CENTER FOR ECONOMIC AND POLICY RESEARCH
Issue Brief
August 2015

TTIP:
Are 40 Cents a Day Big Gains?

By David Rosnick*

Amid the debate over Trade Promotion Authority and (eventually) the Trans-Pacific Partnership (TPP), it is important to note that the TPP is not the only international trade agreement that business interests and officials are currently negotiating. As we have noted, studies of potential international trade agreements indicate that the gains are in theory very small[1] and the estimated effects on workers are likely so small and so poorly distributed that most will lose as a result of any deal.[2]

Adding to this literature, the *other* CEPR—that is, the Centre for Economic Policy Research, based in London—found only very small potential gains from the proposed Trans-Atlantic Trade and Investment Partnership (TTIP) between the United States and European Union (E.U.).[3] The study estimates U.S. GDP gains due to TTIP of between 0.2 and 0.4 percent by 2027, and slightly more (0.3-0.5 percent) for the EU. In **Figure 1**, we see the effect of an eventual 0.4 percent increase to U.S. GDP relative to baseline projections, produced by the Congressional Budget Office.

1 David Rosnick. "The Gains from Trade in a New Model from the IMF: Still Very Small." April 2015. The Center for Economic and Policy Research, Washington, D.C. http://www.cepr.net/publications/reports/the-gains-from-trade-in-a-new-model-from-the-imf-still-very-small
2 David Rosnick. "Gains from Trade? The Net Effect of the Trans-Pacific Partnership Agreement on U.S. Wages." September 2013. The Center for Economic and Policy Research, Washington, D.C. http://www.cepr.net/publications/reports/net-effect-of-the-tpp-on-us-wages
3 Joseph Francois. "Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment." March 2013. Centre for Economic Policy Research, London. http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf

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FIGURE 1

U.S. GDP 2000-2025—Large Effect of TTIP

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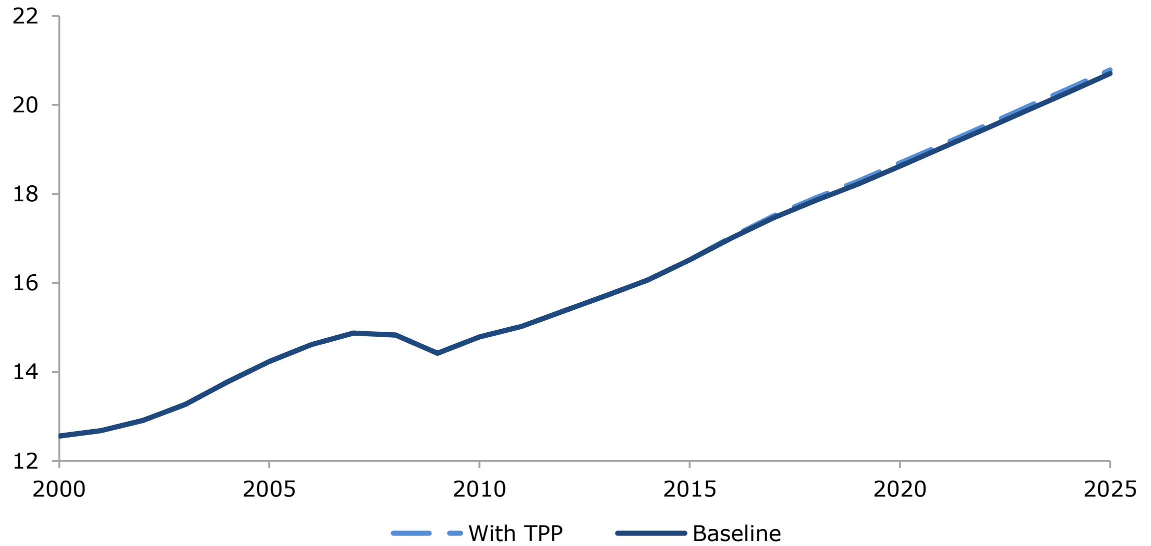

Source: CBO and author's calculations.

As Figure 1 shows, even the upper range of the estimated effect of TTIP is very small in comparison to normal growth in the economy. With U.S. consumption running a bit under $38,000 per person per year as of early 2015, a 1 percent increase in GDP roughly translates today into another $1 per person per day in consumption. In the EU, a 1 percent increase in consumption comes to about 0.45 euros per day. Thus, the *other* CEPR estimates that a decade down the road, the agreement would increase—on average—U.S. consumption by today's equivalent of 20-40 cents per person per day; 0.1-0.2 euros per person per day in the E.U.

The London-based CEPR assumes a relatively expansive trade agreement between the U.S. and the EU. Even their "less ambitious" scenario entails a 98 percent reduction of tariffs, a 10 percent reduction in general non-tariff barriers (NTB) and a 25 percent reduction in procurement-related NTB. As they note, "unlike tariffs, many regulations cannot simply be removed, as they often serve important and legitimate domestic objectives like product safety and environmental protection … [I]n a realistic analytical exercise, while it can be assumed that some NTBs can be eliminated by mutual agreement and effort, their 100 per cent elimination should not be considered as a realistic outcome."[4]

4 The study notes that elimination of NTB need not entail lowering of standards, but merely "regulatory convergence"— that is, that the standards be uniform. The study considers half of NTB to be "actionable." Of course, if NTB are reduced through dispute resolution as proposed in the Trans-Pacific Partnership (TPP), then we can expect most suits to seek lower standards, rather than higher.

