Public Hearing Summary
Maine Citizen Trade Policy Commission
September 15, 2016
University of Southern Maine
Rooms 109/110, Abromson Center
88 Bedford St
Portland, ME.

Members Present: Senator Amy Volk, Senator John Patrick, Representative Robert Saucier, Representative Stacey Guerin, Representative Craig Hickman, Sharon A. Treat, John Palmer, Dr. Joel Kase, Linda Pistner, Randy Levesque, Christy Daggett

Staff: Lock Kiermaier (Contract)

Subject of the Public Hearing: *to gather public comment on the draft 2016 CTPC Assessment, "The Trans-Pacific Partnership's Potential Economic Impact on Maine", authored by Catherine Reilly deLutio and Phillip A. Trostel, Margaret Chase Smith Policy Center, University of Maine*

CTPC Chair Senator Amy Volk convened the public hearing at approximately 5 PM.

To begin the public hearing, the authors of the draft assessment, Kate Reilly deLutio and Phil Trostel were invited to make a brief presentation which summarized the salient points of the draft assessment. Ms. deLutio made the following comments:

- In doing the draft assessment, their purpose was to lay out the economic evidence, using an academic lens, regarding the effect that the TPP was likely to have on Maine;
- They did not look at other possible impacts such as geopolitical or social;
- The assessment begins with a look at the history of trade beginning with mercantilism, moving into the realization that nations had mutual advantages in engaging in trade, arriving at today's generally held assumption by economists that trade benefits society as a whole with the caveat that trade tends to benefit or disadvantage particular groups within society. Further, she stated that modern day society tends to choose to remedy these inequities through actions which do not forego the possibility of trade;
- Next, the assessment delves into a brief history of trade policy including different phases of protectionism and liberalization after World War II;
- Trade began to increase significantly in the 1970s going from 5% of the national GDP to 30% in today's economy;
- Free trade agreements are only responsible for part of that increase; globalization is a significant cause of the increase in international trade;
- One prominent factor in the increase in trade has been the lowering of the cost of consumer goods for US citizens; it is estimated that trade lowers the cost of consumer goods by 8% with even greater savings of up to 60% to low income families for food and necessary living commodities;
- Modern day trade also results in increased number of service and high-skilled jobs, innovative export industries and decreases in jobs that are import sensitive- particularly those in manufacturing with a parallel decrease in the need for low-skilled domestic

workers. Ms. deLutio also highlighted the well documented stagnation of average wages that has occurred in the US as a partial result of modern trade;

- Ms. deLutio also discussed the state of Maine's economy since the adoption of NAFTA in 1994 by stating that many economic indicators have risen somewhat unevenly since 1994 including household income, employment, exports and GDP. In particular, like the rest of the country, there has been a significant decline in the number of manufacturing jobs in Maine. She also noted that the remaining manufacturing jobs in Maine require higher levels of skills and education than previous to 1994;
- Service sector employment in Maine has increased in correspondence to the decrease in the number of low-skilled manufacturing jobs; 2/3d's of new service sector jobs pay medium to high wages;
- These changes to the various sectors of Maine's job market are considered to be permanent and will influence the effect of future free trade agreements on Maine's economy; she referred to the statement in the draft document that "Maine can't lose the same jobs twice";
- Next, Ms. deLutio discussed the TPP in general; the TPP is a trade agreement between 12 Pacific Rim countries, 6 of which the US already has a FTA with resulting in 80% of the current trade in the TPP region. The TPP includes 5 other countries; including Japan with a major but relatively stagnant economy and Malaysia and Vietnam which are relatively low-wage counties- a factor which will affect the US and Maine economies;
- The TPP will immediately eliminate about 80% of existing trade tariffs and about 99% of the tariffs will be eliminated in 30 years;
- Like other recent FTAs, the TPP goes beyond tariff reduction and elimination to delve into subjects like labor and environmental standards, digital trade, and trade secrets. These new subject areas are an apparent reflection of a desire on the part of some to rectify perceived past weaknesses of previous FTAs and are very difficult to predict and impossible to quantify so the draft document does not examine the possible effects of these topics in any detail;
- With regards to the impact of the TPP on the U.S. economy, Ms. deLutio stated that a summary of prominent economic reports on the TPP shows that these studies predict a neutral or slightly positive effect on the U.S. economy;
- In particular, the authors used a model recently developed by the U.S. International Trade Commission to evaluate the TPP by as the basis for their assessment. The USITC study predicted an increase of 0.15% in the national GDP as a result of the TPP by the year 2032;
- As for the predicted impact of the TPP on Maine's economy, the authors used the USITC results and extrapolated predicted results based on Maine's proportional share of the country's overall economic activity; these calculations could not be done for imports and service exports and certain sectors of the economy because that data is either not available on the state level or the level of activity is so small that it can't be accurately parsed out of a larger data set;
- The authors assumed that Maine's proportional share of the nation's economic activity in 2032 will be the same as it has been in recent years and to do otherwise would involve a lot of assumptions and subjective judgements that the authors were not willing to make.;
- The author's predictions should not be regarded as precise but rather provide a sense of the magnitude and change of what is likely to happen as a result of the TPP;

- The author's specific predictions for Maine by the year 2032 are as follows: increase of $63 per capita, increase real GDP by $106 and increase employment by 554 full-time equivalent positions;
- On the sectoral level, the authors predict increased growth in agriculture, manufacturing, education, and business services;
- As for the seafood sector, the authors predict an increase in imports and a slower growth in domestic seafood output and exports;
- With regards to tourism, the authors contend that despite likely national trends, that Maine's status as a travel destination would result in an unquantifiable increase in economic activity; and
- In terms of forest and wood products, the authors predict a reduced rate of growth that also can't be quantified at this time.

Next, the Chairs opened the discussion to include questions and comments from members of the CTPC:

- CTPC member Sharon Anglin Treat posed a number of comments and questions:
    1. Ms. Treat had anticipated that the draft assessment would go less into the history of trade and more into some of the details (based on recently published literature) of how the TPP might affect Maine's economy in a less positive manner than is reflected in the draft assessment;
    2. Ms. Treat cited the 2014 CTPC assessment which focused on the effects of the TTIP on dairy. She referred to the somewhat precarious economic status of the dairy industry in Maine and how the delicate price structure could be upset by the dictates of a FTA like the TPP. She mentioned the current assessment's prediction that dairy imports to Maine could increase by 20% and how that increase could adversely affect dairy prices and production in Maine and wondered why the draft assessment did not address this issue in more detail. Ms. deLutio stated that their approach was broader in scope and that she did not recall this issue being mentioned in their initial meeting with the CTPC;
    3. Ms. Treat next brought up the issue of ISDS (Investor-State Dispute Settlement), feeling that the authors did not adequately examine or review the many criticisms that have been leveled at the inclusion of this mechanism in the TPP. Ms. Treat recommended several studies on this issue that she could provide to the authors; Ms. deLutio said that they would review those documents;
    4. Ms. Treat also brought up the alleged poor performance of the various federal trade programs which are designed to help workers who are displaced by FTAs like the TPP. She emphasized that the draft assessment does not adequately address the various employment issues that other studies have identified as major flaws of the TPP. She disputes the notion that workers who lose their jobs as a result of an FTA are often able to be re-employed and thus do not represent an economic loss attributable to an FTA. Phil Trostel replied by saying that one of the prominent studies on the TPP authored by Timothy Wise of the Global Development and Environment Institute at Tufts University was flawed in its criticism of this assumption and that he disagrees with what he claims, is that organization's assumption that capitalism is evil. Professor Trostel went on to say that most mainstream economists would never accept the premises on which Mr.

Wise's criticisms of the TPP are based on. Ms. deLutio also mentioned that there is credible economic research on the long-term impact of trade and cited work by David Otto at MIT to support the assumptions and conclusions reached in their draft assessment.

- Next, CTPC member Linda Pistner asked if the authors knew about purported changes to the TPP agreement that may be recommended by the Obama Administration prior to an anticipated vote on the TPP in Congress after the November elections and whether those changes would have any effect on the conclusions reached in the draft assessment? Ms. deLutio responded by saying that they were not aware of what those changes might be and that they were focusing on the TPP as currently written. Ms. Pistner also commented on a statement in the draft assessment that the job loss trend in Maine may be slowing and wondered if the authors could expand on that point. Ms. deLutio responded that many thousands of manufacturing jobs have been lost in Maine in recent years but that the remaining manufacturing employers have learned how to compete more effectively with competition from imported manufacturing goods and that the Maine Department of Labor has issued several recent reports which support these conclusions. Ms. Pistner then asked if the draft assessment had indeed concluded that there would be a slight economic benefit to Maine by 2032 with isolated pockets of economic loss. Ms. deLutio responded that she believed that was a fair summary of the last section of the draft assessment. Professor Trostel added that since 80% of TPP economic activity is already covered by existing FTAs, there is not a lot of direct economic impact that can be ascribed solely to the TPP;
- CTPC member Dr. Joel Kase next stated that he would like to see the draft assessment contain additional detail about the economic effects of the TPP on Maine. He also stated that he appreciated the historical perspective on trade included in the opening parts of the draft assessment and how that adds to the commission's understanding of the rapid economic change that the country as a whole has seen since NAFTA with the likelihood that the pace of that change will increase dramatically in the next 10 years. Dr. Kase then mentioned his interest in having the assessment more closely examine the economic nature of the current and future increase in service jobs with an estimated 2/3rds of these jobs being relatively high paying professional positions and the remaining 1/3rd being low-paid unskilled positions and asked if how that ratio compares to other states and is that where we should be? Ms. deLutio responded that she believed that the Maine ratio for service workers probably has a bit higher numbers for low-skilled positions that those for other states. Professor Trostel added that Maine's comparatively lower levels of educational attainment are primarily responsible for the current ratio and that improvements in educational opportunities in Maine would increase the number of higher paid and skilled service positions in the state;
- Next, CTPC member Senator John Patrick asked if the effects of inflation had been incorporated into the author's economic assumptions regarding the effects of the TPP in Maine by 2032. He further asked if the slight economic benefits predicted in the report would apply equally to the 1/3rd of lower paid service workers. Ms. deLutio replied that inflationary figures were factored into their economic assumptions and that losses and gains would vary with the various economic sectors within the state;

- CTPC member Christy Daggett next expressed her concern with the conclusion in the draft assessment that "you can't lose the same job twice". Ms. Daggett stated that her recent experiences in rural Aroostook County suggest that this conclusion is inaccurate in that many workers are repeatedly losing jobs that plunge individuals further down the economic ladder. Ms. deLutio said that future versions of the assessment would rephrase that conclusion. Ms. Daggett then asked if as a result of the TPP, low wage service jobs would experience small gains and whether the number of higher paid service sector jobs would essentially remain flat. Ms. deLutio affirmed that conclusion was essentially correct;
- Next, CTPC member John Palmer stated his conclusion that the real issue being discussed was the existence of two Maines; the southern, more urban area of the state and the northern, more rural portion of the state. He also questioned the draft assessment's use of the phrase "you can't lose the same job twice"; and
- CTPC Chair Representative Bob Saucier asked what other sectors of Maine's economy might be adversely affected by the TPP? Ms. deLutio answered by highlighting their conclusion that there would be a smaller growth rate in the number of manufacturing jobs.

Senator Volk next invited any members of the public who were present and wanted to testify to please come forward. A total of 14 persons testified in person. The following summary briefly recounts the gist of each person's testimony in the order in which they testified. Some of the spoken testimony was supplemented by written statements which were distributed to commission members. In addition to the personal testimony, the CTPC also received written testimony from several other individuals. All written testimony received by the CTPC is available for viewing at the CTPC website:

http://legislature.maine.gov/legis/opla/citpol.htm

1. <u>Mike Hasty; resident of South Berwick and representing the Alliance for Democracy and the Electronic Frontier Foundation</u>- Mr. Hasty testified in opposition to a previous statement made by Professor Trostel by saying that he does not agree that the debate between Marxism and capitalism has been settled and offered to arrange for a debate between Professor Trostel and proponents of Marxism. Mr. Hasty then offered written testimony on behalf of Jeremy Malcolm, Senior Global Policy Analyst for the Electronic Frontier Foundation. Mr. Malcolm's written testimony made the following points regarding statements made in the draft assessment:
    a. The TPP <u>allows</u> for fair use for activities like reporting but does <u>not require</u> countries to do so;
    b. The TPP prohibits requirements for source code disclosure but many in the information security community are opposed to "foreclosing possible rules to promote public safety and security"; and
    c. Although the TPP includes rules to require criminal penalties for theft of trade secrets, this provision underlines a principal flaw in the TPP in that it presents an opportunity for potential misuse by repressive TPP countries like Vietnam, Malaysia and Brunei.

2. Matthew Beck, resident of South Portland, representing the Maine Free Trade Campaign – Mr. Beck offered written testimony on behalf of Timothy A. Wise, Policy Research Director, Global Development and Environment Institute, Tufts University. Mr. Wse made the following points in his written testimony:
    a. Mr. Wise is critical of the draft assessment's several criticisms of a 2016 study of the TPP authored by Jeronim Capaldo, Alex Izurieta and Jomo Kwame and published by the Global Development and Environment Institute. Mr. Wise asserts that the draft assessment fails to acknowledge the several detailed responses issued by Capaldo et. al. in response to previous criticisms of the Tufts report and fails to acknowledge praise of the Tufts report made by Nobel Laureate Joseph Stiglitz;
    b. Further, Mr. Wise is critical of three substantive points made in the draft assessment:
        i. The Capaldo et. al. study uses a model which is only appropriate for the short-term;
        ii. The Capaldo et. al. study assumes that the TPP will facilitate fiscal austerity therefore leading to worsening outcomes; and
        iii. The Capaldo et. al. study assumes that unemployed workers will remain unemployed for a long period of time.

    Mr. Wise's testimony emphasizes that the Capaldo et. al. study is on firm ground by assuming (in opposition to the assumptions used in the draft assessment) that, "...during economic downturns firms lay off workers, rather than renegotiating their salaries, and that laid off workers do not easily find jobs in expanding industries".

3. Seth Berner, resident of Portland– Mr. Berner made the following points in his oral testimony:
    a. Mr. Berner disputes the assumption made in the draft assessment that Maine will maintain its current1% share of the nation's economic output in the year 2032. Maine's deteriorating infrastructure is likely to worsen during this time period therefore threatening its 1% share of the national economy;
    b. Mr. Berner also maintains that the TPP is likely to accelerate the rate in which Maine will fall behind the rest of the country during this time period;
    c. Mr. Berner suggests that ISDS provisions within the TPP could very well be used to thwart any regulations designed to sustain Maine's seafood industry as well as efforts to regulate the use of GMOs in agricultural production;
    d. Mr. Berner maintains that the use of ISDS in the TPP is akin to abrogating government responsibility to police powers; and
    e. Mr. Berner also criticized the draft assessment's frequent use of averages as a reliable statistical measure that present an unwarranted and inaccurate picture of Maine's economy; instead he suggests that use of median statistics would present a far more accurate picture of how the TPP is likely to affect Maine's economy.

4. Ezra Silk, resident of Portland, representing the Climate Mobilization – Mr. Silk offered written testimony and made the following points:

a. In other work that Mr. Silk has done regarding "the global climate emergency", he has proposed a wide-scale public mobilization to deal with the climate crisis;
b. Mr. Silk believes that the ISDS provisions within the TPP could be used to challenge any meaningful regulatory effort to deal with climate issues; and
c. Mr. Silk asks that the CTPC recommend that the TPP be amended to carve out any use of ISDS.

5. Jeffrey Neil Young, resident of Cumberland - Mr. Young offered written testimony and made the following points:
   a. The TPP is unacceptable due to its inclusion of ISDS provisions; and
   b. The problems with ISDS are numerous:
      i. The arbitrators often represent corporate interests, may have a corporate bias and therefore can not be neutral;
      ii. The threat of a sizeable award being made to investors often intimidates governments into rescinding regulations designed to protect the public; and
      iii. The ISDS process does not include any meaningful review of arbitration awards

6. Randall Parr, resident of Appleton- Mr. Parr made the following points during his oral testimony:
   a. He disagrees with the draft assessment's conclusion that there will be slight increases in the Maine economy by 2032 as a result of the TPP. As a former economist, he believes that any slight growth would be within the margin of error and cannot be precisely predicted;
   b. Mr. Parr also disagrees with the draft assessment's statement that "The consensus among modern economists is that trade benefits societies as a whole.";
   c. Mr. Parr disagrees with the draft assessment's conclusion that economists are in general agreement that protecting jobs through so-called "trade barriers" is usually more costly to consumers then any savings that would be realized from lower-cost imported goods;
   d. Mr. Parr also disagrees with the draft assessment's belief in the theory of "comparative advantage" which allows two countries to gain from trade even if one is more efficient in all areas of production. Instead, Mr. Parr holds that the theory of Comparative Advantage has not been validated in the modern present day economy and should not be assumed to be correct today. Mr. Parr holds that beneficiaries of any 'free trade" economies that occur today have been corporations that are owned by less than 1% of the public; and
   e. Mr. Parr also disagrees with the draft assessment's assertions that trade deficits are caused by either unfair competitive trade advantages overseas, currency manipulation, or protectionist trade policies overseas. Mr. Parr believes that these factors may affect trade deficits in the short term but have no long term effects.

7. Fred Morrill, resident of St. George - Mr. Morrill made the following points during his oral testimony:

a. Mr. Morrill criticized the TPP for its threat to national sovereignty;
b. Mr. Morrill also criticized the inclusion of ISDS provisions within the TPP;
c. Mr. Morrill made reference to a book, "The Human Use of Human Beings" [authored by Norbert Wiener] by saying that the TPP and other FTAs seem to point in a direction other than that suggested by the book's title; and
d. Mr. Morrill also suggested that the TPP could be more aptly referred to as "SHAFTA".

8. Craig Dorais, resident of Portland - Mr. Dorais made the following points during his oral testimony:

   a. Mr. Dorais suggested that when evaluating the draft assessment, the CTPC should consider that the document does not get to the heart of what needs to be evaluated; the document does not evaluate the societal benefit that may or may not accrue to Maine residents as a result of the TPP. Mr Dorais believes that the TPP should be evaluated in terms of what societal gains may be realized as a result of the TPP; economics should be but a part of a proper evaluation;
   b. Mr. Dorais also spoke negatively about the ISDS provisions included in the TPP and suggested that those provisions eat away at the nation's sovereignty and ability to regulate our society based on the wishes of our citizens; and
   c. Mr. Dorais criticized the draft assessment's use of statistical averages by saying that average gains in the economy tend to be realized by those wealthier individuals in the very top tier and urged that median statistics be used in a study of this type. (Staff Note: Ms. deLutio responded that using a median statistic was impossible with the available economic data.)

