

Further comments on the claimed benefits of TTIP

Sabine Stephan, Macroeconomic Policy Institute

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Claimed benefits of TTIP:

- For the public debate on TTIP, a few studies set the tone, suggesting that economic effects of a comprehensive free trade agreement are positive.
- Most of these studies are based on CGE (computable general equilibrium) models.

Shortcomings of CGE models

- Key assumptions of CGE models are i.a.
 - Full employment of factors including labour
 - Price clearing markets
 - Constant government deficit
- These studies can not assess the effects of trade policy changes on aggregate employment or governm't budget!
- Serious flaw, especially at the present situation!

Ifo studies

- Ifo Institute published two studies:
 - Federal Ministry for Economic Affairs and Energy
 - Bertelsmann Foundation
- Methodologies applied differ substantially from the other studies (Ecorys (2009), CEPR (2013), CEPII (2013)) in order to remedy problems/shortcomings of these studies.

- Key assumption: Reduction in non-tariff barriers (NTB) will reduce trade costs.
- By how much? → Quantifying the cost saving effect is a serious problem!

„Solution“ suggested by Ifo:

- US and EU member countries have signed plenty of free trade agreements in the past.
- By how much have trade flows between participating countries increased due to these agreements?
- Structural equation (gravity model) is used to estimate trade creation effect

Ifo studies

- If trade creation effect is determined
 - plugged into the model, i.e. trade costs are reduced until the model simulates exactly the previously estimated increase in trade flows
 - the cost saving effect of a reduction in NTBs is *implicitly* determined

Ifo studies

- At a first glance, this is a smart approach, because it circumvents the necessity to quantify the cost saving effects of a reduction in NTBs.
- At a second glance, it is rather strange, because the determination of the increase in trade flows should be the outcome of the studies and not their starting point.

Ifo studies

- Data set includes very different FTAs (goods; services; goods & services; only tariffs; comprehensive agreements; FTA with developing countries or industrial countries; very different time periods, ...)
- Is it reasonable to extrapolate from heterogeneous past agreements to today's situation between EU and US?

Ifo studies

- Unclear, where empirically measured trade creation effects come from (reduction of tariffs and NTBs or other trade stimulating effects (i.e. EU integration,...)).
- Trade creation effect is about 80 % (!) on average!

- Although the trade creation effect due to TTIP is huge, the corresponding increase in GDP per capita is very small.

ifo studies

	long-run effect after transition period of 15 years	
	increase in GDP per capita (total)	additional increase per annum (on average)
	in %	percentage points
EU26	1.67	0.11
USA	2.15	0.14
GER	1.60	0.11

Source: Table III.12, p.97

Ifo studies

- Both ifo studies report the same GDP effects, but completely different effects with regard to changes in employment. Why?
- Different approaches to model the labour market

Ifo studies

Improvements of ifo/BMWI study compared to other studies:

- more sophisticated model that includes
 - a New Keynesian labour market (search unemployment) and
 - Firms differ with regard to productivity → Melitz model

Ifo studies

- ifo/BMWI: firm heterogeneity (Melitz model) → results are driven by reallocation, i.e. there are job losses in shrinking branches and gains in expanding branches. The aggregate employment effect is the balance of both effects.
- ifo/Bertelsmann: no reallocation! Gains in employment in prosperous branches are counted as gains in aggregate employment.

Ifo studies: employment effects

ifo/BMWI study

	long-run effect after transition period of 15 years	additional jobs (per annum)
	additional jobs (total)	
EU26*	98 910	6 594
USA	68 790	4 586
DE	25 220	1 681

* DE not included

Source: Table III.13, p. 100

ifo/Bertelsmann study

	long-run effect after transition period of 15 years	additional jobs (per annum)
	additional jobs (total)	
EU17*	1 166 000	77 733
USA	1 085 501	72 367
DE	181 092	12 073
OECD	2 043 178	136 212

* own calculation based on figures for 17 EU member countries;

DE not included since figures for DE are displayed separately.

