



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

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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 several studies mostly projecting small benefits in terms of GDP (less than 1 percent after fifteen years) and per capita income (545 Euros per household, after more than a decade, in an often cited case). These studies also project a gradual substitution of intra-EU trade with Trans-Atlantic trade leading the European Commission, one of TTIP's main advocates, into a paradox: although its mandate centers on pursuing closer economic integration among member states its trade policy would favor economic dis-integration in the EU.

TTIP might also lead to other serious consequences for the EU and its members. As critical reviews have shown, the main studies of TTIP use 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 hurt 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 averted widespread social disaster.

To see how the projected benefits of 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 cope with lower sales by dismissing workers.

Our results, summarized in Table 1, differ dramatically from those of previous assessments². For Europe we find that:

- TTIP would lead to losses in terms of net exports after a decade, compared to the baseline "no-TTIP" scenario. Northern European

TABLE 1. TTIP'S LONG-TERM EFFECTS

Units	Net Exports % GDP	GDP Growth Diff between %	Employment Units	Empl. Income EUR/Employee	Net Taxes %GDP	Depend. Ratio Diff between %
US	1.02	0.36	784,000	699	0.00	-0.97
UK	-0.95	-0.07	-3,000	-4245	-0.39	-0.97
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 Northen Europe	-2.07	-0.50	-223,000	-4848	-0.34	1.33
Other Shorthen 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.



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 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 UK (up to 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, the main assessments of 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.

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²More details: Capaldo, J. (2014) [The Transatlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability](#). Global Development and Environment Institute. Working Paper No.14-03



FIGURE 1: INCOME FROM EMPLOYMENT AS % OF GDP: BASELINE (BLUE) AND TTIP SCENARIO (RED)