9. Eli Edgecomb, resident of Scarborough – Ms. Edgecomb made the following points during her oral testimony:

   a. Ms. Edgecomb agreed with previous testimony regarding concerns with the lack of sovereignty that is likely to happen as a result of the TPP; she emphasized that her concern lies in the very real possibility that citizens will no longer have the ability to self-govern and adopt laws in a democratic fashion. She cited a recent ISDS proceeding in Australia regarding mandated cigarette warning packaging requirements; the government of Australia is now being sued under ISDS provisions by cigarette manufacturers;
   b. Ms. Edgecomb also suggested that the slight economic gains predicted by the draft assessment for Maine demonstrate that there is no real benefit to Maine as a result of the TPP; and
   c. Ms. Edgecomb also maintains that President Obama's vigorous support of the TPP suggests that there are reasons other than actual trade which explain his, and others, support for the TPP.

10. Douglas Born, resident of Auburn and representing the Maine Fair Trade Campaign- Mr. Born made the following points in his written testimony:

a. Mr. Born urged the CCTPC to carefully examine the precise language of the Trade Promotion Authority legislation which states that the TPP could not affect "any inconsistent law at the state level"; and
b. Mr. Born then pointed out that the TPP implementing law drafted by the USTR ignores (and omits) the previously cited language that was included in the Trade Promotion Authority language.

11. Charles Spanger, resident of Scarborough and representing Food & Water Watch – Mr. Spanger made the following points during his oral testimony:

    a. Mr. Spanger is very concerned with ISDS and the overall threat to sovereignty posed by the TPP and other FTAs; he suggested that the notion of home rule is farcical in light of what can happen with ISDS and that corporate rule is likely to supplant our democratic traditions;
    b. Mr. Spanger then presented testimony on behalf of Nisha Swinton of Food & Water Watch:
        i. The TPP poses unacceptable risks to Maine consumers with a likely influx of a huge amount of imported seafood;
        ii. The TPP represents a significant effort by international corporate interests to push their own regulatory agenda and ignores democratically produced regulations designed to protect the public safety;
        iii. The seafood industry is hugely threatened by the TPP with the real possibility of large amounts of farm-raised lobster being imported, thus imperiling Maine's own lobster industry;
        iv. The TPP would undermine important consumer protections and health regulations which help to assure the safety of imported seafood. The TPP places a greater value on profit than on public safety;
        v. Existing U.S. food safety standards could be challenged under the TPP as being barriers to trade; and
        vi. Existing state procurement programs such as Farm to School could be threatened under the provisions of the TPP.

12. Harlan Baker, resident of Portland and representing Democratic Socialists of America - Mr. Baker made the following points during his oral testimony:

    a. Mr. Baker is most bothered by the fact that the TPP is being fast-tracked; there is no opportunity to make any amendments to the current agreement;
    b. While in favor of trade, he is against trade agreements that do not provide for amendments;
    c. Mr. Baker is opposed to the ISDS provisions which allow the U.S. government to be sued by investors and he wonders who will pay if these ISDS challenges prevail?

13. Richard Rhomas, resident of Biddeford - Mr. Rhomas made the following points during his oral testimony:

    a. Mr. Rhomas is a farmer who has been working the family farm for his whole career;
    b. His review of the draft assessment led him to conclude that the authors are guilty of cherry picking data;
    c. Mr. Rhomas maintained that, historically, the U.S. was able to industrialize behind a tariff wall;
    d. Mr. Rhomas believes that the whole point of the TPP and other previous FTAs is to remove power from sovereign peoples and nations and place that power in the hands of unelected but financially powerful interests;
    e. The TPP represents an ongoing rollback from an egalitarian society; the rollback has resulted in the economic punishment of many average citizens; and
    f. Mr. Rhomas disputes the notion that the TPP is complicated or complex; the basic undemocratic tenet of the agreement is easy to understand and many citizens are understandably angry about the TPP and their loss of democratic power.

14. Nat Lippert, resident of Portland – Mr. Lippert made the following points in his written testimony:

    a. In his testimony, Mr. Lippert highlighted the following points taken from a document provided by Bjorn Claeson, former member of the CTPC, and a current member of the Sweatfree Purchasing Consortium:
        i. Recent FTAs include new rules devised to benefit investors and have the effect of impinging existing state regulations and disenfranchising the public;
        ii. With regards to the TPP and other FTAs, priority must be given to what the public interest demands as opposed to the benefit of investors and corporations; and
        iii. A broad representation of civil society must be included in the negotiation and development of future FTAs.

After the conclusion of the segment of the public hearing where CTPC members heard from members of the public, CTPC member Sharon Anglin Treat posed additional questions and comments to the authors of the draft assessment:

- Ms. Treat disputes the point made in the draft assessment that food safety provisions are a significant improvement over previous FTAs and felt that the draft assessment should have reviewed the several prominent studies that have addressed this issue in more detail;
- Ms. Treat also criticized the draft assessment's contention that domestic problems with the footwear industry are likely to be dealt with by current military procurement

legislation being considered by Congress. She notes that this legislation has not yet become law and feels that the draft assessment needs to provide more information about exactly how many workers in this industry are threatened by the TPP;

- With regards to the discussion around service sector jobs, Ms. Treat disputes the contention that these jobs cannot be exported; she believes that certain provisions in the TPP would in fact result in the loss of service sector jobs that are not tied to location (such as jobs in health and education) to low-wage nations within the TPP;
- The draft assessment's treatment of biologics in the TPP is lacking and needs to represent more of the results of the several studies on this particular topic which establish the likelihood of rapidly rising drug prices as a result of the TPP; and
- She disputes the contention that the labor and environmental provisions of the TPP are enforceable and feels that precedent established by previous FTAs shows that many such provisions are not enforced.

Written Testimony provided to the CTPC but no oral testimony

15. Karen Hansen-Kuhn, resident of Washington DC and representing the Institute for Agriculture and Trade Policy - In her written testimony, Ms. Hansen-Kuhn (co-author of the 2014 CTPC Assessment) made the following points:

    a. She was surprised to find that the draft assessment devoted so little time to the possible impact of the TPP on Maine's dairy industry and briefly reminded the CTPC that the 2014 Assessment detailed the threat that the TTIP is likely to have on the somewhat fragile and carefully constructed dairy price structure in Maine;
    b. Ms. Hansen-Kuhn also highlighted the need to further examine and review the procurement provisions in the TPP and how they might eventually affect Maine's economy and various public programs

16. Timothy Wise; resident of Massachusetts and representing the Global Development and Environment Institute, Tufts University- In his additional written testimony submitted on September 29, 2016, Mr. Wise expresses the following concerns;

    a. The economic model used in the draft assessment is inadequate in that it fails to address or recognize the following points:
        i. Will the TPP result in trade deficits?
        ii. Will the TPP result in job losses?
        iii. Will the TPP worsen inequality?
    b. The economic model used by his organization to evaluate the TPP is endorsed by many prominent sources and cited by Nobel Prize economist Joseph Stiglitz;
    c. Mr. Wise also objects to characterizations of the Global Development and Environment Institute by Professor Trostel as "Marxist", he acknowledges that he is not an economist but touts the academic qualifications and experience of the three individuals who authored the Institute's most recent evaluation of the TPP.

The public hearing was adjourned at approximately 7:45 PM.

Good evening, co-chairs Senator Volk and Representative Saucier, honorable members of the Commission

Thank you for listening to my testimony today. My name is Mike Hasty and I live in South Berwick. I am the New England Regional Representative for the Alliance for Democracy, and co-represent the Alliance for Democracy on the board of the Maine Fair Trade Campaign, along with my fellow Alliance for Democracy national council member, Bonnie Preston.

I am submitting these comments on behalf of Jeremy Malcolm, Senior Global Policy Analyst for the Electronic Frontier Foundation.

On copyright:
The impact assessment states "the TPP... allows for "fair use" in activities like reporting, teaching, research, etc". It may *allow* for countries to permit these uses, but it does not require them to do so. This has a negative impact on U.S. companies that rely on copyright flexibilities as part of their business models. For example, in countries with restrictive copyright laws that lack "fair use", websites that rely on fair use fall at risk of legal liability. This affects not only large companies like Google (who News, Books and YouTube products are amongst those that rely on fair use), but also smaller start-ups who cannot afford exposure to potentially huge liability from copyright lawsuits.

On digital trade:
The impact statement states, "The TPP also prohibits requirements for source code disclosure". These requirements were not prepared in consultation with the information security community, and have drawn criticism for foreclosing possible rules to promote public safety and security. For example, it might be a legitimate position for the U.S. to require a source code review of consumer-level routers or firewalls imported from China, to ensure there are no backdoors or security holes.

On trade secrets:
The impact assessment states "The TPP is the first FTA to require criminal penalties for theft of trade secrets". Although true, this is actually one of the significant flaws of the TPP, because of its potential for misuse by repressive countries such as Vietnam, Brunei and Malaysia.

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The Alliance for Democracy

Joining together to end corporate rule

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About Alliance for Democracy

The mission of the Alliance for Democracy is to free all people from corporate domination of politics, economics, the environment, culture and information; to establish true democracy; and to create a just society with a sustainable, equitable economy.

ALLIANCE FOR DEMOCRACY is a new Populist movement --- not a political party --- setting forth to end the domination of our economy, our government, our culture, our media and the environment by large corporations. THE ALLIANCE brings people together to build a progressive populist movement to end the corporate domination of our economy, our government, our culture, our media and the environment. It is time to end corporate rule.

WE AIM TO PROMOTE true democracy in our country and help achieve a just society with a sustainable, equitable economy. We work together with other organizations, both here and abroad, who share these goals.

WE ARE PEOPLE from every walk of life who have come together from across the country, listened to each other, and united to end corporate rule. We are committed to true democracy, with focus for the voice and will of the people; to social and economic justice for all people; and to the building of alternative democratic, human-sized economic systems.

WE PURSUE THESE GOALS with respect for the dignity of all people and, in a nonviolent way, seek linkages with similar groups to form a new people's movement, both in the United States and around the world.

PIECEMEAL REFORM isn't enough anymore. The corporate system will not permit us to win anything fundamental by politics as usual. We see our unique role as seeking the deep systemic change we'll need to win our independence from corporate rule and replace it with true democracy.

How did Alliance for Democracy begin?

IN AUGUST 1995, *The Nation* published Ronnie Dugger's "**A Call to Citizens: Will Real Populists Please Stand Up**." Over 6000 people responded, 2500 joined, and more than 55 local Alliances were formed nationwide. In late 1996 delegates from 30 states convened in Texas hill country and the Alliance for Democracy was founded.

THE POPULISTS of the 1880s arose in those same Texas hills to challenge banks and corporate trusts for control of the national wealth and spirit. Uniting farm and factory workers for the first time, they set up cooperatives, educated each other, published newspapers and books, and fielded 20,000 speakers to show the way to cooperation, self-respect, and hope.

Yes, but those first populists . . .

THEY COMBATTED RACISM and anti-Semitism more effectively than any social movement before the Civil Rights movement of the 1960s, as demonstrated by historian C. Vann Woodward. Even so, a number of Populists shared the prejudices of that time. We, 21st century Populists, are committed to the equal importance of every person, no matter the person's race, religion, gender, age, sexual orientation, politics, or nation of origin.

What is the situation now?

MAJOR CORPORATIONS dominate our lives, our government, our work, our health care and our food supply. Media conglomerates control the course and set the limits of public discussion, commercialize and debase our national consciousness, and manipulate mainstream public opinion.

EVERYWHERE THE NATURAL WORLD is threatened. Yet people worldwide are exhorted to consume more and buy more in the name of "progress" so big corporations can get bigger.

* The courts have given corporations the basic Constitutional rights of persons, but workers lose those rights on entering the workplace.

* The World Trade Organization effectively gives corporations veto power over our U.S. environmental and labor laws, weakening our right to protect ourselves and our land by our legislation.

* Of the world's 100 largest economies, 50 are now global corporations.

* The corporate share of taxes paid has fallen from 33 percent in the 1940s to 15 percent today. Individuals' share of taxes has risen from 44 to 73 percent.

* The richest 1 percent of Americans own 40 percent of U.S. assets.

How does the Alliance work?

IN LOCAL CHAPTERS, our basic operating units, members are educating each other, studying the corporate system and corporate power in their communities, acting against local corporate abuses, and making inventories of local alternative economic and media resources. Our biennial conventions elect a national council, which oversees the organization, its campaigns, and our national office. The chapters are self-governing in accordance with agreements between them and the national organization. **Visit our chapter page here.**

Our organizational Constitution and Bylaws are here.

What do Alliance members believe?

WE COME FROM all across the political spectrum, so our beliefs vary. But most of us feel that no task *is more important than taking back our democracy from the unelected mega-corporations that, step by stealthy step, have stolen it from us.*

WE UNDERSTAND the size of this task. But we are serious in our demand for systemic change. All the changes we need and want we cannot have unless We, the People, take back our power, this time for all of us.

IF WE DON'T, we will not have health care for everyone, or elections not bought by the corporations and the wealthy, or a just tax system.

WE WILL NOT HAVE clean food and water, a healthy natural environment, or safe cities and towns. We will not have good education for our children, equal treatment for all people, full employment, or an adequate safety net for our poor, weak, and elderly.

About EFF

The Electronic Frontier Foundation is the leading nonprofit organization defending civil liberties in the digital world. Founded in 1990, EFF champions user privacy, free expression, and innovation through impact litigation, policy analysis, grassroots activism, and technology development. We work to ensure that rights and freedoms are enhanced and protected as our use of technology grows.

Even in the fledgling days of the Internet, EFF understood that protecting access to developing technology was central to advancing freedom for all. In the years that followed, EFF used our fiercely independent voice to clear the way for open source software, encryption, security research, file sharing tools, and a world of emerging technologies.

Today, EFF uses the unique expertise of leading technologists, activists, and attorneys in our efforts to defend free speech online, fight illegal surveillance, advocate for users and innovators, and support freedom-enhancing technologies.

Together, we forged a vast network of concerned members and partner organizations spanning the globe. EFF advises policymakers and educates the press and the public through comprehensive analysis, educational guides, activist workshops, and more. EFF empowers hundreds of thousands of individuals through our Action Center and has become a leading voice in online rights debates.

EFF is a donor-funded US 501(c)(3) nonprofit organization that depends on your support to continue fighting for users.

Additional information:

- Become an EFF member
- View our annual reports and financial information
- Historic EFF court victories
- EFF's founding

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Testimony regarding the 2016 Draft Trade Policy Assessment

Timothy A. Wise, Policy Research Director
Global Development and Environment Institute, Tufts University
September 15, 2016

Please accept the following testimony on the 2016 Maine Trade Policy Assessment. The draft Assessment reviews five studies containing projections of the Trans-Pacific Partnership's (TPP) economic effects. These include the study by Jeronim Capaldo, Alex Izurieta, and Jomo Kwame Sundaram (2016) published by the Global Development and Environment Institute at Tufts University under my direction. It is often referred to in the media as the "Tufts study".

The authors of the Assessment criticize the Tufts study for having "serious methodological flaws" and for not fully disclosing the underlying calculations. They also point out that the study has no connection with Tufts University's Economics Department. Unfortunately, the authors of the Assessment offer little detail to substantiate their critiques and provide a selective bibliography that includes similar critiques of Capaldo and Izurieta's study but excludes their published responses to those critiques. In particular, Capaldo and Izurieta have written relevant responses to analyses by the Government of New Zealand[1], economists from think tanks and universities including the Peterson Institute[2] for International Economics and Harvard University, and the Congressional Research Service[3]. The assessment also does not mention the praise of Capaldo and Izurieta's analysis of TPP by Nobel Laureate Joseph Stiglitz[4].

In dismissing Capaldo and Izurieta's study, the authors briefly mention three substantive points: their own view that the model used is only appropriate for the short-term; the fact that Capaldo and Izurieta assume TPP to facilitate fiscal austerity leading to worse outcomes; the fact that Capaldo and Izurieta assume unemployed workers to remain unemployed for a long time. However, the authors of the Assessment fail to cite the many commentaries published by Capaldo and Izurieta in response to similar questions over the past two years. In these commentaries Capaldo and Izurieta have explained why their model is in fact appropriate to analyze long-term effects and clarified the reasons for their assumptions on austerity and unemployment.

[1] See A. Izurieta, *Reply to the Commentary by the New Zealand Ministry of Foreign Affairs and Trade*, GDAE Globalization Commentary, March 2016:
http://www.ase.tufts.edu/gdae/Pubs/rp/IzurietaTPPNewZealandMar2016.pdf

[2] See J. Capaldo and A. Izurieta, *Modeling TPP: A Response to Robert Z. Lawrence*, GDAE Globalization Commentary, February 3, 2016: http://ase.tufts.edu/gdae/Pubs/rp/GC96Feb16CapaldoIzurieta.pdf

[3] Forthcoming in GDAE's Globalization Commentary

[4] https://www.youtube.com/watch?v=kTmA2rKXZ8Y&feature=youtu.be&t=29m40s

Based on Capaldo and Izurieta's writing (available on GDAE's website) the reasons for their assumptions are straightforward. Their reading of recent history is that liberalization forces many governments to reduce deficits in the hope of attracting foreign investment. At the same time, Capaldo and Izurieta reject the assumption that full employment naturally establishes itself – an assumption extraordinarily frequent in analyses of trade liberalization and common to the other four studies reviewed in the Assessment. By contrast, Capaldo and Izurieta assume that during economic downturns firms lay off workers, rather than renegotiating their salaries, and that laid off workers do not easily find jobs in expanding industries.

It seems only appropriate for a study that analyzes the economic effects of TPP to not rule out unemployment by assumption. Yet the other studies reviewed in the Assessment do just that. They also rule out any worsening of inequality and increases in the trade deficit, all phenomena that have been associated with past trade agreements and about which many citizens are legitimately concerned. These unrealistic assumptions strongly bias projections in favor of liberalization projects such as TPP. However, these shortcomings and their impacts on projected outcomes are not analyzed in the Assessment. Neither does the Assessment clearly point out that all reviewed studies, except Capaldo and Izurieta (2016), use the same economic model, whose assumptions virtually guarantee pro-liberalization outcomes.

If the Assessment's bias does not emerge from its misleading review of Capaldo and Izurieta's assumptions, it shows clearly in the remark that Capaldo and Izurieta do not disclose their calculations fully. To be sure, this is true: Capaldo and Izurieta do not disclose their computer code and other details of their projections. But neither do the authors of any of the other studies reviewed in the Assessment. In published commentaries, Capaldo and Izurieta explain why they choose to abide by the disclosure standard of international organizations, for a model housed at a UN agency, and withhold their computer code. Disturbingly, these commentaries are not mentioned or considered in the Assessment[5].

Finally, despite the biased review it provides, one statement made in the Assessment is indisputably true: there is no connection between Capaldo and Izurieta's (2016) study and Tufts' Economics Department. The study has been produced as part of a research program at Tufts University's Global Development and Environment Institute (GDAE), affiliated with the Fletcher School of Law and Diplomacy and the Graduate School of Arts and Sciences. Capaldo is a GDAE Research Fellow. Thanks to a research collaboration with the United Nations Conference on Trade and Development, GDAE has contributed to developing the United Nations Global Policy Model (GPM) since 2014. This research has so far led to three analyses of the economic effects of modern-day trade agreements: a study of the Trans-Atlantic Trade and Investment Partnership (TTIP), the study on TPP and a forthcoming study of the EU-Canada Comprehensive Economic and Trade Agreement (CETA).

