Evaluating Trade Treaties
Lessons from TTIP
The Shrinking Gains from Trade

• In the past (ca. 1980 - 1990) there were important barriers to world trade
• Economic analyses projected huge gains from liberalization – hundreds of billions of dollars!
• Then trade was liberalized
  – China joined the WTO
  – Textile quotas under the Multi-Fiber Agreement were eliminated
  – EU expanded to 28 members
  – NAFTA, CAFTA, etc. liberalized Western Hemisphere trade
• If benefits of liberalization are important, I hope you enjoyed them
  – They have already happened
  – Krugman: liberalization may account for 10% of world growth since 1990
• No further potential – no major trade barriers left to remove?
  – But the rhetoric lives on…
Pictures of Opposition
What could TTIP Accomplish?

- Not tariff reduction, except in isolated cases
  - Average tariffs are under 3% on US-EU trade in both directions

- Not removal of technical barriers in items currently traded
  - Often claimed, but never shown to be important
    - At most, this requires technical conferences in selected industries
  - The biggest technical barrier: US refusal to use metric system
    - Not addressed by TTIP (or anyone else)

- The real goal: change rules about what can be produced and traded
  - Requires changes to existing regulations in Europe and America
How to Exaggerate TTIP’s Role: From Invisible Hand to Invisible Benefits

1. Assume that the “invisible hand” guarantees full employment, before and after any policy change
   - A key assumption behind “computable general equilibrium” (CGE) models
   - Capaldo: Europe gains from TTIP if full employment is automatic, but loses in a more realistic model with variable employment

2. Estimate the impact of “non-tariff barriers” (regulations) on trade
   - No standard methods exist; ad hoc guesses used by consulting firms

3. Ignore the benefits that motivate and justify regulations
   - Regulations are adopted to protect health, environment, social welfare, etc.
   - Rules with costs and no benefits would be a bad idea
     - But there are no such rules
Benefits of Regulation: Overview

- Regulations protect health, safety, natural environment, social welfare, labor standards, privacy, etc.
- Economic theory: markets only lead to ideal outcomes when all “externalities” (e.g. pollution) are priced, or taxed, to reflect damages they cause to others
- Preventable problems cause billions of euros of losses
  - Mad cow disease
  - Cleanup of asbestos, or PCBs
  - Climate damages – uncertain but huge
- Costs of not yet meeting EU standards for 2020 = €200 - 300 billion per year (DG Environment, 2011)
- Projected costs of EU air pollution in 2025 = €218 - 742 billion per year, one-fourth of it preventable (EMRC, 2014)
- EU burden of disease due to endocrine-disrupting chemicals = €157 billion per year (academic study, 2015)
- Net job impacts of current regulations are close to zero (US research)
Balancing TTIP vs. EU Regulations

- Estimated benefits of TTIP to EU = €70 – 120 billion per year
  - Assumes full employment, and guesses about impacts of “non-tariff barriers”
- Benefits of regulations at risk under TTIP are much greater
- Just two areas – REACH and renewable energy standards – are worth almost as much as the claimed benefits of TTIP
  - Total = €46 – 110 billion per year (see next three slides)
- Many other areas of regulation are also at risk from TTIP
- Therefore, the total benefit of regulations at risk is much greater than the claimed benefits of TTIP
REACH

- REACH requires manufacturers and importers of chemicals to submit information on safety, and restricts use of substances that do not meet standards
- The much weaker US chemicals law, TSCA, places burden of proof on government regulators; almost no chemicals have ever been restricted under TSCA
- American, European chemical industries have proposed to use TTIP to weaken REACH
- Annual benefits of REACH = €10.8 – 47.0 billion

<table>
<thead>
<tr>
<th>Benefits of REACH</th>
<th>Low estimate</th>
<th>High estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health improvements</td>
<td>6.9</td>
<td>34.4</td>
</tr>
<tr>
<td>Water purification, sludge disposal</td>
<td>3.4</td>
<td>10.9</td>
</tr>
<tr>
<td>Avoided toxic cleanup</td>
<td>0.5</td>
<td>1.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td><strong>10.8</strong></td>
<td><strong>47.0</strong></td>
</tr>
</tbody>
</table>
Renewable Energy

• EU promotes renewable energy with GHG and renewable energy targets, feed-in tariffs, and other policies
  – 2013: renewable energy = 25% of EU electricity; wind and solar = 10%
• US standards are stronger on non-carbon air pollution, but weaker on carbon emissions and renewable energy
  – 2013: renewable energy = 13% of US electricity; wind and solar = 4%
• Benefits of EU renewable energy, 2013:
  – Avoided 388 million t CO₂-equivalent emissions
  – Avoided 54.3 million t oil-equivalent coal combustion
  – Created more than 1.2 million jobs
• Renewables policies could be challenged under TTIP
  – Germany has already faced challenges to domestic energy policy under a treaty that protects foreign investors
Valuing EU Renewable Energy

• Benefits of EU renewable energy include
  – Avoided carbon emissions: €35 – 100 /t CO$_2$-eq (short-term and mid-term EC projections)
  – Avoided coal combustion: health effects worth €0.0585 per kwh of electricity (HEAL, 2013)
  – Social value of new jobs = 19.0% - 24.7% of earnings (recent US cost-benefit studies)
• Total value = €35.5 – 62.8 billion (2014 euros)

<table>
<thead>
<tr>
<th>Benefits of renewables</th>
<th>Low estimate</th>
<th>High estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoided GHG emissions</td>
<td>13.6</td>
<td>38.8</td>
</tr>
<tr>
<td>Avoided coal pollution</td>
<td>14.8</td>
<td>14.8</td>
</tr>
<tr>
<td>Job creation</td>
<td>7.1</td>
<td>9.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35.5</strong></td>
<td><strong>62.8</strong></td>
</tr>
</tbody>
</table>
Conclusion: Why Harmonize?

• Regulations are not arbitrary bureaucratic obstacles to trade
  – They are democratically adopted limits on what can be sold, and how it can be produced
  – Policies that correct market failures can make everyone better off
• Different countries reach different decisions about regulations
  – Harmonization is valuable to some industries, but not the public
• US limited smoking in public, before most of Europe
  – Should we have waited for Europe before acting?
  – Harmonization would have been good for tobacco companies, bad for air-breathing citizens
• Europe has much more sensible limits on gun ownership and use
  – Should you have waited for all of America to agree with your rules?
  – Harmonization would be great for gun companies, not for victims
• Public policy requires leadership, not harmonizing downward