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TAFTA Studies Project Tiny Economic Gains, Ignore Major Costs from Gutting Environmental, Health, Financial and Other Safeguards

The safety standards on which we rely daily for our food, medicines and cars. The energy and climate policies needed to save our planet. The new financial regulations designed to prevent banks from gambling with our money and creating another crisis. These are policies that should be determined in open, democratic venues where we have a say. But a group of the largest U.S. and European banks and corporations want to rewrite these safeguards behind closed doors. For over a decade, they have pushed for a new U.S. "trade" deal with Europe – the Trans-Atlantic Free Trade Agreement (TAFTA), which corporate proponents have tried to rebrand as the Transatlantic Trade and Investment Partnership (TTIP) – a deal that would roll back consumer protections on both sides of the Atlantic. A "trade" deal only in name, TAFTA would require the United States and European Union (EU) to conform domestic financial laws and regulations, climate policies, food and product safety standards, data privacy protections and other non-trade policies to TAFTA rules. EU and U.S. negotiators launched TAFTA negotiations in July 2013 and plan to finish the sweeping deal by 2014.

To sell such a dramatic rewrite of domestic safeguards to U.S. and EU policymakers and the general public, corporate lobby groups and TAFTA negotiators contend that the deal would bring economic benefits. TAFTA's corporate proponents repeatedly point to a few theoretical studies to justify claims of increased national income resulting from the deal. These studies use many dubious assumptions, questioned by economists at institutions such as the UN, to project TAFTA's economic impact. Similar studies, when used for prior pacts, have produced vastly inaccurate predictions of gains. But even if one accepts all such assumptions regardless of their basis in reality, the studies project negligible economic "benefits" from TAFTA. Meanwhile, they ignore TAFTA's likely costs to consumers, workers and the environment, despite the abundant evidence of such costs resulting from prior pacts.

Pro-TAFTA Study Projects Trade "Benefit" of Three Cents per Day

A standard argument for "free trade" agreements is that such deals reduce tariffs, thereby expanding trade, and that the benefit to all from access to cheaper imports outweighs the damage to those who lose their jobs. But tariffs between the United States and the EU are "already quite low," as acknowledged by the U.S. Trade Representative. The EU and U.S. officials promoting TAFTA have readily stated that TAFTA's primary goal is not tariff reduction, but the "elimination, reduction, or prevention of unnecessary 'behind the border'" policies, such as domestic financial regulations, climate policies, food safety standards and product safety rules.

That is why studies focused on the impact of TAFTA's possible tariff reduction have produced meager estimates of any economic impact. Under the most optimistic scenario envisioned by a frequently cited pro-TAFTA study by the European Centre for International Political Economy, TAFTA tariff reductions would result in an estimated 1 percent increase in U.S. gross domestic product (GDP). But that estimate is unrealistically high, given that it assumes a contentious proposition of tariff reductions causing strong "dynamic" economic growth, a dubious theory at best. Noted academics have repeatedly cited empirical evidence showing no such trade-growth causation. By omitting this assumption, the study notes that the theoretical TAFTA-prompted increase in U.S. GDP of $182 billion drops to just $20.5 billion, a 0.1 percent blip in what is projected to be an $18.3 *trillion* U.S. economy in the assumed year of TAFTA implementation. By comparison, economists estimate that the introduction of the fifth version of Apple's iPhone delivered a GDP increase up to five times higher than the projected TAFTA effect.

TAFTA's trivial trade impact shrinks even further when considering what the deal would mean in terms of actual income. The pro-TAFTA study projects that total annual U.S. national income would be just $4.6 billion higher under the deal. Even this number is unrealistic, given that it assumes that 100 percent of existing tariffs between the EU and the U.S. would be fully eliminated under the deal, an unlikely scenario given that the EU has already stated that sensitive products should be afforded exemptions from tariff reductions. But proceeding with this inflated figure still results in deflated "benefits." After adjusting for inflation and population growth in the years before the pact would be fully implemented, the projected $4.6 billion boost would amount to an extra three cents per person per day.

Studies Ignore Costs, Use Big Assumptions to Project Tiny Gains from Weakened Safeguards

Several other studies touted by pro-TAFTA officials and industry associations focus not on the reduction of tariffs but on the deal's central goal of reducing health, financial, environmental and other public interest regulations that have been euphemistically renamed "non-tariff barriers" or "trade irritants." Leaked EU position papers reveal that TAFTA could include obligations for products and services that do not comply with such domestic safeguards to be allowed under processes called "equivalence" and "mutual recognition," or obligations to actually alter domestic U.S. and EU policies to conform to new trans-Atlantic standards negotiated to be more convenient to business.

Pro-TAFTA studies ignore the proven costs of such safeguard weakening while employing models based on the unproven business mantra that curtailing health, safety and environmental regulations would produce economic benefits for everyone. Despite such lopsided calculations, the studies still produce meager projections for TAFTA's economic gains. An oft-cited pro-TAFTA study, commissioned by the European Commission and prepared by the Centre for Economic Policy Research, estimates that, if public interest regulations are significantly diluted or eliminated, TAFTA could produce a 0.2 – 0.4 percent increase in U.S. GDP (a $66 – 126 billion addition in 2027).

To arrive at this estimate of a smaller TAFTA gain than was delivered by the latest iPhone, the study assumes that up to one out of every four non-tariff barriers – which, according to the study, could include Wall Street regulations, food safety standards and carbon controls – would be reduced or eliminated. (The study acknowledges that some safeguards could not reasonably be slated for dismantling because doing so "may require constitutional changes…; because there is a lack of sufficient economic benefit to support the effort;...because of consumer preferences…; or due to other political sensitivities.") To generate projections of economic gains from such safeguard dismantling, the study employs a methodology that UN economists have criticized as inchoate and unreliable: using an assumptions-laden computable general equilibrium model to study non-tariff policies.

In addition to the social and environmental toll that would result from such a degradation of health, safety, environmental, and other public interest standards, such regulatory weakening would also result in quantifiable monetary costs for U.S. consumers and the broader economy. The study ignored such costs.

For example, in the financial sector, the study names the Sarbanes-Oxley Act of 2002 as a "non-tariff barrier" on the target list of European businesses and officials. The Act created enhanced accounting and anti-fraud standards to prevent a recurrence of the Enron, WorldCom, and other corporate accounting scandals that destroyed billions of dollars of U.S. investments. The study also lists as a barrier U.S. "regulatory capital requirements," which limit financial firms' ability to take on risky bets that could lead to bankruptcy and financial instability. Indeed, the EU's top financial regulator, Michel Barnier, has repeatedly criticized proposed U.S. capital requirements for foreign-owned banks – designed to rein in the excessive risk-taking that led to the Great Recession – while calling for such Wall Street reforms to be subject to TAFTA negotiations. Undermining such critical financial reregulation via TAFTA would heighten the risk of more accounting scandals or another financial crisis, threatening dire impacts on the real economy. Such risks hardly seem worth a small, speculative blip in GDP.

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