As is customary in academic research, all three studies have been initially published as GDAE Working Papers. Subsequently, the study of TTIP, the first in the series, has been published in a peer-reviewed journal[6] while the study on TPP has been submitted to a journal and has received a favorable first review. The study on CETA will be released as a working paper this month and it will subsequently be submitted to a journal.

Based on these facts, the opinion expressed in the Assessment that Capaldo and Izurieta's (2016) TPP study would not pass a peer review seems off the mark. The Maine Citizen Trade Policy Commission should continue to take the findings seriously if it is concerned with possible TPP impacts on unemployment and inequality, which other studies exclude by assumption.

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[5] See J. Capaldo, *Overcooked Free-Trade Dogmas in the Debate on TTIP*, GDAE Globalization Commentaries, May 3, 2016: http://www.ase.tufts.edu/gdae/Pubs/rp/CapaldoTTIP_Rejoinder.pdf

[6] See J. Capaldo, *"The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability"*, *Economia & Lavoro*, n. 2, 2015.

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Brief responses to questions on the 2016 Draft Trade Policy Assessment

Timothy A. Wise, Policy Research Director
Global Development and Environment Institute, Tufts University
September 29, 2016

In light of continuing controversy and confusion about our contribution to the Maine Citizen Trade Policy Commission's discussion of the economic impacts of the Trans-Pacific Partnership Agreement (TPP), please accept these brief comments, which I ask be included in the public record and forwarded to the commissioners. I will refer only in passing to questions raised about the credibility of me, our institute, and our study, because the commission deserves a more reasoned discussion.

The implication from Prof. Trostel's statements at the hearing and in the subsequent email exchange with commissioners is that our critique of the mainstream economic modeling he cites favorably in the assessment is outside the bounds of accepted discourse in the economics profession. But many reputable economists have pointed out that the TPP modeling in such studies is fundamentally flawed because it excludes by assumption three of the questions most citizens and policy-makers want answers to when it comes to a proposed trade agreement:

- **Will the TPP result in trade deficits?** The modeling cited in the assessment assumes that no TPP country will import more than it exports, but this has, of course, been the lived experience in the United States and elsewhere. Such trade deficits contribute to job loss, as imports displace domestic production.
- **Will the TPP result in job losses?** As assessment's author states in his email and elsewhere, he and the models he relies on assume that everyone who loses a job to trade will find a job elsewhere. Again, this is not the lived experience, in Maine or elsewhere. Our study modeled the possible employment implications of the changes in trade flows from the TPP, finding net losses in jobs in the US and elsewhere.
- **Will the TPP worsen inequality?** Many lose their jobs, many who find jobs do not earn as much as they did before. Meanwhile, multinational firms benefit from such agreements, and from the international competition to lower wages. This is usefully measured as the labor vs. capital share of income, and the labor share has been falling for a long time now in the US. Our study projects it will fall further with the TPP, precisely for the common-sense reasons I just stated. Inequality will worsen.

The commission does not need nor want to debate the intricacies of economic modeling. What the commission should want from its assessment are answers to those three questions. Our study makes one attempt to answer them. We need more. Economists should recognize the importance of those questions, the limitations in the mainstream models the assessment relies on, and then offer additional sources that do not exclude, by assumption, the problems policy-makers and the public are most concerned about.

Many economists have come to the conclusion that the TPP as negotiated is flawed, in part for the reasons stated. Nobel Prize economist Joseph Stiglitz has indeed read our work and cites it regularly, and more importantly, he wrote his own critique of the TPP.[1] Economist Dani Rodrik wrote recently in the *New York Times*, calling for a different approach to globalization.[2] Jared Bernstein, former adviser to Vice President Joseph Biden, recently offered what he proposes as more appropriate "rules of the road" for such trade agreements.[3]

Finally, to respond briefly to misrepresentations about our institute and our work:

- I was shocked to see our institute referred to as "Marxist." Our institute is "heterodox," in the sense that it explores non-orthodox schools of economics – environmental, institutional, neo-Keynesian, behavioral. We give an economics prize every year to highlight creative thinking in economics. Past winners include highly reputable economists who would hardly be considered Marxists: Amartya Sen, John Kenneth Galbraith, Richard Nelson, Peter Timmer, Dani Rodrik, Robert Frank.
- I am not an economist, nor have I ever claimed to be. My degree is in public policy and I've studied trade policy for two decades. This seems entirely relevant to the assessment of the TPP, certainly more so than an economics degree but limited experience with trade policy.
- Those who carried out our study are eminently qualified economists. Jomo Kwame Sundaram is a Harvard-trained economist and noted international figure. Alex Izurieta is a PhD economist. Jeronim Capaldo is receiving his PhD later this year from the New School, after studying under well-known economist Lance Taylor. The three are responsible for creating the Global Policy Model, initiated when all three worked at the UN Department of Economic and Social Affairs in NY. That model is now being used by several UN agencies, precisely because analysts understand that no one can make sense of today's global economy if they use models that assume full employment, fixed trade balances, and no worsening of inequality.

As I suggested in my earlier written testimony, the Maine Citizen Trade Policy Commission should continue to take our findings seriously if it is concerned with possible TPP impacts on unemployment and inequality, which other studies exclude by assumption. And commissioners should insist on a more respectful, civil discourse from the consultants it hires for its assessments. The issues are important and should not be dismissed through innuendo.

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[1] *Why TPP Is a Bad Deal for America and American Workers* By Joseph Stiglitz ,03.28.16, Roosevelt Institute, http://rooseveltinstitute.org/why-tpp-bad-deal-america-and-american-workers/

[2] "Put Globalization to Work for Democracies," Dani Rodrik, New York Times, Sept. 17, 2016: http://www.nytimes.com/2016/09/18/opinion/sunday/put-globalization-to-work-for-democracies.html?_r=0

[3] "The New Rules of the Road: A Progressive Approach to Globalization," Jared Bernstein, *On the Economy Blog, Sept. 23, 2016:* http://jaredbernsteinblog.com/the-new-rules-of-the-road-a-progressive-approach-to-globalization/

Reply to the Commentary by the New Zealand Ministry of Foreign Affairs and Trade

Comments on Trans-Pacific Partnership submitted to the New Zealand Parliament, March 1, 2016

Alex Izurieta·

The Ministry of Foreign Affairs and Trade of New Zealand has issued a commentary[1] on our projections of Trans-Pacific Partnership's economic effects[2]. The Commentary provides an opportunity to reflect on some important issues involved in modeling the effects of TPP and similar agreements. This note aims at correcting a few misrepresentations.

1. The United Nations Global Policy Model was built to assess global and country-level economic outcomes under changing policy scenarios.

Contrary to what is claimed, the United Nations Global Policy Model (GPM) was not constructed to assess the economic consequences of unexpected shocks such as the global financial crisis. If that were the case, the model's release in early 2007, almost two years before the financial crisis, would show prescience. In fact, the model is a variant of the Cambridge-Alphametrics Model, first released in 2005 and that in turn was developed from the Cambridge Economic Policy Group's World Economic Model[3].

The origin and purpose of the GPM have already been clarified in a response to similar misconceptions arising from the debate of the Trans-Atlantic Trade and Investment Partnership (TTIP).[4] In a nutshell, the model is constructed to assess macro-financial changes induced by policy (mostly monetary, fiscal, industrial, financial, income, employment and trade policy). It offers an ideal empirical platform to evaluate changes triggered by trade and financial arrangements, such as: induced behavioural changes on business, seeking competitiveness improvements by cost reduction (including wage compression and labour shredding); or the implications of such changes in the generation of income on expenditure patterns of households and investment patterns of businesses; or changes in tax schedules seeking to attract foreign investors; or risks of financial instability and exchange rate aberrations triggered by greater speculative activities in the context of financial deregulation.

2. The GPM is estimated over a consistent database of global trade and investment

It is erroneous to say that the model does not capture exports, imports or foreign direct investment. As is clarified in the model's technical documentation[5], the GPM database and model contain a very comprehensive and globally consistent dataset covering global trade and financial investment.

[1] See New Zealand Ministry of Foreign Affairs and Trade: http://www.parliament.nz/resource/en-nz/51SCFDT_EVI_00DBSCH_ITR_68247_1_A490177/33e1b914eb7d00cbec8a838e326aa71a79de818a

[2] See Capaldo, J., A. Izurieta and Jomo KS, 2016, "Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement", GDAE-Tufts University: http://www.ase.tufts.edu/gdae/policy_research/tpp_simulations.html

[3] Constructed in the late 1970s and subsequently subject to several revisions under the guidance of Francis Cripps.

[4] See J. Capaldo, 2015, "Overcooked Free-Trade Dogmas in the Debate over TTIP": http://ase.tufts.edu/gdae/Pubs/rp/CapaldoTTIP_Rejoinder.pdf

[5] See F. Cripps and A. Izurieta, 2014, "The UN GPM, Technical Description": http://unctad.org/en/PublicationsLibrary/tdr2014_GPM_TechnicalDescription.pdf

The GPM provides a configuration of the dynamics of exports and imports over four main categories, estimated econometrically using time-series that go back to 1970. It also provides, quite unusually for global models, a full mapping of the financial sector, domestic and external (including Foreign Direct Investment) based on estimated financial flows, financial stocks and valuation changes. As a matter of fact, at the moment no other global macroeconomic model provides the same degree of detail on financial flows and stocks. For most other models, including trade models such as GTAP which offer more disaggregated trade data, the financial sector is either assumed away or considered passive in its relation to the real economy. Given that contemporary trade agreements are as much about liberalizing financial flows as they are about tariff reductions this is a major limitation of such models.

3. The Ministry's Commentary distorts a rather rich debate

The Commentary by the Ministry of Foreign Affairs and Trade of New Zealand extracts sentences from the debate with Prof. Lawrence of the Peterson Institute, trying to show inconsistency in our response. However, this attempt is misdirected. First, the statement is incorrectly attributed to Jeronim Capaldo rather than to Jomo KS[6], author of the cited reference. Secondly, the statement that we "do not claim to have provided reliable and definitive projections of the TPP's likely effects" seems to be taken as an auto-critique when it is meant to acknowledge the limits of all exercises in macroeconomic projection. As is clear from reading Jomo's entire article, the statement does not imply that our results are less reliable than those from the models we criticize.

Given such misrepresentations, readers may be understandably concerned with other missteps made in the Commentary. We invite anyone interested in the debate on TPP's projected effects to read Robert Lawrence's critique[7] and our responses[8] directly. We also invite readers to evaluate ECIPE's criticism[9] and Capaldo's response[10] directly.

4. We do not propose alternative trade projections. We rely on "trade" models

It is correct that GPM does not reflect trade specialization in the same way that the models we criticize do. Each model emphasizes some aspects of reality while neglecting others. Our model emphasizes the importance of 'policy space' and of income generation and distribution, while it captures its dynamics by econometric estimation over series longer than four decades. It does not provide such a granular view of production, exports and imports covering dozens of sectors, of which the underlying economic relations are calibrated to one year of observation. Recognizing these differences of scope and method is the starting point of our study: we take at face value the market-level *trade* projections provided by a trade model that offers such detail, namely the study by the Peterson Institute. Providing alternative results would require that we

[6] See Jomo KS, "Are the Peterson Institute Studies Reliable Guides to Likely TPP Effects?": http://ase.tufts.edu/gdae/Pubs/rp/GC98Feb16JomoKS.pdf
[7] See Robert Lawrence, 2016, "Studies of TPP: Which Is Credible?": http://blogs.piie.com/trade/?p=553
[8] See cited Commentary by Jomo KS. See also J. Capaldo and Alex Izurieta, February 3, 2016, "Modeling TPP: A Response to Robert Z. Lawrence": http://ase.tufts.edu/gdae/Pubs/rp/GC96Feb16CapaldoIzurieta.pdf
[9] See ECIPE, 2015, "'Splendid Isolation' as Trade Policy: Mercantilism and Crude Keynesianism in 'the Capaldo Study of TTIP: http://www.ecipe.org/app/uploads/2015/04/1-Occasional-Paper_v4.pdf
[10] See Capaldo, 2015.

develop another trade model. Or, we could have used projections by other 'trade' models, such as the study by the US Department of Agriculture[11], which is less optimistic than the Peterson Institute's.

5. We analyze effects neglected by most trade models: policy changes, employment and income distribution

Our intent was to draw attention to the macroeconomic implications that may result from the adoption of a trade *and investment* treaty like the TTP, particularly for fiscal policy, the distribution of income between profits and wages, employment and GDP growth. These are areas on which 'trade only' models have little to say. Trade models are partial analyses, based on prices, tariffs, demand and supply of a variety of products, for most of which there is only a single observation, not a time series, and a set of economic relations that are calibrated to conform an economic theory of some kind. To be more specific, demand and supply of each traded good (thus imports and/or exports) are projected according to the belief that trade liberalization improves performance because each restriction that is lifted is assumed to be just a cost. Trade models cannot tell with certainty whether increasing activity in one economic sector leads to higher or lower activity in other sectors or what happens with the activity behind the cost that is eliminated. The same uncertainty applies to country and global prices, employment, government budgets and the implications of changes in fiscal policy for economic activity. Trade models overlook the problems arising from the necessary aggregation of fiscal balances and the employment effects of trade liberalization. They also downplay the macroeconomic effects of changes in non-tariff barriers and, since these models typically do not include a financial sector, the dynamics of capital flows (including Foreign Direct Investment) are overlooked as well.

6. Some macroeconomic assumptions common in trade models are unreasonable or at best unhelpful

Given these problems, how can trade models of the sort we criticize project the effects of changes in tariffs, non-tariff barriers and capital flows on fiscal balances, employment and income distribution? They make a series of strong assumptions. More specifically:

a. They assume that all economies operate at full employment, based on the belief that full employment is the natural state of the economy in the long term to which all forces converge. This is done by assuming that for every job destroyed in a contracting sector a new job is created somewhere else; for as long as there is an unemployed worker available, a new expanding sector will emerge thanks to free trade.

b. Lifting non-tariff barriers, which include things like public sector support to businesses, environmental standards, health standards, employment regulation, welfare and social protection policies, etc, are tantamount to reducing 'costs' and/or increases of productivity. It is a belief, but by assuming such effects in a trade model, the intent is to show that trade liberalization is always good: costs are reduced, productivity grows, businesses flourish.

c. Financial deregulation and the promotion of free capital flows are believed to improve efficiency, create more savings which are automatically transmitted into more productive investments and lead to more economic activity. It is a belief (which the modeler takes as self-evident since such models do not have a financial sector) but by assuming such effect in the model it is therefore tautological that financial

[11] See USDA, 2014, "Agriculture in the Trans-Pacific Partnership": http://www.ers.usda.gov/media/1692509/err176.pdf

liberalization is good: businesses and productive investment flourish on the back of more available financing.

d. Based on the congenial role of reduced costs, of full employment and the full transformation of savings into productive investment, these models can simply accept a belief that any potential impact of tariff changes on the public sector will not be a matter of concern. Else, reduced tariff revenues or increased unemployment may signify either revenue loses or increased expenditures for the public sector, thus greater deficits, rising debt levels and the potential economic problems these might cause for policy makers. Likewise, why in an economy represented by a trade model do we need public sector jobs if free trade creates all the employment needed?

e. Trade and financial liberalization, by belief then, lead to increased productivity. This is further handled in such models with the help of another assumption: perfect competition. This assumption, which is also taken up in the study conducted by the Ministry of Foreign Affairs and Trade (p. 16) is essential to obtain three very congenial effects of trade and financial liberalization. The first one is that all productivity increases and efficiency gains are directly transmitted into reduced prices for consumers. Neither profit makers nor workers reap the benefit of a higher margin on unit costs, all is transmitted to consumers.

f. The second congenial effect of the assumed higher productivity and perfect competition is that all factors are paid fairly according to their marginal contribution to production. As a result, these models fail to explain the reduction of labor shares that has affected many countries in recent decades.

g. The third effect of assumed higher productivity and perfect competition, which is often presented as an independent assumption, is that the model always generates full employment after a relatively short adjustment period. In practice, increased productivity means that the same product requires less labour input than earlier, thus some workers become superfluous but these in turn will be added to the available labour supply. But these, in a perfectly competitive labour market and supply-driven economy will be able to find another venue to sell their labour service at the asking price. Their supply will create the required demand. It is a belief, but a model that incorporates such belief will be able to show that trade and financial liberalization leave employment unaltered.

h. Finally, there is the aggregation problem, which is one of the most critical issues in macroeconomic performance, even if that is ignored 'by construction' in trade models. Casual observers of the economic discipline tend to believe that macroeconomic analysis is for the short run, and more specifically for crisis conditions. Nothing can be further from the truth. Macroeconomic analysis is the branch of economics that deals with the aggregation of individual behavior after taking into account interactions between sectors, policies, the financial system, and trade. Trade models 'aggregate' by adding up the results of individual products, but ignore important policy feedbacks, trade-offs and dynamics of flow-of-funds through the financial sector. For example, a reduction of a tariff, or the elimination of a sanitary control, is viewed in a standard trade model as eliminating a cost and this is added to the cost eliminated in the next product and so on. In a macroeconomic model such 'costs' that are reduced have also an impact on someone else's income or job availability: the number of health workers eliminated, of educators teaching health standards, of equipment to undertake health analyses, the lost revenues for a public sector institution in terms of tariffs or taxes which would then implies cutting down on employment somewhere else.

   Likewise, a belief in increased foreign direct investment is seen in a trade model as an increased supply of finance and thus greater economic activity, with no implication for 'policy space'. No account is made of the pressure exercised by foreign counterparts on tax reductions, on deficit reduction, on containing government spending, etc. Nor is allowance made for the possibility (which has certainly been recorded in practice) that funds available may end up in speculative activities when the impetus from household spending, which depend heavily on labour income, tend to weaken. Apart from these effects which are real and can be captured on aggregate basis in macroeconomic models, the GPM offers the proper portfolio and accounting structure to track financial flows. The costs of such additional supply of finance (such as FDI) will be incorporated somewhere else in the model. These can be considerable if changes in other parts of the financial system, as a result of increased financial deregulation, trigger a sudden outflow of capital, or a raise of interest rates, or a foreign exchange depreciation that makes honoring the returns more expensive in domestic currency. Of course, no model can handle in a reasonable way all such level of detail, but macroeconomic models, especially those which are econometrically estimated over a sufficiently long period of time, can offer a sensible representation of the aggregate performance of an economy responding to changes like those usually triggered by trade and financial liberalization.