With no sense of irony, the study reports that the lowest level of goods-based NTB are on pharmaceuticals. This demonstrates one of the major blind spots in these sorts of studies of trade agreements. The pharmaceutical industry is easily among the most heavily protected sectors. While the study considers the effect of reducing NTB by up to 28 percentage points for some goods, patent protections increase the price of pharmaceuticals by thousands or tens of thousands of percent above the cost of manufacturing a dose.

Likewise, copyright enforcement raises prices and visibly stifles innovation. The costs arising from these sorts of protections—which negotiators seek to include in trade agreements—are rarely quantified, if even considered.

Thus, with the tariff rates considered in the study being already generally low between the U.S. and EU, reductions are not expected to have much of an economic impact at all. The study estimates tariff reductions alone would increase U.S. GDP by only 0.04 percent by 2027—raising consumption by a bit more than $1 per person per month.

Rather, the study finds that reduction of NTB alone has a much larger impact—perhaps two-thirds of the total benefits. The remaining gains come from spillover effects of the agreement. These come in two categories. The study counts direct NTB spillover effects—that is, lowered prices of imports produced by non-party countries. The study also counts indirect spillover effects in the form of facilitating broader trade agreements and further reductions in tariffs and NTB—explicitly counting gains that go beyond the scope of the agreement.

This, in combination with a blind eye toward patents and copyrights, suggests that the study overestimates the potential gains from the TTIP—though perhaps no more so than similar studies. The authors estimate an increase of U.S. imports of foreign production by up to 4.74 percent while exporting up to 8.02 percent more. The Peterson Institute estimates[5] that an expanded Trans-Pacific Partnership (TPP16)[6] would result in a 0.38 percent increase in U.S. GDP from a 6.8 percent increase in exports and 5.4 percent increase in imports.

Likewise, we may infer that not only would the gains from the TTIP be quite modest on average, but also that—as with the TPP—the increase in inequality resulting from the TTIP would likely result in a net loss to most workers. Certainly, the potential gains from TTIP (or TPP) are vanishingly small

5 Petri, Plummer, and Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, Peterson Institute for International Economics and East-West Center, 2012. http://asiapacifictrade.org/wp-content/uploads/2013/03/Macro-TPP-7-Mar-13.xlsx

6 Peter A. Petri, Michael G. Plummer and Fan Zhai . "Adding Japan And Korea to the TPP." March 7, 2015. Asia-Pacific Trade. http://asiapacifictrade.org/wp-content/uploads/2013/05/Adding-Japan-and-Korea-to-TPP.pdf

when compared to recent policy failures that have depressed the long-run potential for the U.S. economy to produce goods and services.[7] **Figure 2** shows the CBO's current projections of potential non-farm business (NFB) output and trade gains along with the CBO's projection from 2005.

FIGURE 2

Gains from Trade Compared to Revisions in NFB Output

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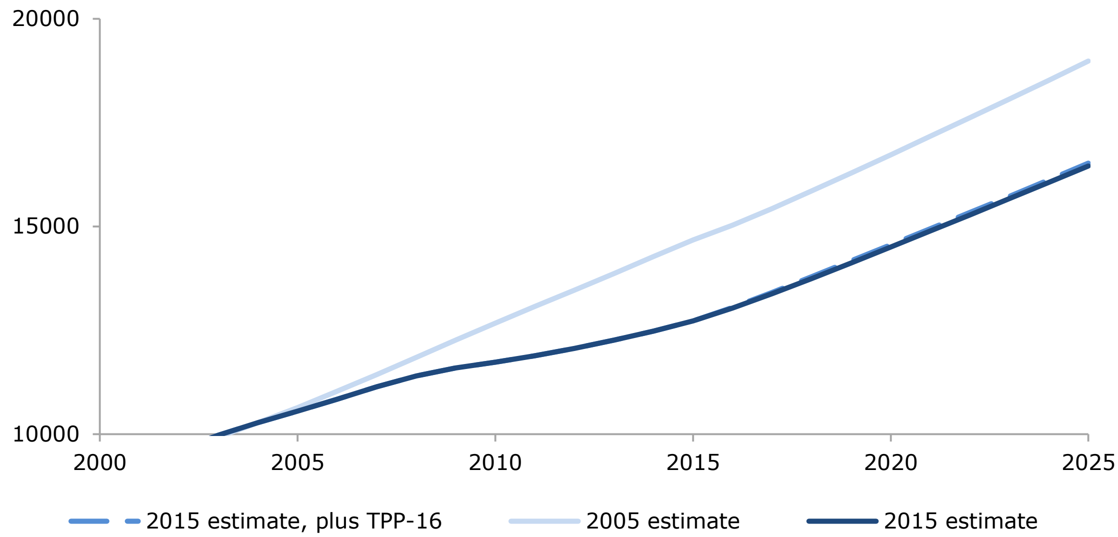

Source: CBO and author's calculations.

It would require 38 TTIP agreements to make up for the long-term damage the U.S. economy has suffered in the last decade. Increased economic output is not the sole measure of well-being, but it is not at all clear that any pro-growth agenda should reasonably center on an agreement with such dubious, unequal, and anti-democratic effects. The majority of workers are obviously better served if economic policy is focused on reaching and maintaining full employment.

7 David Rosnick. "CBO Keeps Revising Down Potential GDP," CEPR Blog. July 1, 2015. Center for Economic and Policy Research, Washington, D.C. http://www.cepr.net/blogs/cepr-blog/cbo-keeps-revising-down-potential-gdp

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