed the law or regulation would have to pay the private company a penalty.
- ➔ In addition, there are no appeals. Having the opportunity to appeal a ruling is standard in U.S. law, but in this case, there is no channel in which to appeal a rule. When a foreign subsidiary files the initial challenge to a law or regulation, the industry and the U.S. government each appoint one judge, and they jointly appoint the third judge. This system does not account for the fact that judges themselves, no matter who appoints them, have quirks and can be eccentric; this is why the U.S. has a process of appeal, so that a judge's beliefs and biases don't get in the way of a fair ruling. Under the TPP, it is a "one-shot deal."

The TPP imposes an extreme doctrine of Regulatory Taking. This means that anytime the government reduces the value of property or anticipated profits through regulation, the owners of that property can be compensated for the reduction in profits experienced. This means that under the TPP, the government would be paying foreign investors. This practice has never been allowed in the U.S., so it's unclear as to why it's included now.

The economic models used as a basis for TPP projections are wildly inaccurate. The economic models used to measure the winners and losers of trade agreements such as KORUS and NAFTA have **been wildly inaccurate**. Any analyses of the TPP incorporating these models should not be used as a basis of support because the models are not credible. It is also worth noting that the gains from the TPP projected in the most recent USITC report were very low.

If the Federal Reserve implemented even moderately stimulative monetary policy, we would gain far output and employment that we would from the TPP based on the USITC projections. The **USITC projected** that the TPP would increase the annual growth rate by just over 0.01 percentage points. If the Federal Reserve took actions to **lower unemployment**, a sustained 0.5 percentage point reduction in the unemployment rate would lead to a cumulative gain of $3.37 trillion over the next decade. By contrast, the USITC projection implies that the gain from the TPP over this period would be $331 billion. Clearly, there is far more to be gained if we can sustain a lower level of unemployment than we can possibly hope to gain from the TPP.

It disproportionately hurts low- to middle-income earners, and helps highly educated, high-income workers. Trade agreements, such as the TPP, tend to protect highly educated workers. For example, doctors and lawyers in different countries are not forced to compete with one another for work, as less educated workers and typically, manufacturer workers, are forced to compete internationally. This depresses their pay because workers in developing countries will work for far lower wages.