7. Concluding Remarks

In sum, our attempt was to complement as well as to correct misperceptions. We aim at complementing by intentionally not disputing trade-specific findings of a trade model like that of the Peterson Institute. We could have used trade projections from another trade model or we could have developed our own trade model. But we chose to take such trade-specific findings on face value. Why? Because we wanted our readers to concentrate on what is effectively a series of misconceptions built in the assumptions of such models, which could lead to serious policy errors. These misconceptions include the belief that by eliminating non-tariff barriers and by assuming flows of foreign direct investment out of thin air, the world economy will face lower costs, become more productive, ensure that everyone who wants to find a job will finds it and is paid a fair wage. We used a global model that is not built on such beliefs and our results show indeed a different picture. As with all projections, and regardless of the model employed, ours may turn out to be inaccurate, triggering a further round of scientific discussion on how to improve the model for future use. But in the course of improving understanding of the implications of trade and financial agreements, we should persevere in providing a more plausible view of the real world economic processes at stake rather than ignoring them by assumption.

Alex Izurieta is Senior Economist at UNCTAD. Opinions expressed in this note represent his personal views.

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Modeling TPP: A response to Robert Z. Lawrence

By Jeronim Capaldo and Alex Izurieta

In a recent blog post Robert Z. Lawrence of the Peterson Institute compares our projections of TPP's economic effects with those by his colleagues Peter Petri and Michael Plummer. Since the two sets of projections point to opposite GDP and employment outcomes in the United States, understanding the differences between them is important. We are thankful to Lawrence for bringing up, perhaps unintentionally, a few frequent misconceptions.

Lawrence's comparison is organized around three questions he asks about each model: Is the model appropriate to explain trade policy? Does it sensibly depict TPP? Are the results credible? These are reasonable questions. Unfortunately, Lawrence's answers contain several incorrect statements about our model while turning a blind eye to the problematic aspects of his colleagues' work. If compare we must, we should be fair.

We offer different answers to Lawrence's three questions and suggest considering a fourth, critical one.

Is the Model Appropriate to Explore Trade Policy?

Lawrence's view is that the model used by his colleagues, the Global Trade Analysis Project or GTAP, has been explicitly designed to analyze the intricacies of trade policy while ours has not. We agree and we make it clear in our paper. However, we do not analyze TPP from the point of view of trade policy and we focus, instead, on its macroeconomic impact. Furthermore, conscious of this limitation of our model, we opted for not calculating our own trade projections and used, instead, Petri and Plummer's. Therefore, any factor considered by Lawrence's colleagues in calculating those figures, including the effects of tariffs and non-tariff barriers, is present in our analysis too. Where we depart from Petri and Plummer is in the way we calculate the implications of their trade projections on growth, employment and income distribution, under the conditions of freer trade and greater financial liberalization that the TPP promotes. Since Petri and Plummer assume that the economy operates constantly under full employment and fixed income distribution, we found their projections of employment, distribution and growth meaningless. Rather, we prefer to use the United Nations Global Policy model (or GPM) in which we do not make either of those assumptions.

The GPM also has another feature that we find particularly desirable in ten-year projections. It does not assume that a "Panglossian" natural force, perhaps an invisible hand operating over time, will drive the economy toward a virtuous state. In our reading of available data and literature, nothing justifies such assumption, let alone under freer trade and investment rules between unequal partners. Perhaps, the absence of such force is what makes Lawrence say that the GPM is a model for the short term. Given his claim that assuming full employment is appropriate in a ten-year horizon, he seems to believe in that force. If one doesn't believe in it, much of the difference between short term and long-term macroeconomics disappears, the long term being a sequence of short-term outcomes.

As any policy proposal, TPP has multiple implications and no model can take them all into account. While Petri and Plummer's model contains a lot of details on trade effects, it is not appropriate as a tool to analyze TPP's macroeconomic implications. By assuming that all economies operate constantly under full employment and a fixed distribution of income, the model excludes by assumptions two of the major macroeconomic risks of trade liberalization. Contrary to Lawrence, we believe that these assumptions are not acceptable even in ten-year projections. Unemployment and inequality can increase for even longer periods.

Aside from any differences in purpose, Lawrence also suggests that our model is less transparent than the one used by his colleagues, a full-employment version of a Computable General Equilibrium model. However, Lawrence's statement that the GPM's equations are not publicly available is false: they are described in the background paper that he himself cites (Cripps and Izurieta, 2014). But there is more to the issue of transparency than equations. Curiously, Lawrence turns a blind eye to the fact that, in his colleagues' projections, GDP growth largely depends on FDI soaring to unprecedented levels while benefiting the economy in unprecedented ways. Rodrik, who prefers CGE models over the GPM, calls similar tactics "introduc[ing] growth effects through the back door". So much for transparency.

Does the Model Sensibly Depict TPP?

Answering this question requires repeating some of the points just made. It may be worth it.

We agree with Lawrence about the fact that Petri and Plummer go to great lengths to estimate the impact of tariffs and non-tariff barriers, while we don't. However, the question is: why should we? Again, our purpose is to analyze the macroeconomic impact of TPP and for that that we need a macroeconomic model, such as the GPM. Our approach is to accept Petri and Plummer's estimates of the impact that TPP will have on trade volumes and derive their implications for growth, employment and income distribution. Any trade effects of TPP, including the impact of barrier removal, is accounted for in those trade estimates and, therefore, considered in our analysis.

In light of past experiences of trade and financial liberalization, we have serious reservations about Petri and Plummer's optimistic projections of trade growth and unchanging trade balances. However, we accept them in order for our results to be more easily comparable with theirs. Obviously, different trade projections would lead us to different macroeconomic outcomes.

According to Lawrence, projecting the effects of TPP over a decade justifies assuming full employment. On this we completely disagree. As mentioned above, undesirable levels of unemployment can persist for a decade or longer, particularly when trade partners with different power, and workers and profit-earners are pressured to compete more. While in Petri and Plummer's analysis the economy adjusts to TPP based on full employment, we base our projections on a different mechanism. We believe that under stronger competition and financial liberalization TPP will increase pressure on firms in every participating country to cut labor costs. As a result, we believe that the share of total income accruing to labor will decrease, with far-reaching implications for aggregate demand, economic growth and employment. These implications are the focus of our analysis. Although stylized and estimated at a fairly aggregate level, we find such adjustment mechanism to be more reasonable than one based on assuming away unemployment and other major economic problems.

Are the Model's Results Credible?

While Lawrence's colleagues project a moderate increase in GDP (0.5 percent) for the United States, we project a moderate decrease of both GDP (-0.5 percent) and employment (0.03 percent of today's labor force). We have no pretense of accuracy but we point to a potential adverse effect that TPP might have on the US and on the global economy – initiating a race to the bottom in which countries compete against each other by cutting labor costs. According to our projections, such a race would slow down growth, undermine employment creation and drive up inequality. Indeed, one could argue that such a trend has already started.

Our projections also point to negative impacts on growth and employment in non-TPP countries. This is because we see those countries facing two options: they can join the race to the bottom and undergo a slow economic downturn or they can choose not to react. To keep our analysis as simple as possible, we assume the latter. Consequently, we project that non-TPP countries such as China and India will lose part of their shares of world markets to TPP countries, with negative impacts especially on export-related employment. Although we agree that these effects must be better analyzed, we find Lawrence's view that a full-employment model offers a better alternative perplexing.

Lawrence's three questions are important but assume that TPP is mostly relevant for its impact on world trade. In fact, to the average citizen as much as to the successors of President Harry Truman, whom Lawrence cites, the more important questions are whether TPP will contribute to national welfare and how any benefits will be distributed. In order to answer this question a variety of modeling approaches are possible but assuming full employment is not one of them.

The concerns about TPP's effects on welfare and its distribution lead us to a very important question we should ask about our models, missing in Lawrence's comparison. It is about the way in which models account for the effects that TPP has on global economic trends.

How Does the Model Account for the Effects that TPP Might Have on Industrial Relations, Finance, Policy Space and Other Institutional Features of the Global Economy?

In models such as Petri and Plummer's, international trade is seen as the result of perfect competition among equally strong countries, with exchange rates equilibrating trade balances; corporate profits representing the cost of capital supposedly corrected for risk; saved profits only fueling productive investment that creates jobs; workers' salaries increasing steadily reflecting productivity growth, thus keeping the labor share of total income constant (Petri and Plummer's assumption of fixed income distribution). In this vision, economic change is seen as never threatening employment since, given enough time, the economy is assumed to absorb the entire labor force. Furthermore, labor incomes are mostly seen as a cost, their significance of drivers of demand completely lost. Finally, in this model global financial flows are ignored.

These assumptions, strongly limit the analysis of TPP's effects on economic welfare and its distribution. For example, spending financed by asset appreciation (a typical manifestation of financial liberalization), or any changes in financial regulation are irrelevant in Petri and Plummer's model because global finance is absent from the picture. Yet, such changes may affect the way in which income is generated and distributed to profits and wages, as well as the way in which over indebtedness and financial vulnerabilities tend to affect spending and saving behavior of private and public sector institutions.

By contrast, the GPM attempts to take these factors into account, albeit in imperfect ways. For example, in the GPM the distribution of income is also a function of corporations' oligopolistic power while high savings in a context of weak demand can give way to financial investment rather than job creation. This affects not only the labor share, but also exchange rates, asset prices, debt accumulation and external vulnerability. Although the ways in which all these factors interact in the model could be improved, nonetheless the GPM reflects important stylized facts observed along the proliferation of trade and investment treaties that other models, such as Petri and Plummer's, do not.

Much remains to be done in order to improve our models' ability to sensibly project economic trends into the future. But assuming away real problems to preserve existing models is not going to serve anyone well.

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Overcooked Free-Trade Dogmas in the Debate on TTIP

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1. Projecting the Effects of TTIP: What to Expect from Different Economic Models

In recent months the debate over mega-regional trade and investment agreements has echoed concerns that the type of liberalization these agreements entail, far-reaching and replete with constraints for national policies, might have perverse effects.[2] From an economic perspective a critical question is whether a large-scale attempt to expand trade and investment will actually lead to higher economic activity or will it be counterproductive due to negative effects on income distribution, employment and other important variables. The answer largely depends on how we see economic adjustments operating or, put differently, on the economic model we choose.

"Full-employment" models, such as commonly used Computable General Equilibrium models, assume that prices and wages are flexible enough to ensure that all resources are fully utilized, including labor.[3] If business activity were to contract, wages would immediately fall enough to keep everyone employed. And because everyone is always employed there is no risk to liberalizing trade and investment. In contrast, "demand-driven" models recognize that the level of economic activity is primarily – although not only – constrained by people's disposable incomes. When business activity contracts, employment shrinks and any fall in wages makes the situation worse unless a large increase in investment or exports turns it around. Thus, seen through the lens of these models, large-scale liberalization entails a serious risk: while higher international competition might force labor incomes downward harming domestic demand exports might not increase as hoped.

In the case of the Trans-Atlantic Trade and Investment Partnership (or TTIP), projections with full-employment models suggest net economic benefits while a demand-driven model projects net losses (Capaldo, 2014). It is up to policymakers to take one view or the other based on how sensible the respective underlying assumptions appear.

In this context, a *fresh* paper (ECIPE, 2015) provides an opportunity to emphasize some important points about economic projections of mega-regional trade liberalizations and underlying models. Indeed, the wittily titled paper is a useful example of dogmas and omissions that have beset the trade policy debate on TTIP and other agreements. The authors advance two types of critiques of the demand-driven approach taken in Capaldo (2014) – firstly on the appropriateness of using the United Nations model in general and secondly on specific choices made in assessing TTIP – and express confidence in the official assessments based on (full-employment) Computable General Equilibrium models. In all these critiques the authors seem to miss the most important aspects that modeling TTIP requires to consider. But the most striking feature of the paper is the conspicuous absence of any mention of unemployment or inequality.

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[2] See Baker (2014), Krugman (2014, 2015, 2015a) Lamy (2014), European Parliament (2015) or the recent resolution on Investor-State Dispute Settlement adopted by the Dutch Parliament (2015).
[3] CGE models do not necessarily assume full employment but nowadays they typically do (Taylor, 2011).

2. The UN Model: More Appropriate than Other Models to Project the effects of TTIP

ECIPE (2015) claims that using the United Nations model to analyze TTIP is inappropriate for several reasons. However, the authors seem to be missing the most critical points about the model and the challenge of projecting the effects of TTIP. Their main critiques are the following:

a) *The UN Model Over-Simplifies Reality.*
While this may be true of the UN model it is also true for all economic models. As explained in the model's documentation[4], the UN model contemplates four broad economic sectors (energy, primary commodities, manufacturing goods and services) but it does not offer industry-level insights (on, for example, the chicken market). However, the model does *not* simplify away critical aspects of reality such as persistent unemployment and increasing inequality.
In contrast, the CGE models advocated in ECIPE (2015) offer a lot of industry-level detail on economic sectors ranging from food to cosmetics. But they simplify reality in other ways. Most importantly, they typically assume that individuals are perfectly rational, that the economy is constantly in a state of full employment and that income distribution follows a simple rule, namely that wages increase at the same rate as productivity. Obviously unreasonable yet too rarely questioned, these assumptions feel more like dogmas than instruments of research.
In light of these differences, the question becomes: what good is all the detail we can extract from full-employment CGE models if they ignore some of the most problematic economic realities such as unemployment and inequality?[5]

b) *The UN Model Does Not Consider Supply-Side Factors.*
This is incorrect. In fact, the model contemplates both demand and supply factors[6]. In particular it captures the possibility that capacity constraints – when they are actually binding[7] – give way to inflationary dynamics or specific policy responses. But the model also recognizes that the economy often operates below full capacity (i.e. below full employment)[8]. This makes a great deal of difference. For example, if the EU and the US were operating at full capacity, a decrease in production costs (due for example to a reduction of labor shares) might lead to higher economic activity – producing more would reasonably lead to selling more. But with insufficient aggregate demand, signaled by high unemployment and under-utilized capital, a decrease in labor incomes would lead to even lower demand. In this case one might hope that lower costs will trigger a large increase in exports or investment but a long history of failed austerity measures in the EU seems to indicate that this is unlikely.[9]

[4] See Cripps and Izurieta (2014).
[5] This issue has been taken up in numerous academic papers. See Akerman and Gallagher (2005) and Taylor and Arnim (2006) for the most insightful analyses.
[6] See again Cripps and Izurieta (2014).
[7] Storm and Naastepad (2012) analyze the differences between macroeconomic processes that operate in the presence of supply vs demand constraints.
[8] According to Krugman (2015a) "the immediate problem facing much of the world is inadequate demand […]. Would trade liberalization help on that front? No, not at all."
[9] Again see Krugman (2015a): "trade liberalization would change the composition of world expenditure, with each country spending more on foreign goods and less on its own, but there's no reason to think it would raise total spending".

c) *The UN Model Cannot Estimate the Impact of Trade Reforms.*
This criticism refers to the absence in the UN model of indicators that measure tariffs and non-tariff measures. This seems to miss a central point about mega-regional trade agreements. While it is true that tariffs and non-tariff measures are not explicitly measured in the UN model, it is not clear why they should be. The starting point in Capaldo (2014) is that these agreements are about much more than international trade since they entail significant effects on income distribution, unemployment and economic stability. This view is supported by recent authoritative pronouncements. In a debate at the EU Parliament (2015) the lead author of CEPR (2013), the main study endorsed by the European Commission, acknowledged that TTIP is about much more than tariffs. Krugman (2015), who was awarded the Nobel Prize for his contribution to trade theory, goes further stating that the Trans-Pacific Partnership is "not a trade agreement" but will only serve special interests. Therefore, models that focus on trade dynamics while overlooking important realities such as income distribution are likely to give biased projections.

d) *The UN Model Emerged in the 1970s and It Has Not Been Applied to Trade Policy Since.*
This is puzzling. The UN model was indeed first developed in the 1970s at the University of Cambridge and its intellectual roots hark back to ideas emerged in the 1930s. In contrast, the full employment assumption central to many CGE models appeared in the late 1700s[10]. It made sense at a time when agriculture absorbed virtually the entire workforce but its appropriateness today is dubious.
Today, with the emergence of mega-regional trade agreements, it makes more sense than ever to analyze trade liberalization with a macroeconomic model that can explain unemployment, stagnation and inequality.

e) *The UN Model Is Hidden from Other Scholars*
This is incorrect. The model is described in detail in a publicly available paper, duly referenced in Capaldo (2014). The paper describes underlying concepts, assumptions, mathematical rules, and data and it contains a full list of the variables. What is not available is the computer code through which the calculations are carried out. It is a bit like a restaurant menu – it describes the ingredients and, sometimes, the cooking "philosophy" but not the recipe.
This critique would sound quite different had the authors pointed out that not disclosing the computer code seems to be the prevailing practice among international organizations, such as the World Bank, the IMF or OECD, that operate a macroeconomic model.

A final point that deserves attention is the claim, in ECIPE (2015), that the features of the UN model make it the "go-to" for the sworn enemies of trade liberalization. This seems a reversal of the burden of proof. The models that project positive effects from TTIP typically do so by assuming full employment. It is rather those advocating the use of those models who should show that the full-employment assumption is not essential to rosy projections. Without such explanation it is hard to justify the use of CGE models on rational grounds.

On the positive side, the criticism advanced in ECIPE (2015) seems to confirm one of the most important points made in Capaldo (2014) – economic models are not neutral in policy debates. A model can be nonetheless useful in clarifying economic processes if one finds its central assumptions sensible.

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[10] See Say (1803).

3. On the Use of the United Nations Model in Capaldo (2014)

The authors of ECIPE (2015) claim that the assessment of TTIP carried out in Capaldo (2014) makes up for the supposed shortfalls of the UN model (analyzed in the previous section) with a series of contradictory and unjustifiable assumptions. Their main reasons seem to be the following:

f) *The Reference Scenario Is Not Based on All Factors of Trade.*
This suggests little understanding of model projections. In every projection exercise, the first scenario to be constructed is a "baseline", a scenario that will be used as the reference to which alternative scenarios are compared. By definition, the baseline assumes no policy changes (a "no-TTIP future") while alternative scenarios reflect one or more such changes. However, the authors of ECIPE (2015) seem to suggest that the baseline should have more detail about trade liberalization and its dynamics. But it's not from the baseline scenario that one should expect a complete accounting of the various factors of trade – rather from the alternative scenario. This brings up again the point that TTIP is unlikely to be correctly captured by typical trade models (see point *c* above).
The baseline scenario is also criticized for the embedded assumption of continued austerity. Apart from denying the persistence of austerity policies in the EU, this is perplexing for another reason. Removing the austerity hypothesis would set the baseline scenario on a higher growth path making the comparative losses from TTIP even larger. Given their optimistic views on TTIP, it is unclear why the authors find this approach, which leads to smaller projected losses, disreputable.

g) *Results Are Obtained Assuming Dynamics That Are Not Verified Empirically*
This critique refers to the idea, central in Capaldo (2014), that TTIP would induce European policymakers to facilitate cuts in labor costs in order to increase competitiveness. The authors of ECIPE (2015) disagree that this effect has occurred after other experiences of liberalization. Their opinion is of course legitimate but it enjoys no more empirical verification than the opinion they criticize.
While it's possible to observe trends in the data, empirical analysis cannot identify causal relationships between different indicators. Modelers should base their assumptions on available empirical evidence but they can't count on the type of empirical verification available to experimental sciences.
Surprisingly, in a different section of ECIPE (2015) the authors seem aware of this problem. Discussing the allegedly "proven" benefits of free-trade agreements they claim that "while it is difficult to disentangle the precise numerical impact of FTA's, it is much easier *ex post* to identify common economic trends after an FTA has been enforced". In other words, the authors acknowledge the difficulty of quantifying the impacts of liberalization and find it admissible to arbitrarily choose *ex post* a few variables interpreting their changes as proof of positive impacts. For example, they point to the increase in trade volumes and nominal wages as proof that liberalization has benefited labor. However, they find it inadmissible or ideological to focus on the wage share (a more meaningful indicator than the nominal wage) or components of GDP and specific policies that might affect them, as done in Capaldo (2014).

h) *Results Conflict with the UN's Assessment of Global Rebalancing Based on the Same Model*
This critique seems based on a misreading of United Nations publications (United Nations, 2012; UNCTAD, 2014).
Global imbalances consist of two inseparable facts: an enduring trade surplus in some countries and an enduring deficit in others. The persistence of such imbalances is problematic because the inevitable accumulation of liabilities in deficit countries may lead to crises of various types. However, not all ways to a global rebalancing are desirable. A rebalancing driven by increasing labor incomes and domestic spending in surplus economies is likely to have positive effects on inequality, growth and employment.