Source: Table 11, p. 41

Employment (2012):

EU26: 180.9 Mio

DE: 41.6 Mio

USA: 142.4 Mio

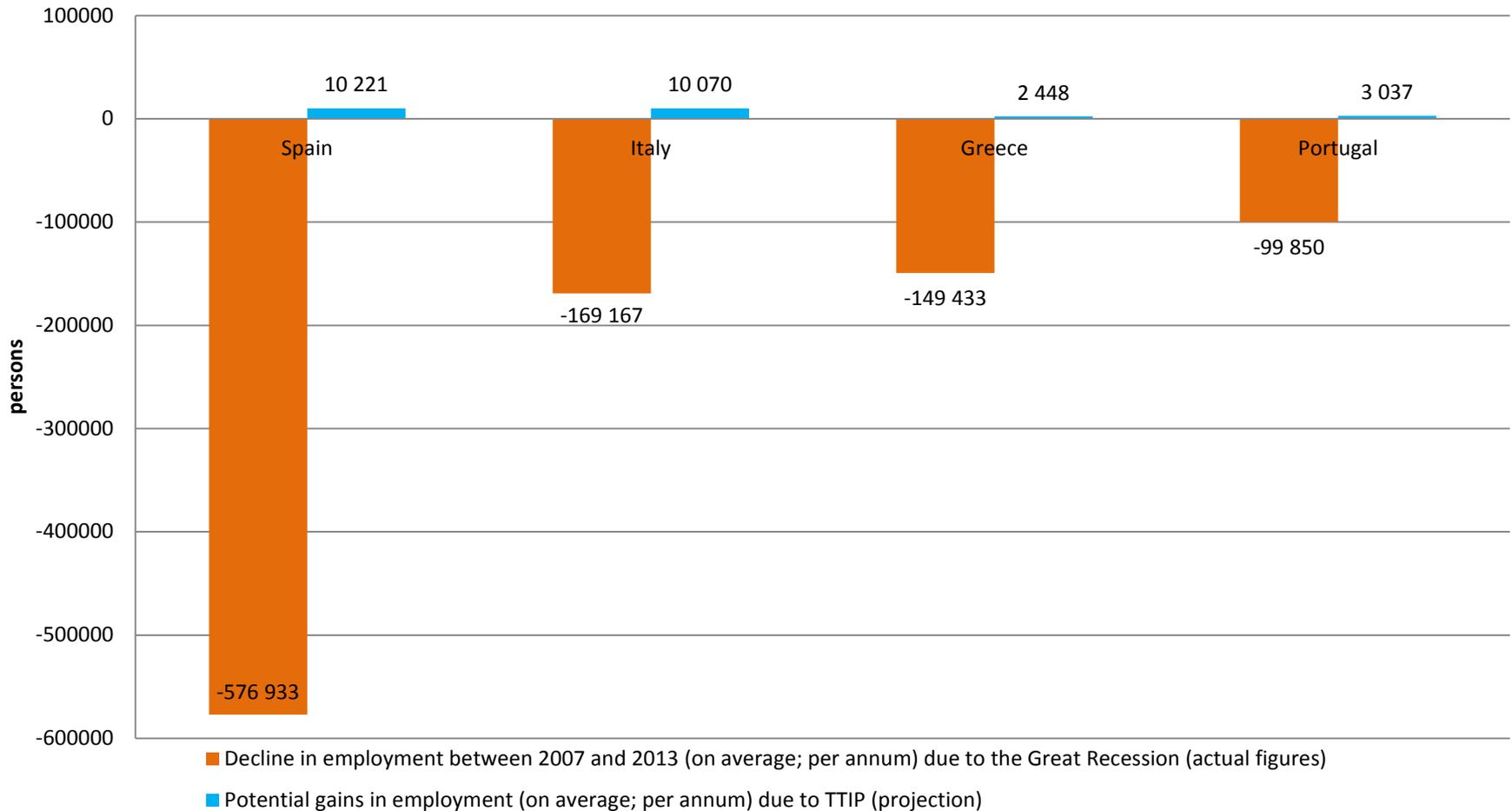
OECD: 553.9 Mio

ifo/Bertelsmann study

	long-run effect after transition period of 15 years	additional increase per annum (on average)
	increase in employment in %	percentage points
EU	N.A.	N.A.
USA	0.78	0.05
DE	0.47	0.03
OECD	0.50	0.03

Source: Table 10, p.39

Changes in employment (number of persons; per annum; on average)



Conclusions

- Different methodology, but again unrealistic/flawed assumptions.
- Although underlying assumptions are highly favourable, growth and employment effects are negligible.
- Social costs of regulatory changes as well as macroeconomic adjustment costs are not considered! They might be substantial!

Thank you!