On the other hand, a rebalancing achieved by reducing incomes in deficit countries is likely to have grave social consequences. The recent experience of Greece is a case in point – widespread wage and spending cuts have reduced its trade deficit but also aggravated the recession and triggered a social crisis. Therefore there is no contradiction between the results obtained in Capaldo (2014) and the UN's analysis of rebalancing based on the same model.

i) *Capaldo's Thesis Does Not Fit with History and a "Reality Check" Is Needed (Dulcis in Fundo)*
On a personal note, this is my favorite critique. Firstly, it is based on hasty reading. The claim that TTIP would lead to a reduction of intra-European trade is made in several CGE-based assessments (see Raza *et al.*, 2014), not in Capaldo (2014) – an unfortunate case of friendly fire!
Secondly, ECIPE (2015) compares TTIP with the North-American Free Trade Agreement, perhaps not inappropriately given the structure of the two agreements. But the comparison doesn't offer any indication that TTIP will be beneficial to the EU unless one is very selective in the choice of data (see point *g* above). Indeed the empirical "evidence" on the effects of NAFTA is at best inconclusive.[11]
Thirdly, the suggestion of a reality check is perplexing in a paper advocating for the use of economic models that ignore unemployment and inequality. The case of inequality seems especially telling. In full-employment CGE models income distribution is generally assumed to follow the productivity rule – real wages increase at the same rate as labor productivity. If this were the case, the labor share (defined as the ratio of real wages to productivity) would remain constant over time.[12] But labor shares in the EU and the US have been on a decreasing trend for at least two decades.[13] Since the modeling approach advocated in ECIPE (2015) cannot explain this critical fact, the authors' call for a reality check appears ironic.

4. Conclusions

A recent paper (ECIPE, 2015) offers a useful example of dogmas and omissions that beset the trade policy debate on TTIP and other agreements. The main arguments, reviewed in this note, are based on the misperception of TTIP's most important impacts and on selective choice of evidence. Most strikingly the authors criticize the use of the UN model in Capaldo (2014) on the grounds of realism while advocating for a modeling approach that excludes by assumption the possibility of unemployment and increasing inequality.

On the positive side, ECIPE (2015) confirms an important fact: economic models are not neutral in the policy debate. They can be useful to understanding economic processes only if their basic assumptions are reasonable.

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[11] For a review of this evidence see Raza et al. (2014) and references therein.
[12] If two numbers increase at the same rate, their ratio doesn't change. See, for example, Patnaik (2006)
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The Trans-Atlantic Trade and Investment Partnership:
European Disintegration, Unemployment and Instability

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Abstract

According to its proponents, the Trans-Atlantic Trade and Investment Partnership will stimulate growth in Europe and in the US. Projections endorsed by the European Commission point to positive, although negligible, gains in terms of GDP and personal incomes. In a paradox, these projections also show that any gains in Trans-Atlantic trade would happen at the expense of intra-EU trade reversing the process of European economic integration.

Furthermore, recent literature has pointed out several problems in the most influential assessment of the TTIP's effects. Projections by different institutions have been shown to rely on the same Computable General Equilibrium model that has proven inadequate as a tool for trade policy analysis.

In this paper we assess the effects of TTIP using the United Nations Global Policy Model, which incorporates more sensible assumptions on macroeconomic adjustment, employment dynamics, and global trade. We project that TTIP will lead to a contraction of GDP, personal incomes and employment. We also project an increase in financial instability and a continuing downward trend in the labor share of GDP.

Evaluated with the United Nations model, TTIP appears to favor economic dis-integration, rather than integration, in Europe. At a minimum, this shows that official studies do not offer a solid basis for an informed decision on TTIP.

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Executive Summary

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 providing medium-term projections of the agreement's economic effects. In the EU, advocates have pointed to four main studies mostly projecting small net benefits for all countries involved and a gradual substitution of intra-EU trade with Trans-Atlantic trade.

Recent literature has shown that the main studies of TTIP are not a good basis for policy decision as they rely heavily on unsuitable economic models.

We offer an assessment of TTIP based on a different model and more plausible assumptions on economic adjustment and policy trends. Using the United Nations Global Policy Model we simulate the impact of TTIP on the global economy in a context of protracted austerity and low growth especially in the EU and US.

Our results differ dramatically from existing assessments. 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 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*. Consistent 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* (the share of total income accruing to workers), reinforcing a trend that has contributed to the current stagnation. The flipside of its projected decrease is an increase in the share of profits and rents, indicating that proportionally there would be a transfer of income from labor to capital. The largest transfers will take place in UK (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 after the recent financial crisis.

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, existing assessments of TTIP do not offer a suitable basis for important trade reforms. 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.

The Trans-Atlantic Trade and Investment Partnership:

European Disintegration, Unemployment and Instability

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1. Introduction

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. In today's low-tariff reality, TTIP focuses on removing *non-tariff* trade barriers between countries, such as differing standards set in the EU and in the US for given consumer goods and services[2]. The underlying logic is the same as in traditional liberalizations: reducing the costs of trade – whether eliminating tariffs or other impediments – is supposed to lead to a higher trade volume and overall economic benefits. Unfortunately, experience has shown that this appealing reasoning is often misleading.

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 four main studies mostly projecting small and deferred net benefits alongside a gradual substitution of intra-EU trade with Trans-Atlantic trade. This leads the European Commission, TTIP's main advocate in Europe, into a paradox: its proposed policy reform would favor economic dis-integration in the EU.

TTIP might also lead to other serious consequences for the EU and its members. Recent literature has shown that the main studies of TTIP do not provide a reliable basis for policy decisions as they rely heavily on an unsuitable economic model.

In this paper we offer an assessment of TTIP based on a different model and more plausible assumptions on economic adjustment and policy trends. Using the United Nations Global Policy Model we simulate the impact of TTIP on the global economy in a context of protracted austerity and low growth especially in the EU and US. Specifically, we do not challenge existing projections of total trade expansion but we propose a different assessment of its impact on the economy.

We find that TTIP would lead to net losses in terms of GDP, personal incomes and employment in the EU. In particular, we project that labor incomes will decrease between 165 Euros and 5,000 Euros per worker depending on the country. We also project a loss of approximately 600,000 jobs, a continuing downward trend of the labor share and potentially destabilizing dynamics in asset prices.

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[2] The agreement's scope is defined in general terms in European Commission (2013). In official documents non-trade barriers are also called "technical".

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, existing assessments of TTIP do not offer a suitable basis for important trade reforms. Indeed, when a well-reputed but different 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, requiring that economies become more competitive 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.

2. Existing Assessments of TTIP

Most assessments of TTIP predict gains in terms of trade and GDP for both the EU and US. Some also predict gains for non-TTIP countries, suggesting that the agreement would create no losers in the global economy. If this were the case, TTIP would be the key to a more efficient allocation of global resources, with some countries achieving higher welfare and all others enjoying at least the same welfare as before.

Unfortunately, as Raza and colleagues (2014) have shown, these desirable results rely on multiple unrealistic assumptions and on methods that have proven inadequate to assess the effects of trade reform. Furthermore, once the calculations are reviewed, it appears that several of these studies share the same questionable economic model and database. The convergence of their results is, therefore, not surprising and should not be taken as providing independent confirmation of their predictions.

2.1. Methodological Problems

Quantitative arguments in favor of TTIP come mostly from four widely cited econometric studies: Ecorys (2009), CEPR (2013), CEPII (2013) and Bertelsmann Stiftung (2013)[3]. CEPR has been very influential: the European Commission has relied on it as the main analysis of the economic effects of TTIP[4] going as far as presenting some of its findings as facts[5]. However, the EC's reference to CEPR as an "independent report" seems misleading since the study's cover page indicates the EC as the client for whom the study has been produced.. Ecorys was also commissioned by the EC as part of a wider project encompassing economic, environmental and social assessments (Ecorys, 2014).

[3] For simplicity, in the remainder of the paper all references to these studies are indicated as Ecorys, CEPR, CEPII and Bertelsmann respectively.
[4] CEPR figures prominently on the EC's webpage on TTIP (ec.europa.eu/trade/policy/in-focus/ttip/about-ttip, consulted on October 13, 2014). The EC also published a guide to the study's results (EC, 2013).
[5] See EC (2014), p. 2.

Methodologically, the similarities among the four studies are striking. While all use World Bank-style Computable General Equilibrium (CGE) models, the first two studies also use exactly the same CGE. The specific CGE they use is called the Global Trade Analysis Project (GTAP), developed by researchers at Purdue University[6]. All but Bertelsmann use a version of the same database (again from GTAP).[7]

The limitations of CGE models as tools for assessments of trade reforms emerged during the liberalizations of the 1980s and 1990s[8]. The main problem with these models is their assumption on the process leading to a new macroeconomic equilibrium after trade is liberalized. Typically, as tariffs or trade costs are cut and all sectors become exposed to stronger international competition, these models assume that the more competitive sectors of the economy will absorb all the resources, including labor, released by the shrinking sectors (those that lose business to international competitors). However, for this to happen, the competitive sectors must expand enough to actually need all those resources. Moreover, these resources are assumed to lack sector-specific features, so they can be re-employed in a different sector. Under these assumptions, an assembly-line employee of an automobile factory can instantly take up a new job at a software company as long as her salary is low enough. Supposedly, this process is driven by speedy price changes that allow an appropriate decrease of labor costs and, consequently, the necessary expansion of the competitive sectors.

In practice, however, this "full employment" mechanism has rarely operated. In many cases, less competitive sectors have contracted quickly while more competitive ones have expanded slowly or insufficiently, leaving large numbers of workers unemployed[9]. One need only look at the experience of Europe in the last decade to see that full employment does not re-establish itself even if job seekers are willing to work informally and at relatively low pay.

A critical point is that the distribution of gains and losses is rarely uniform within economies. If workers in competitive sectors may benefit from higher salaries, while those in shrinking sectors loose, the economy as a whole may be worse off. This is because in some countries domestic demand is mostly supported by the incomes earned in in traditional occupations. In practice, aside from their high social costs, these transitions have led to a drop of domestic demand that CGE-based calculations have often overlooked.

Moreover, most CGEs rely on misleading assumptions on the pattern of international trade, imposing a fixed structure on the market share that each country has in its export markets[10], and on a static analysis that does not explain how economies reach a new equilibrium. For example, when Country A expands trade with Country B, the rest of the

[6] For a history of GTAT, see https://www.gtap.agecon.purdue.edu/about/history.asp

[7] For an explanation of World Bank CGEs in historical perspective, see Taylor (2011).

[8] See Taylor and Von Arnim (2006), Ackermann and Gallagher (2004, 2008), Stanford (2003), Stiglitz and Charlton (2004), Gunter et al. (2005).

[9] See Polaski (2006) and references therein.

[10] See the analysis of Armington elasticities (i.e. how trade volume patterns respond to price changes) in Taylor and von Arnim (2006) and Ackerman and Gallagher (2008).

world's economies do not simply stand still. Countries C, D and E will find that they are more or less competitive in these markets as a result of the A-and-B trade changes. This effect is known as "trade diversion",[11] and has been a significant by-product of recent trade integration initiatives.[12]

Finally, the strategy chosen to simulate a "TTIP future" has a strong impact on the results. Ecorys assumes that so-called "Non-Trade Barriers" impose a given cost on trade and that TTIP can remove up to one half of them. CEPR and CEPII borrow this approach, but assume a lower share[13]. These barriers can include what other stakeholders refer to as consumer and environmental regulations. Phasing them out may be difficult and could impose important adjustment costs not captured by the models.

2.2. Empirical Results

All four assessments postulate multiple scenarios based on alternative assumptions on the share of removable non-tariff barriers. In all cases, cuts of at least 25 percent are required to generate visible gains. Results refer to the end of the simulation period in 2025 or 2027 depending on the study.

2.2.1. Trade

All assessments project large increases in bilateral US and EU exports. In CEPR and CEPII, US bilateral exports increase by 36.6 percent and 52 percent respectively in the long term[14], compared to 28 percent and 48 percent for the EU. According to CEPR, the net increase in total exports will be 8 percent in US and 5.9 percent in the EU (table 1).

However, in all cases, these increases in trans-Atlantic trade are achieved at the expense of intra-EU trade. Implicitly, this means that imports from the US and imports from non-TTIP countries through the US will replace a large portion of current trade among EU countries.

Table 1: Increase in bilateral and net exports by 2027

	CEPR		**CEPII**		**Ecorys**	
	Bilateral Exports	Net increase	Bilateral Exports	Net increase	Bilateral Exports	Net increase
EU	28.0%	5.9%	48.0%	7.6%	2.1%	0.9%
US	36.6%	8.0%	52.0%	10.1%	6.1%	2.7%

[11] See Lipsey (1957).

[12] See Clausing (2001).

[13] Bertelsmann uses a different strategy resorting to a gravity model (i.e. how the size difference and economic distance between countries affects bilateral trade flows) to estimate the trade effect of TTIP.

[14] In all cases, the "long term" simulation period covers up to 2025. In the remainder of this paper, "long term" indicates 2014-2025, unless otherwise indicated.

If these projections were true, higher trans-Atlantic interdependence would heighten the EU's exposure to fluctuations in US import demand. This is an under-examined consequence of certain patterns of trade liberalization. Even if higher exports were to bring higher demand and economic activity (a link that doesn't always work in practice, as discussed), more reliance on the US as an export market would also make the EU vulnerable to macroeconomic conditions in North America.

If Europe could effectively implement countercyclical policies, this greater interdependence would not necessarily be a problem. However, the EU's current institutional structure lacks a central fiscal authority while in practice preventing national governments, through the Maastricht treaty, from implementing any fiscal expansion.[15] This constellation of factors indicates that the TTIP might usher in a period of higher instability in Europe.[16]

The remaining two studies raise similar concerns. In Bertelsmann, aggregate figures for bilateral export increase and net increase are not readily available but results exhibit the same pattern as in other studies. While bilateral exports are predicted to increase by more than 60 percent for the EU and more than 80 percent for the US, intra-EU exports are expected to decrease between 25 and 41 percent. This implication raises the same concerns about vulnerability to US economic shocks as the other studies.

Finally, as noted above, the rest of the world does not stand still when two economies integrate. Applying Bertelsmann's percentages to recorded trade data with EU exports to the world as a whole, Raza et al. (2014) calculate that the overall impact of TTIP on EU global exports, including those to non-TTIP countries, would be negative. Furthermore, Felbermayr and Larch (2013) find that TTIP will have a negative effect on non-TTIP countries' exports, in a pattern observed after other trade agreements[17]. In other words, both exports and imports of non-TTIP countries are projected to decrease, with uncertain or negative net effects. CEPR and CEPII do not find negative effects on non-TTIP countries assuming *ad hoc* effects (spill-overs) that allow exports in the rest of the world to grow.

2.2.2. GDP and Personal Incomes

Given the small net effects on exports, most assessments predict small increases in TTIP countries' GDP (Table 2). In Ecorys, CEPR and CEPII, GDP increases less than 0.5 percent in both the EU and US. This means that, at the end of the simulation period in 2027, GDP would be 0.5 percent higher in a TTIP scenario than the baseline, non-TTIP scenario, implying negligible effects on annual GDP growth rates.

This is a defining aspect of the results: Ecorys, CEPR and CEPII point to a one-time increase in the level of GDP, not to an increase in the growth rate of GDP. Furthermore, this one-time increase is small and projected to occur only over the course of 13 years.

[15] Cameron (2012) argues that, even though EU member states favored a strong fiscal response to the crisis, they were unable to implement one because of coordination difficulties in the EU.
[16] On financial contagion within Europe and between US and EU, see Baele (2005).
[17] See, for example, Romalis (2007).

Bertelsmann reports higher figures (5.3 percent for the EU and 13.9 for the US), but provides little detail on the study's methodology. It is, therefore, unclear how the results compare to those of other studies.

Table 2: GDP increases by 2027

	Ecorys	CEPR	CEPII
EU	0.34%	0.49%	0.30%
US	0.13%	0.40%	0.30%

Furthermore, given the assumptions on spill-over effects, CEPR estimates that all regions of the world would benefit from long term GDP increases. However, Ferbelmayr and Larch (2013) indicate that this expectation contradicts previous experiences of trade agreements such as CUSFTA, NAFTA and MERCOSUR since these agreements typically affect the relative trade prices between members and non-members.

Despite the small projected increases in GDP, some studies suggest that TTIP might lead to large increases in personal incomes in the long term. In often-cited examples, Ecorys estimates that the average EU household would gain 12,300 Euros over the work life of household members, while CEPR estimates that the same household would earn 545 Euros more every year. However, as noted above, these estimates are misleading since the studies provide no indication of the distribution of income gains: they are simply averages. With EU wages falling as a share of GDP since the mid-nineties[18], it is far from certain that any aggregate gains will translate into income increases for households living on income from wages (as opposed to capital).

2.2.3. Employment

Finally, most studies are not informative on the potential consequences of TTIP on employment. While CEPII does not discuss employment effects, CEPR and Ecorys (2013) assume a fixed supply of labor. This amounts to excluding by assumption any consequences of TTIP on employment – wages are assumed to fall or rise enough to ensure that all workers remain employed regardless of the level of economic activity.

On the other hand, Bertelsmann predicts that TTIP will lead to the creation, in the long term, of approximately one million jobs in the US and 1.3 million jobs in the EU. However, these positive figures are strongly dependent on the period chosen in the estimation. Using data up to 2010, the authors estimate that economies where labor and labor income are more protected (for example by higher unemployment benefits) suffer from higher unemployment, concluding that any cost reductions introduced by TTIP would lead to positive employment effects in those countries. When more recent data is taken into account, this conclusion ceases to hold since *all* countries – not just those with stronger labor protection – appear to have experienced higher and persistent unemployment.

[18] See, for example, Estrada and Valdeolivas (2012).

3. An Alternative Assessment with the United Nations Global Policy Model

To obtain a more realistic TTIP scenario, we need to move beyond CGE models. A convenient alternative is provided by the United Nations Global Policy Model (GPM), which informs influential publications such as the Trade and Development Report.[19] The GPM is a demand-driven, global econometric model that relies on a dataset of consistent macroeconomic data for every country. Two features make the GPM particularly useful in the analysis of a large trade agreement.

Firstly, the model assumes a more realistic mechanism leading to macroeconomic equilibrium. All models that make these types of projections necessarily make assumptions on the way economies will stabilize after a policy change, which in this case is the introduction of TTIP. The most important difference between the GPM and the CGE models described Section 2 is that, in the GPM, the full-employment assumption is replaced by the Keynesian principle of "effective demand" (Keynes 1936, Chapter 3). This means that the level of economic activity is driven by aggregate demand rather than productive efficiency. Consequently, a cost-cutting trade reform may have adverse effects on the economy if the "costs" that it "cuts" are the labor incomes that support aggregate demand. Unlike in CGE models, changes in income distribution contribute to determining the level of economic activity. The absence of this mechanism in many commonly used models has often led to major errors in assessing the impact of trade reforms.[20]

Secondly, the GPM provides an explicit analysis of the macroeconomic workings of every world region. This, in turn, has two important benefits. It means that the model can provide well-founded information on the economic interactions among all regions, rather than just assuming that a given proportion of a country's income will be spent on imports from other countries. It also means that the GPM allows us to assess whether a given policy strategy is globally sustainable. For example, the GPM shows that, when sought by every country, a strategy of export-driven growth may lead to adverse consequences such as a net loss of trade.

A third valuable feature of the GPM is its estimation of employment. Using International Labor Organization data, the GPM specifies how a given change in GDP growth affects employment growth, and vice versa. A critical advantage of the specification used is that these growth-and-employment relationships (which economists call "Okun's relationships) are not constant over time. In this way, the GPM recognizes that different factors might affect the relationship between output and employment at different moments in history. Thus, the model is able to account for recent puzzles such as "jobless growth."

Given the large amount of data that must be processed to estimate and simulate the GPM, we keep the analysis tractable by aggregating some countries into blocs. With this, we lose specific analysis for these countries.

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[19] See Cripps and Izurieta (2014) for further documentation on the model. For the latest example of UN policy simulations see UNCTAD (2014).

[20] Ocampo et al. (2009).

Despite its limitations, the GPM offers a useful perspective on the consequences of agreements such as TTIP. Indeed, it offers a "big picture" and insights into several important adjustment mechanisms that are often overlooked by other models.

3.1. Simulation Strategy: Global Implications of Existing Trade Projections

Our country aggregation leaves the world's largest economies as independent units. In the TTIP area, the United States, United Kingdom, Germany, France and Italy appear as stand-alone economies. The remaining countries are aggregated into two blocs: "Other Northern and Western Europe" (including Finland, the Netherlands and Belgium) and "Other Southern and Eastern Europe" (including Greece, Spain, Portugal and eastern European economies).

But European nations and the US are not the only countries in the world. One benefit to macroeconomic models is that we can estimate the effect of a policy change like TTIP on countries outside of the potential trade bloc. Accordingly, we are able to estimate how TTIP will affect individual countries like Argentina, Brazil, Canada, China, the Commonwealth of Independent States (CIS), India, Indonesia, Japan, South Africa and Turkey (which we count as independent units, much as we did with the US). All other countries are grouped into two blocs per continent.

As in other simulation exercises, we first project a baseline path for the economy of every country or country bloc from 2015 to 2025 in order to match previous studies. We then determine counterfactual values that are implied by the adoption of the TTIP. To determine the baseline, we use all information available on countries' past and present policies and spending patterns (Table 3). We use the same baseline assumptions as UNCTAD (2014). For example, we assume that governments in TTIP countries and in some non-TTIP countries will not reverse their commitments to fiscal austerity[21]. Therefore, even in the baseline scenario, we do not expect fiscal spending to expand aggregate demand even though historically this has been an important channel. This confirms a major advantage to GPM-type models that we noted above: they allow for greater realism about the likely path of policy in the foreseeable future. (For more information about how these assumptions on the path of different countries' policies were constructed, see UNCTAD, 2014).

[21] This seems necessary given recent remarks by the European Commission indicating the intention to enforce budget rules strictly (See, for example, http://www.ft.com/intl/cms/s/0/b1520212-3a8b-11e4-a3f3-00144feabdc0.html#axzz3G6zxUwwP and http://www.eurozone.europa.eu/newsroom/news/2014/09/euro group-moves-ahead-with-structural-reform-agenda/)

Table 3: Baseline Assumptions

	Labor Income Share of GDP (%)				Growth of Government Spending* (%)			Growth of Private Investment** (%)		
	1990	2012	Average 2015-19	Average 2020-24	1990-14	2015-19	2020-24	1990-14	2015-19	2020-24
Developed economies	60.5	56.1	55.5	55.2	2.0	1.1	1.1	1.1	3.0	3.2
United States	56.1	53.2	53.3	53.5	2.4	1.8	2.2	2.0	3.6	4.0
CIS	71.5	57.3	55.9	54.6	1.8	0.9	1.5	4.6	-0.7	1.7
Developing Asia	55.2	48.8	50.6	50.8	6.7	6.3	6.1	7.7	3.9	4.6
China	61.0	49.7	52.6	53.4	10.3	7.7	7.0	12.4	4.2	4.8
India	51.0	44.7	46.2	46.0	6.7	5.7	6.5	7.2	5.1	5.6
Africa	47.5	43.8	44.6	44.7	4.3	4.5	4.8	4.8	2.0	3.1
Latin America and Caribbean	51.8	49.6	49.8	49.1	4.3	2.3	2.5	3.2	1.7	2.9

Note: *Average annual growth of government spending in goods and services; ** Average annual growth of private investment.

In order to implement the TTIP scenario, we assume that the volume of trade among TTIP countries will initially expand at the pace indicated by the existing studies[22]. However, we do not rely on these studies for changes in net exports, which ultimately determine any changes in GDP. Instead, we calculate net exports changes taking into account the global feedbacks built into the GPM. Therefore, our simulation clarifies the implications of the "consensus" pattern of trade in terms of GDP, income distribution and non-TTIP trade. In the GPM, the impact of a given increase in trade is different from other models. As indicated above, such change affects the distribution of income ultimately feeding back into total demand and income.

Finally, we consider two specific mechanisms through which the European economy could adjust to these TTIP-induced changes in net exports. First, we assume that increased international competition will exert pressure on the real exchange rate. This might occur as firms in every country try to preserve their international competitiveness and increase efforts to reduce labor costs. It might also be the result of unemployment pressures and legislation that would redule total labor compensation. As a result, the

[22] The GPM does not include data on tariffs, so we cannot calculate the tariff equivalent of a reduction in trade costs and its impact on exports. Thus we take the approach of checking the implications of the changes in trade that have been estimated by previous studies. We express these increases in terms of each country's share in the import market of the others rather than in terms of export and import levels.

labor share of GDP would further decrease in Europe in a downward trend toward the lower US share, weakening aggregate demand.[23]Finally, this adjustment mechanism might also play out through a nominal devaluation. This might indeed help an economy gain higher market shares abroad, but it may also generate a race to the bottom at the end of which no country will have gained higher exports.

The second mechanism recognizes a policy strategy that has become central in recent decades assuming that, in order to stimulate flagging domestic demand, policy authorities may increase lending[24]. As a result, asset prices (including some financial assets) might increase, setting off the unstable dynamics that have become apparent after the 2009 financial crisis.

It is worth pointing out that each of these assumptions is model driven. Policymakers face choices about how and when to respond to trade-induced wage and demand pressures. The advantage of "effective demand" Keynesian models is that they make simplifying assumptions about the policymaking process that enable easier computations. While these models cannot predict the path that policymakers will actually take, they allow us to make reasonable projections about possible GDP, employment and income changes that are not achievable without the simplifying assumptions.

4. Simulation Results

Our simulation results paint a picture substantially different from that offered in existing studies, with TTIP leading to net losses in the EU in terms of all main variables (Table 4). It is important to note that all percent figures refer to the difference between the simulated scenario and the baseline scenario. In this sense they indicate the difference between two hypotheses on the state of the world economy in 2015 (TTIP is introduced or not introduced). In particular, the figures do not indicate annual increases or increases over 2014 values.

4.1. Net exports and GDP

Our simulations show that the assumed trade expansion among TTIP countries will cause a net export loss for all EU economies. Losses would be a drag on aggregate demand for all EU economies. Northern European Economies would suffer the largest decreases (2.07% of GDP by 2025) followed by France (1.9%), Germany (1.14%) and the UK (0.95%). On the other hand, US net exports would be higher by slightly more than one percent.

A likely explanation for how EU-US trade could expand while EU net exports to the world could decline is that, in the EU's stagnating economy, domestic demand for lower-value added manufactures – in which the EU is relatively uncompetitive – will crowd out higher-value added ones. Indeed, our figures show an increase of net exports in almost every other region of the world except Europe, suggesting that higher demand for low-value added product will lead to higher net imports from Asian and African economies

[23] For an explanation of the relationship between labor costs and the labor share of GDP, see Appendix A.
[24] Implicitly, we assume that policy authority can actually affect private bank lending.

and from the US[25]. Alternatively or additionally, TTIP could facilitate EU imports of manufactures assembled in the US with parts made in China and other regions.

Net exports are a key component of GDP. As such, the net loss of trade will directly lower EU countries' national income. Our simulations indicate small but widespread GDP losses for the EU, in a clear contrast with existing assessments. Consistently with our figures for net exports, Northern European Economies would suffer the largest GDP reduction (0.50%) followed by France (0.48%) and Germany (0.29%). GDP would increase slightly in the US (0.36%) while GDP increases in non-TTIP countries would be positive but negligible (approximately 0.1%).

Table 4. 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
United Kingdom	-0.95	-0.07	-3,000	-4245	-0.39	0.01
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 Northern Europe	-2.07	-0.50	-223,000	-4848	-0.34	1.33
Other Southern 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.

4.2. Employment and Incomes

Following the reduction of net exports and overall economic activity, we project clear losses in EU employment and labor incomes. Recall that our model allows us to make employment projections, because it estimates the relationship between GDP growth and employment growth over several decades based on ILO data. This is compatible with a

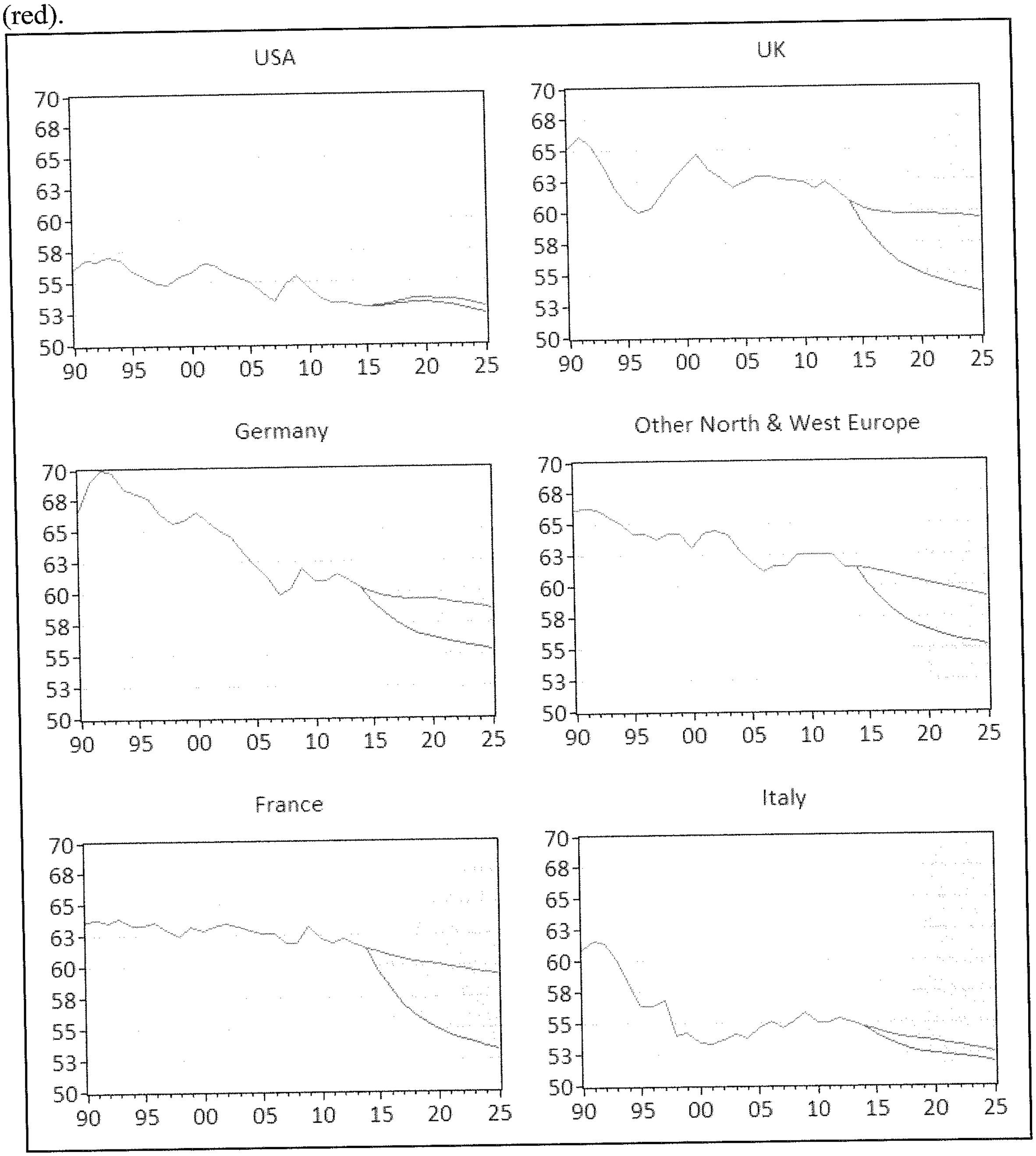
[25] In many models, greater within-trade agreement exports come along with lower global net exports. For instance, the U.S. government's official GTAP-based assessment of the US-Korea trade agreement projected this pattern. Compare Tables 2.2 and 2.3 in http://www.usitc.gov/publications/pub3949.pdf. This is an underexplored by-product of trade agreements, although one with potential macroeconomic costs.

tendency toward specialization in higher-value added, lower-employment-intensity products, which would lead to export and output gains in a few sectors while adversely affecting many others[26]. As a result, we calculate that the EU as a whole would lose approximately 600,000 jobs by 2025, most of which are in Northern Europe, France and Germany. By comparison, this is more jobs than the EU lost in the crisis years of 2010 and 2011 – clearly Europe must avoid another job loss of this magnitude even if gradual and spread over many years.

The loss of employment would further accelerate the reduction of incomes that has contributed to the EU's current stagnation. Indeed labor income will continue its steady decrease as a share of total income, weakening consumption and residential investment while likely exacerbating social tensions. 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 reductions will take place in UK (with 7% of GDP transferred from labor to profit income), France (8%), Germany and Northern Europe (4%), reinforcing a negative trend that has continued at least since the early 2000s (Figure 1).

[26] It is worth emphasizing that this is not a results of the model but a possible explanation of trends projected with it.

Figure 1: Income from Employment as % of GDP: Baseline (blue) and TTIP scenario (red).



To emphasize the difference between our results and existing estimates of employment impact, Table 4 includes the projected reduction of per capita employment income implied by the fall of employment and the labor share. As mentioned in Section 2, CEPR estimates that the annual income of the average household would increase in the long term by 545 Euros, while Ecorys projects an increase in working life income, again for the average household, of 12,300 Euros. Given the ongoing deterioration of income distribution, we chose to focus on working households, calculating the change in per capita employment income. Our results are clearly incompatible with both CEPR and

Ecorys. Indeed, we project losses of working incomes per capita ranging from 165 to more than 5,000 Euros. France would be the worst hit with a loss of 5,500 Euros per worker, followed by Northern European Countries (4,800 Euros), United Kingdom (4,200 Euros) and Germany (3,400 Euros). For a household with two working persons, the loss ranges from 330 to more than 10,000 Euros. By contrast, in the US there would be an increase of employment income.

The loss of economic activity and the weakening of consumption in the EU means that tax revenue will be less than it would have been in the absence of the TTIP. We estimate that 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 or slightly more than 1% of total government budget). Government deficits would also increase as a percentage of GDP in every EU country, pushing public finances closer or beyond the Maastricht limits.[27]

The loss of employment and labor income will increase pressure on social security systems. Using GPM employment projections and UN population data we can calculate the economic dependency ratio, that is the ratio of total population to employed population. This indicates how many people are supported by each job, either through family relationships or social security contributions. According to our calculations, the ratio would increase throughout the EU announcing more troubled times for European social security systems. By contrast in the US, indirect taxes would not be affected while the economic dependency ratio would slightly improve.

4.3. Asset Price Inflation and Real Devaluation

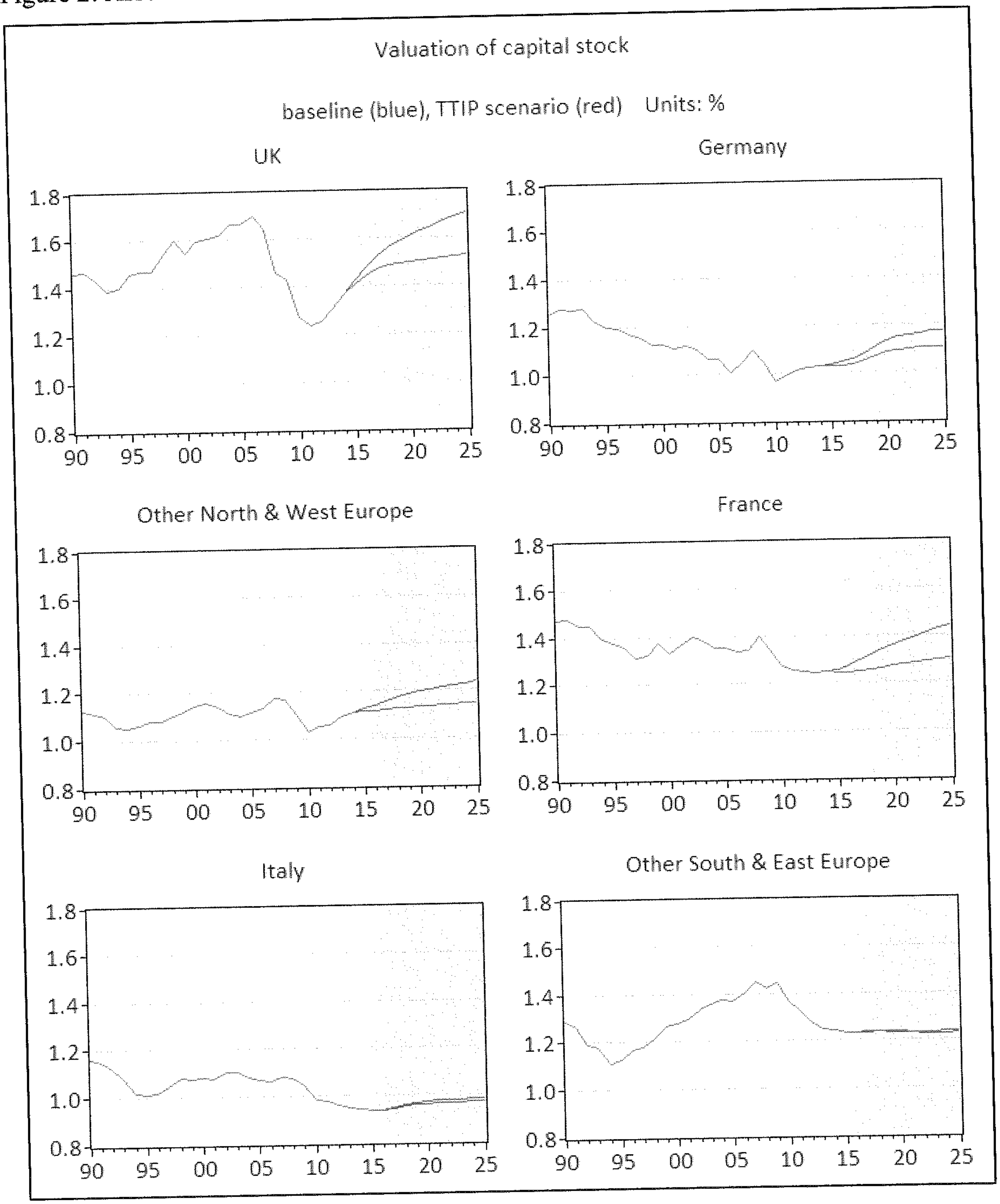
Policymakers will have a few options to adjust to the shortfall in national incomes projected by our study. With wage shares and government revenues decreasing, other incomes must sustain demand if the economy is to adjust. These adjustments have to be profits or rents but, with flagging consumption 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.

In this adjustment scenario, there would be a strong increase in asset prices where financial markets are more developed, especially in the United Kingdom, Germany, Other Western and Northern European Countries and France (Figure 2). Aggregate demand in these economies would be sustained by a recovery of the financial sector, stimulated by domestic landing and growing profits. However, it is critical to note that such growth would last only as long as asset prices keep growing, requiring ever-rising levels of lending. In the current context of weak commercial lending, this might require intentional policy interventions, such as further deregulation. This road to growth has been taken before and its risks have proven extremely high. During the most recent economic crisis, individuals and businesses quickly ran up unsustainable debts until

[27] These limits generally require budget deficits to stay under three percent of GDP.

generalized insolvency suddenly stopped economic activity[28]. Moreover, the extent to which deregulation is successful in increasing lending, rather than just reducing accountability in the financial sector, is not clear.

Figure 2: Asset Prices



[28] See Taylor (2010).

Of course, a run-up in asset prices is not the only policy and economic response to the drop in aggregate demand. But it appears to be slightly more viable than alternative adjustment mechanisms. For example, it is often suggested that an opportunity might come from real devaluation. Countries might be tempted to seek this alternative by way of a nominal depreciation, a reduction of real labor costs or both. In light of the discussion in section 3, the latter channel does not appear viable. This is because it would prove counter-productive when applied by many countries. In other words, if the incomes of workers in every country are reduced, the demand hole is dug even deeper. Moreover, the magnitude of the cuts required could be socially unsustainable after decades of falling labor shares. On the other hand, a substantial nominal depreciation of the Euro would probably trigger defensive depreciation in other currencies before any improvement in competitiveness is achieved.

According to our projections, a real devaluation would have some effect in Germany and France but nothing that might strongly stimulate aggregate demand (Figure 3). Furthermore, attempts at strong devaluations are often followed by a race to the bottom in which the trading partners of the country that devalues try to regain the lost ground by devaluing as well. But even when a race to the bottom does not happen, lasting periods of real devaluation might lead to the accumulation of external debts as Europe's deficit countries has experienced after 1999.[29]

To reiterate, our model requires some form of adjustment to compensate for the drop in aggregate demand. The precise path that future policymakers will choose (if any) is of course unknowable at present. But our model sheds light on the likely macroeconomic consequences of a TTIP-induced change in trade volumes, and also on the policy responses that are more or less likely to fill the demand gap.

5. Discussion and Conclusion

Existing studies on TTIP have focused on the impact the agreement would have on aggregate economic activity in member countries. They have done so based on detailed sectoral analyses of TTIP economies, but have neglected the impact of income distribution and other important dimensions of macroeconomic adjustment.

Our assessment of TTIP is based on the United Nations Global Policy Model, which has proven a convenient tool to estimate the impact of policy changes involving large areas of the world economy. Our simulation does not question the impact of TTIP on total trade flows estimated by existing studies. Rather we analyze their implications in terms of net exports, GDP, government finance, and income distribution.

Our analysis points to several major results. First, TTIP would have a negative net effect on the EU. We find that a large expansion of the volume of trade in TTIP countries is compatible with a net reduction of trade-related revenues for the EU. This would lead to net losses in terms of GDP and employment. We estimate that almost 600,000 jobs would

[29] See Flassbeck and Lapavitsas (2013).

be lost as a result of TTIP. Secondly, TTIP would reinforce the downward trend of the labor share of GDP, leading to a transfer of income from wages to profits with adverse social and economic consequences. Policymakers would face a few options to deal with this demand gap. Our model suggests that asset price inflation or devaluation could result, leading to higher economic instability.

In this paper we have focused on trade and its consequences, leaving the investment component of TTIP on the sidelines. Going forward, valuable insights could be drawn by further extending the analysis of TTIP's financial effects.

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Appendix A: Labor Share and Labor Cost

We show that *labor cost is equivalent to the labor share of GDP*. We start with the output-income identity:

$$PX = wL + \pi PX,$$

where P is the average price level, X is the aggregate level of output, w is the average wage, L the total number of hours worked and π is the profit share. Consequently, wL and πPX represent total wages and profits respectively. Rearranging, we obtain an expression for cost-based pricing:

$$P = (1 + \mu) \cdot \frac{w}{-},$$

where μ is the mark up (related to the profit share by the relationship $\mu = \frac{\pi}{1-\pi}$) and the last term of the right-hand side is the nominal cost of labor per unit of output (the wage-productivity ratio or hourly wage divided by the units of output produced employing one hour of labor). Indicating labor productivity with ξ we can rewrite the latter as:

$$ULC_N = \frac{w}{\frac{X}{L}} = \frac{w}{\xi}.$$

If the profit share and, therefore, the mark-up are to remain constant, the only way to reduce the price of output and become more competitive is to reduce the unit labor cost. This can be done by cutting hourly wages or increasing productivity. In both cases, the consequences can be paradoxical.

We can obtain real unit labor cost dividing the nominal cost by the price level:

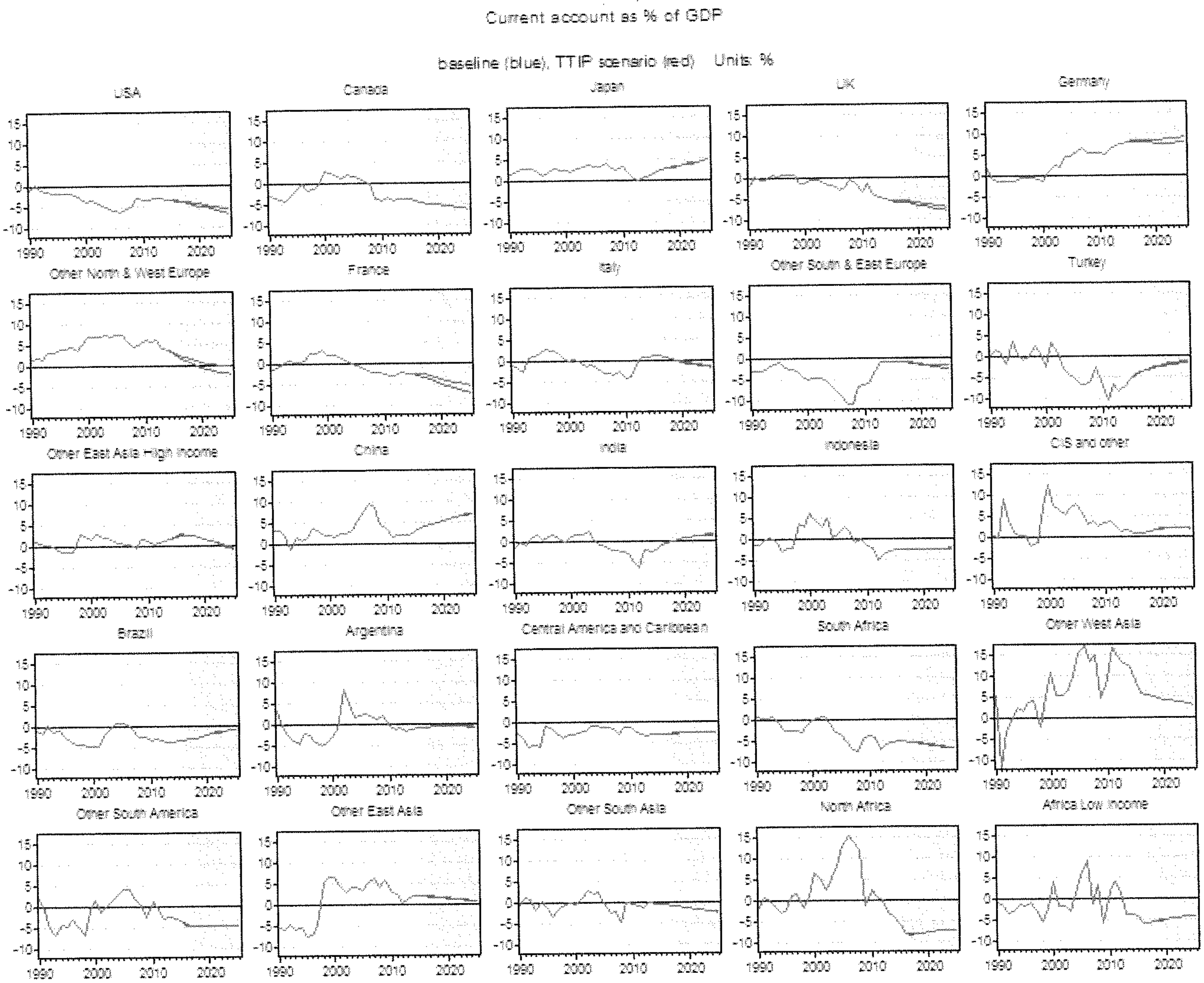
$$ULC_R = \frac{w}{P(\frac{X}{L})} = \frac{\omega}{\xi},$$

where ω is the real wage. But the first equality can also be restated as:

$$ULC_R = \frac{w}{P(\frac{X}{L})} = \frac{wL}{PX} \equiv \psi,$$

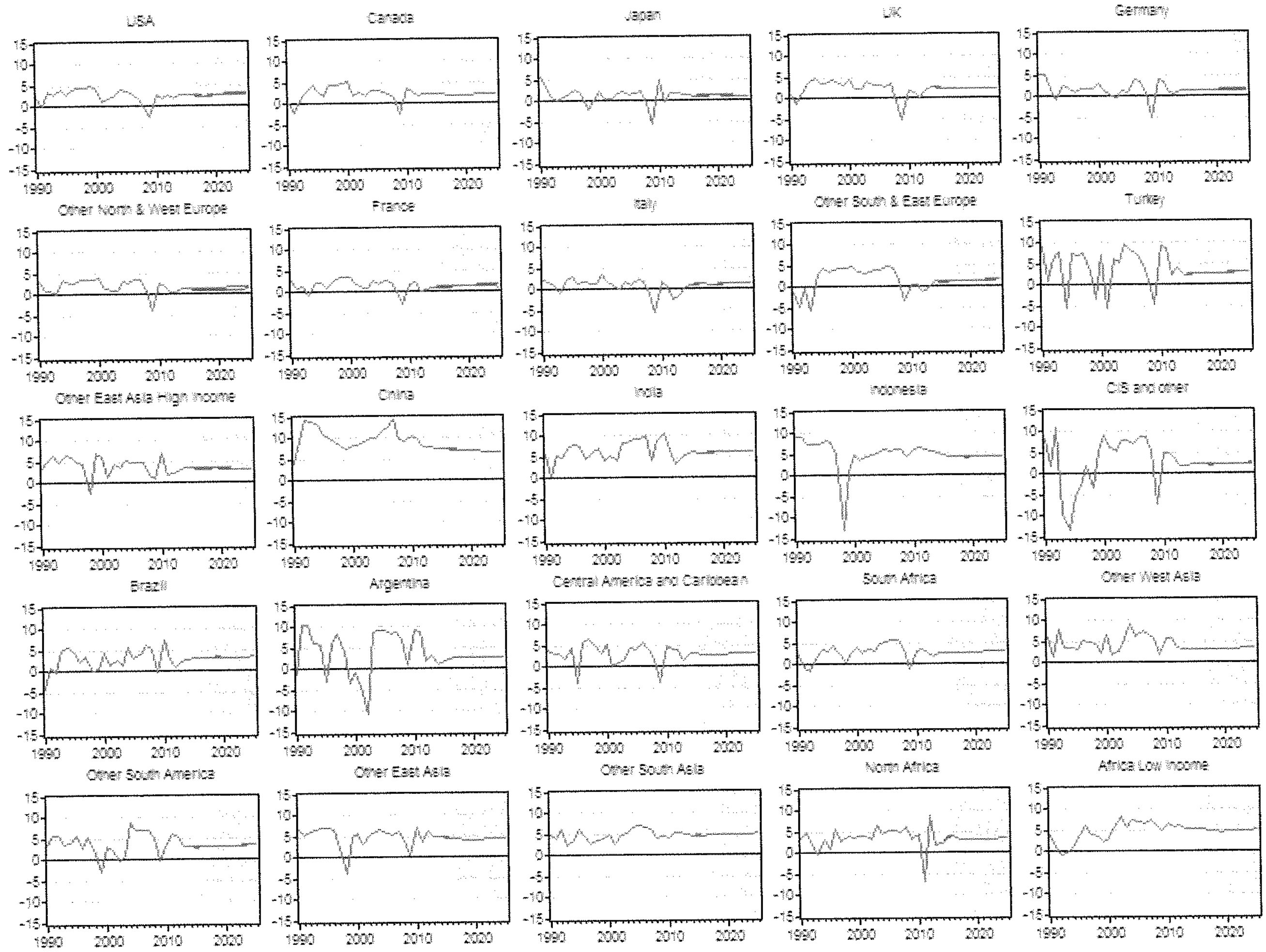
which shows that real unit labor cost is equal to the ratio of the wage bill to the value of output, that is the wage share ψ.

Appendix B: Other Simulation Results



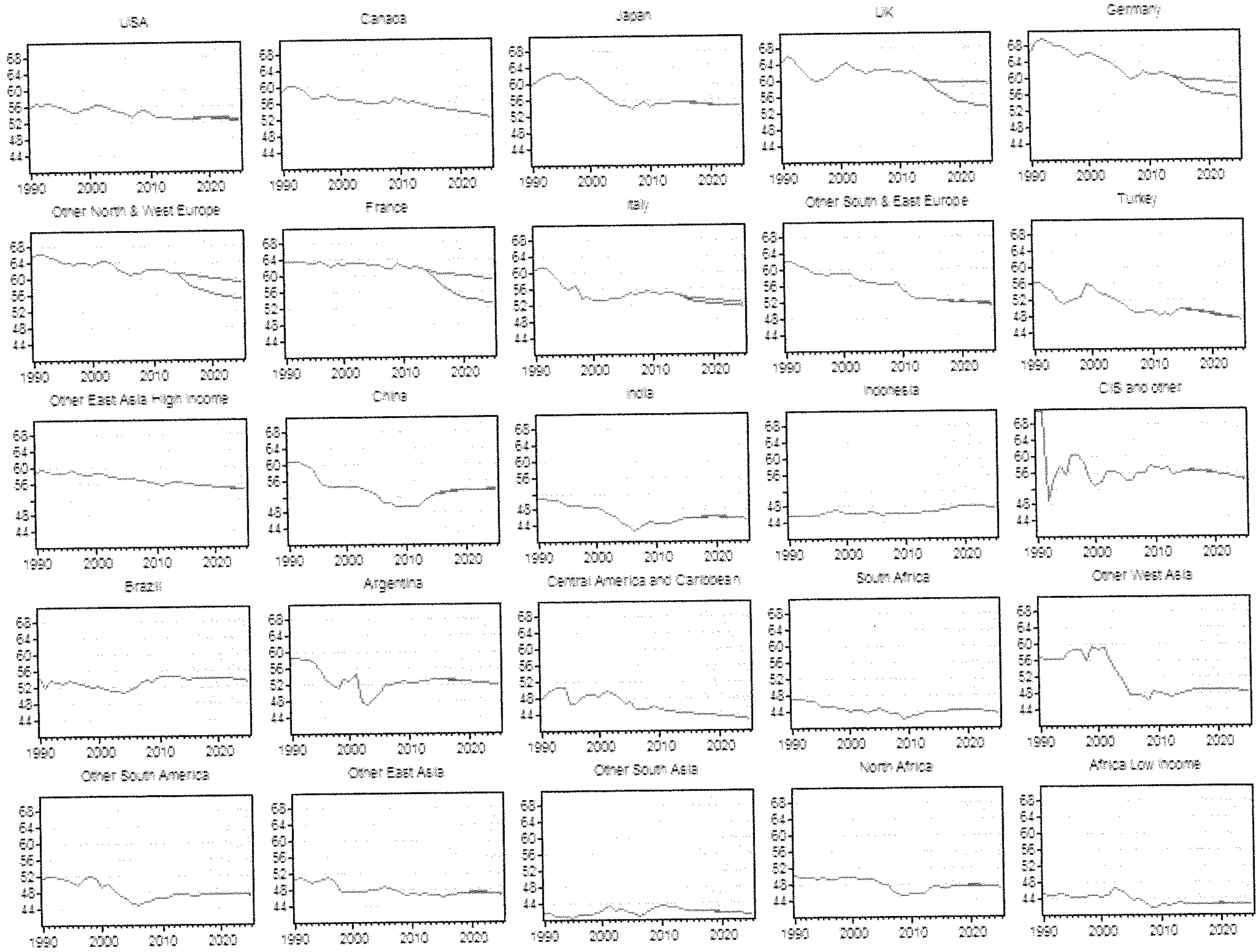
Growth rate of GDP

baseline (blue), TTIP scenario (red) Units: % per year



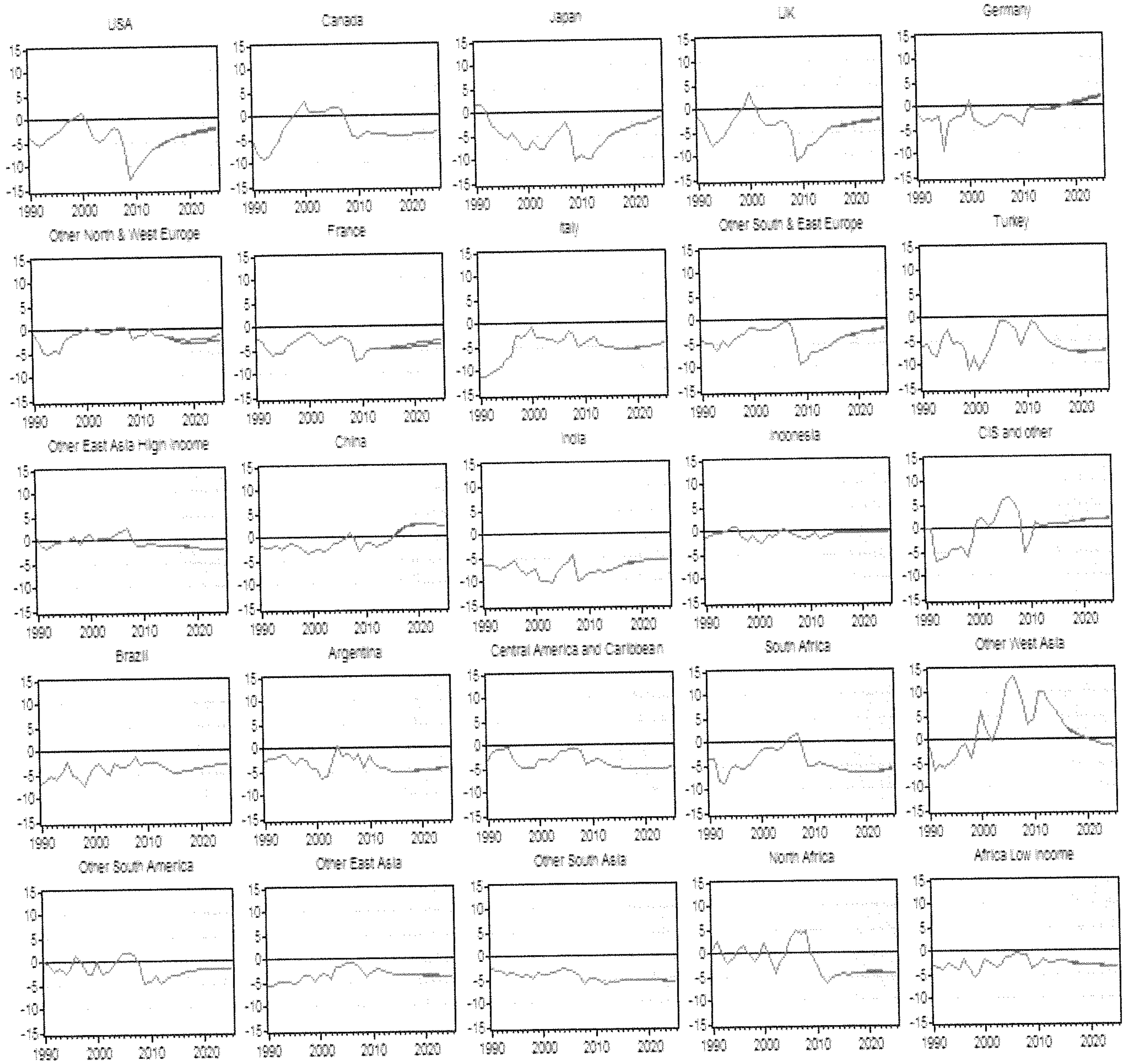
Income from employment as % of GDP

baseline (blue), TTIP scenario (red) Units: %



Government sector net lending as % of GDP

baseline (blue), TTIP scenario (red)   Units: %



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THE CLIMATE MOBILIZATION

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Statement on the Proposed Trans-Pacific Partnership Trade Agreement

Ezra Silk
Co-Founder, Director of Policy & Strategy, *The Climate Mobilization*

My name is Ezra Silk, I am a resident of Portland, and I am a co-founder of the national advocacy group The Climate Mobilization. This summer I helped amend the 2016 Democratic Party platform, to include the following language about the "global climate emergency":

> *We believe the United States must lead in forging a robust global solution to the climate crisis. We are committed to a national mobilization, and to leading a global effort to mobilize nations to address this threat on a scale not seen since World War II. In the first 100 days of the next administration, the President will convene a summit of the world's best engineers, climate scientists, policy experts, activists, and indigenous communities to chart a course to solve the climate crisis.*

Last month, I published the draft of a "Victory Plan" detailing what this WWII-scale mobilization would look like. The plan includes policies to rapidly phase out fossil fuels, transform our food system, conserve resources, restore ecosystems, remove excess carbon dioxide from the atmosphere, and create full employment. Our organization, as well as our board of internationally recognized scientific and economic advisers, asserts that these steps are necessary to protect civilization from catastrophic ecological disruption.

After publication, a number of people, including representatives from the Maine Fair Trade Campaign, informed me that the policies called for in the plan could be blocked as a result of the proposed Trans-Pacific Partnership (TPP) trade agreement. In particular, I was told that the proposed Investor-State Dispute Settlement (ISDS) provisions would expose the U.S. to legal liability for undertaking the policies called for in the "Victory Plan."

I am here today to ask the commission to strongly consider recommending that the ISDS be carved out from the TPP. Our best climate scientists are now telling us that emergency action to eliminate greenhouse gas emissions is required across all sectors to stabilize the climate system and protect human civilization. Every moment that we

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delay an emergency climate mobilization, we increase the risk of a catastrophic disruption of the global food supply as extreme drought drastically slashes yields and increases prices. As we are seeing in Syria, extreme drought can cause civil war, the breakdown of society, and massive flows of refugees across borders.

The best way to ensure continued international trade is to restore a safe and stable climate through a comprehensive emergency mobilization now. It would be ironic, and tragic, if this proposed trade deal caused the breakdown of international trade by blocking the action needed to avert abrupt global warming.

TESTIMONY OF JEFFREY NEIL YOUNG, ESQ.

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Good evening. My name is Jeffrey Neil Young and I am here this evening to testify in opposition to ratification of the Trans-Pacific Partnership Trade Agreement or TPP. My testimony is premised upon my experience as an attorney for some 30 years who regularly represents working people in courts and arbitration.

Although the goals of the bill—promoting free trade among the United States and other countries--are understandable and indeed laudable, I believe that the bill as proposed is unacceptable because of its dispute resolution mechanism. The TPP would divest courts of jurisdiction to resolve suits by corporations against governments in which corporations assert that some governmental action, such as the promulgation of labor and environmental regulations, violates the TPP. Instead, the TPP establishes an "investor to state dispute settlement process" or ISDS for short, by which private panels composed of three attorneys will resolve such disputes.

What, you might ask, is the problem with resolving such disputes through private arbitration rather than through the courts? The problems are numerous:

- Arbitrators who decide trade disputes are not strictly neutral like a judge or jury
    - Arbitrators often represent other corporate clients in trade disputes before the ISDS; as a result, they may have a vested interest in reaching decisions which can be used for the benefit of their clients
- Arbitrators who decide trade disputes may have an interest in favoring private corporations over governments because it will result in more corporate work for them
- Because of the sizable awards which some ISDS panels have issued (at times well in excess of foreign investment), governments have been

forced to settle cases and withdraw regulations for fear of a large award

- Conflict of interest rules for arbitrators are weak
- There is virtually no review of arbitration awards

Because of the dangers of the ISDS private arbitration panels, a number of respected organizations and scholars, including those who generally have supported free trade agreements like the TPP, have come to oppose its ratification. Earlier this month, some 220 law and economics professors, including Jeffrey Sachs, a prominent supporter of free trade, Nobel Prize winner Joseph Stiglitz, and Harvard Law Professor Lawrence Tribe sent a letter to Congress opposing ratification of the TPP because of the ISDS provisions. http://www.citizen.org/documents/isds-law-economics-professors-letter-Sept-2016.pdf A recent four-part expose by Pulitzer Prize-winning journalist Chris Hamby has exposed the dangers of the ISDS arbitration panels. https://www.buzzfeed.com/globalsupercourt

In November 2015, the Columbia Center on Sustainable Investment issued a report highlighting the dangers of the ISDS private resolution mechanism. http://ccsi.columbia.edu/files/2015/11/TPP-entrenching-flaws-21-Nov-FINAL.pdf. Other groups opposing the treaty because of the ISDS scheme include the National Conference of State Legislatures and the pro-free trade Cato Institute, as well as labor, environmental, consumer, and faith organizations. http://www.commondreams.org/newswire/2016/09/07/white-house-spotlights-conflict-democratic-presidential-and-congressional.

To be certain, ISDS is not a new concept; ISDS has been employed as a dispute resolution process in other trade bills, including NAFTA. But the TPP is NAFTA on steroids; it greatly expands the use of the three-arbitration panels and threatens our ability in the United States to enact regulations. To date, because of the limited number of foreign investors in the United States and trade agreement which only have included Canada, the ISDS scheme has not been an issue here; however, under the TPP, which includes Japan and Australia as signatories, some 9000 foreign investors would be able to bring claims in private arbitration panels. http://www.citizen.org/Page.aspx?pid=4083.

Thus, not only is the ISDS scheme a problem for other countries, but the private arbitration mechanism would permit foreign investors in the US to challenge our own labor and environmental regulations enacted by Congress and government agencies. If you think I am just some crazy lawyer making this up, check out the recent ISDs action by TransCanada for $15 billion arguing that the

rejection of the Keystone pipeline was unfair and discriminatory.
http://www.state.gov/documents/organization/259329.pdf

I told you at the outset that I would be speaking from my experience of over 30 years as an attorney. During that time, I've increasingly seen private arbitration supplant the courts as the final arbiters of all types of consumer and labor disputes. Corporations have required consumers and workers to give up their rights to pursue grievances in state and federal courts, both individually and collectively, if they want to utilize a service—like cable TV—or obtain employment. The New York Times detailed this trend and the problems with it in a three part series last year. http://www.nytimes.com/2015/11/01/business/dealbook/arbitration-everywhere-stacking-the-deck-of-justice.html The last thing we want to do is repeat this problem on an international level. Free trade can be a good thing, but not when it creates a private tribunal which threatens the ability of governments – including our own – to enact environmental and labor legislation protecting our citizens. For those reasons, I do not support the TPP.

Testimony submitted to the CTPC public hearing, Portland, USM, September 15, 2015

Thank you co-chairs Senator Volk and Representative Saucier, honorable members of the Commission,

Thank you for hearing my testimony today. My name is Douglas Born. I live in Auburn. I am president of Southern Maine Labor Council and also an executive board member of the Maine Fair Trade Campaign, on whose behalf I speak to you.

While my testimony does not relate directly to the assessment itself, there is another issue that has come to our attention and raises concerns for us.

The Trade Promotion Authority law, which authorizes the TPP negotiations, added an explicitly new provision to the effect that the TPP could not affect any inconsistent law at the state level. This was a important change from previous rounds, which provided that state law could be challenged by the federal government if it was inconsistent with a trade agreement. The issue is that USTR has drafted implementing legislation that ignores the TPA language and reverts to the old model for preempting state law.

We ask the Commission this question: If certain protective language has been agreed to, will the Commission find out why the Federal Government would choose to use implementing language to undermine it?

Thank you for taking my testimony.
Respectfully submitted,
Douglas Born

The references below are prepared by Matt Porterfield on how the TPA legislation (sec 108) changes the past approach to implementing trade agreements (e.g., sec. 102 of the US-Korea FTA).

Trade Promotion Authority (TPA) law protects state sovereignty, but USTR is ignoring TPA in preparing for the TPP

I wanted to call your attention to language in the recently released Draft Statement of Administrative Action (Draft SAA) for the TPP that appears to contradict assurances that were made in the Trade Promotion Authority (TPA) bill last summer concerning state and local law. Basically, the TPA legislation indicated that, contrary to prior practice with trade agreements, the federal government would not be able to sue to preempt state or local law based on a conflict with a provision of the TPP. The Draft SAA, however, indicates that the TPP's implementing legislation will retain the federal government's ability to seek preemption of state and local laws.

The standard implementing legislation for trade agreements states that provisions of trade agreements do not "have effect" to the extent that they violate "United States" law, which refers only to federal law. See, e.g., the implementing legislation for the U.S.–Korea FTA (available athttps://www.congress.gov/112/plaws/publ41/PLAW-112publ41.pdf):

SEC. 102. RELATIONSHIP OF THE AGREEMENT TO UNITED STATES AND STATE LAW.

(a) RELATIONSHIP OF AGREEMENT TO UNITED STATES LAW.—

(1) UNITED STATES LAW TO PREVAIL IN CONFLICT.—No provision of the Agreement, nor the application of any such provision to any person or circumstance, which is inconsistent with any law of the United States shall have effect.

The TPA legislation passed last summer extends this protection to state and local law:

SEC. 108. SOVEREIGNTY.

(a) UNITED STATES LAW TO PREVAIL IN EVENT OF CONFLICT.—

No provision of any trade agreement entered into under section 103(b), nor the application of any such provision to any person or circumstance, that is inconsistent with any law of the United States, any State of the United States, or any locality of the United States shall have effect.

H.R. 2146, Defending Public Safety Employees' Retirement Act (2015), available at https://www.congress.gov/114/plaws/publ26/PLAW-114publ26.pdf.

The Senate Committee Report indicates that this provision "specifies, for the first time, that no provision of any trade agreement entered into under trade authorities procedures that is inconsistent with the laws of the United States or any State or locality will have effect."

https://www.congress.gov/114/crpt/srpt42/CRPT-114srpt42.pdf

The Draft SAA for the TPP, however, indicates that the TPP's implementing legislation will allow the federal government – as under other FTAs – to sue to preempt state and local law based on inconsistency with the TPP:

Section 102(b)(1) of the bill makes clear that only the United States is entitled to bring an action in court in the event of an unresolved conflict between a state law, or the application of a state law, and the TPP Agreement. The authority conferred on the United States under this paragraph is intended to be used only as a "last resort," in the unlikely event that efforts to achieve consistency through consultations have not succeeded.

Draft TPP SAA at 5, available at http://0-insidetrade.com.gull.georgetown.edu/sites/insidetrade.com/files/documents/aug2016/wto2016_1547.pdf

Testimony for the Citizen Trade Policy Commission, Public Hearing

Sept 15, 2016, Abromson Center, USM, Portland, ME

Thank you Senate Chair Volk , Representative Chair Saucier and members of the Commission for holding this hearing and inviting members of the public to speak.

My Name is Nat Lippert. I'm a student here at USM in the Public Health program, a restaurant worker in Portland, and a volunteer organizer with the Southern Maine Workers' Center. I've worked as a researcher and organizer in the labor movement, as well as a staff member for community organizations, and I'm here as someone who is concerned with the anti-democratic and anti-human rights aspects of the TPP.

However, my testimony today is from Bjorn Claeson, of Sweatfree Purchasing Consortium. Bjorn served for several years as a Commissioner on the Citizen Trade Policy Commission and when he learned of today's public hearing he thought a report that he had just read was particularly salient. The link to this report about trade and human rights is included in my testimony, but I will read a few excerpts from it followed by a final observation from Bjorn. He wanted us to note that coincidentally, today – Thursday, September 15, 2016 - is the International Day of Democracy.

The Report follows:

A United Nations independent expert today called on States and Parliaments to ensure that all future trade agreements stipulate the primacy of human rights and to align existing treaties with the duty of States to fulfill binding human rights treaties and meet environmental and health goals.

"Investors and transnational enterprises have invented new rules to suit their needs, rules that impinge on the regulatory space of States and disenfranchise the public," the United Nations Independent Expert on the promotion of a democratic and equitable international order, Alfred de Zayas, warned during the presentation of his latest report to the UN Human Rights Council, according to a news release from the Office of the UN High Commissioner for Human Rights (OHCHR).

"In case of conflict, priority must be given to advancing the public interest rather than continuing the current emphasis on profit expectations of investors and transnational corporations," he added.

"It is high time to mainstream human rights into all trade agreements and World Trade Organization (WTO) rules and regulations, so that trade representatives and dispute-settlers know that trade is neither a 'stand alone' regime nor an end in itself," he said.

Civil society including consumer unions, health professionals, environmental groups and other stakeholders must be part of the process of elaboration, negotiation, adoption and implementation of trade agreements, Mr. de Zayas said.

"A just, peaceful, equitable and democratic world order must not be undermined by the activities of investors, speculators and transnational enterprises avid for immediate profit at the expense of social and economic progress," he stressed.

According to the news release, the report introduces the concept of "responsibility to act" or R2A, in the public interest. The R2A reaffirms the ontology of governance and goes well beyond "responsibility to protect" or R2P.

"Governments, Parliaments and Courts must deliver on R2A and not compromise their constitutionally defined roles," the expert said.

The report illustrates how the investor-state-dispute settlement mechanism, the recently proposed Investment Court System, and the WTO dispute settlement mechanism suffer from systemic business-bias and often fail to consider the human rights impacts in their awards and decisions, the news release said.

In his report, Mr. de Zayas also draws attention to the fact that the Comprehensive Economic and Trade Agreement, the Trans Pacific Partnership , the Transatlantic Trade and Investment Partnership and the Trade in Services Agreement have all been negotiated in secret, without consultation of key stakeholders and excluding public participation, thus in violation of articles 19 and 25 of the International Covenant on Civil and Political Rights.

"None of these treaties have any democratic legitimacy," the expert said, emphasizing that none of them should be allowed to enter into force without public referenda, and if they do enter into force, their legality should be challenged before the constitutional courts of the countries concerned and before the regional human rights courts.

"An advisory opinion by the International Court of Justice reaffirming the primacy of the UN Charter over trade agreements would be instructive," he said.

Moreover, Mr. de Zayas called for the adoption of a legally binding treaty laying down enforceable obligations by investors and transnational enterprises. A systematic follow up by the Human Rights Council to monitor the implementation of the recommendations of UN working groups, rapporteurs and independent experts is necessary.

Special Rapporteurs and independent experts are appointed by the Geneva-based UN Human Rights Council to examine and report back on a specific human rights theme or a country situation. The positions are honorary and the experts are not UN staff, nor are they paid for their work.

The press release can be found here:
http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=20473&LangID=E

Additional information can be found here: https://dezayasalfred.wordpress.com/

Bjorn further notes that the US is a signatory to the International Covenant on Civil and Political Rights. He writes: "the secret negotiation process of the trade deals violates an international convention which the US has signed." He notes that he had not previously heard this argument and that he looked up the covenant (and the specific articles mentioned below) and found:

Article 19
2. Everyone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice.

Article 25
Every citizen shall have the right and the opportunity, without any of the distinctions mentioned in article 2 and without unreasonable restrictions:
a) To take part in the conduct of public affairs, directly or through freely chosen representatives.

I felt that Bjorn's comments are even more significant on this International Day of Democracy. Thank you very much for hearing my testimony.