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U.S.-EU "Free Trade" Agreement: Only Miniscule Economic Gains Projected, Even from Studies Premised on Outlandish Assumptions about Benefits from Gutting the Environmental, Health, Financial and Other Safeguards Targeted by the Pact

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

To sell such an underhanded rewrite of domestic safeguards to U.S. and EU policymakers and the general public, corporate lobby groups and TAFTA negotiators are proclaiming that the deal would bring economic benefits. TAFTA's corporate proponents repeatedly point to a few theoretical studies to substantiate claims of increased national income levels resulting from the deal. These studies use a long litany of dubious assumptions, questioned by economists at institutions such as the U.N., to project TAFTA's economic impact. But even if one accepts all such assumptions regardless of their basis in reality, the studies project negligible economic "benefits" from TAFTA while ignoring sizable costs to consumers, workers and the environment.

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

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

That is why studies focused on the impact of TAFTA's possible tariff reduction have produced meager estimates of any economic impact. A frequently cited pro-TAFTA study by the European Centre for International Political Economy uses broad assumptions to estimate that when fully implemented, TAFTA will deliver economic benefits equivalent to three extra cents per person per day.

Even under the most starry-eyed scenario that the study's authors can envision for the economic impact of tariff reduction, TAFTA would result in a mere 0.5 percent increase in U.S. gross domestic product (GDP) when fully implemented. But that "impact" is unrealistically high, given that it assumes a contentious proposition of tariff reductions causing strong "dynamic" economic growth, a theory that academics have repeatedly assailed with empirical evidence showing no such trade-growth causation. After dropping this dubious assumption, the study notes that the theoretical TAFTA-prompted increase in U.S. GDP of $182 billion shrivels to just $20.5 billion, a statistically invisible 0.06 percent blip. By comparison, economists estimate that the introduction of the fifth version of Apple's iPhone delivered a GDP increase up to eight times higher than the projected TAFTA effect.

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

Studies Ignore Costs, Use Big Assumptions to Project Tiny Gains from TAFTA's Weakening of Safeguards

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

Pro-TAFTA studies ignore the cost of this projected weakening of safeguards. But they use assumptions-laden models premised on the unproven business mantra that eliminating health, safety and environmental safeguards will somehow deliver economic gains to us all. Despite such lopsided calculations, the studies still produce meager projections for TAFTA's economic gains. An oft-cited pro-TAFTA study, commissioned by the European Commission and prepared by the Centre for Economic Policy Research, estimates that, if public interest regulations are significantly diluted or eliminated, TAFTA could produce a 0.2 – 0.4 percent increase in U.S. GDP (a $66 – 126 billion addition in 2027).

To arrive at this estimate of a smaller TAFTA gain than was delivered by the latest iPhone, the study assumes that up to one out of every four non-tariff barriers – from Wall Street regulations to food safety standards to carbon controls – would be reduced or eliminated. (The study acknowledges that some safeguards could not reasonably be slated for dismantling because doing so "may require constitutional changes…; because there is a lack of sufficient economic benefit to support the effort;...because of consumer preferences…; or due to other political sensitivities.") Then, the study uses a computable general equilibrium model to generate its projections, despite studies showing that this methodology is inchoate and unreliable when studying non-tariff policies.

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

For example, in the food sector, the study counts "Grade A dairy safety…rules and inspection requirements" for milk and "a US ban on the import of uncooked meat products" in the case of "a health risk" as "non-tariff barriers" that could be slated for dismantling under TAFTA. The elimination of such consumer protections would likely result in greater incidence of food-borne illness in the United States, which would not only increase the medical costs of affected consumers, but would reduce their productivity levels and number of days at work, spelling a negative impact on aggregate economic output.

In financial services, the study names the Sarbanes-Oxley Act of 2002 as a "non-tariff barrier" on the target list of EU businesses and officials. The Act created enhanced accounting and anti-fraud standards to prevent a recurrence of the Enron, WorldCom, and other corporate accounting scandals that destroyed billions of dollars of U.S. investments. Similarly, EU government officials have been calling for the weakening of the Volcker Rule. The Rule, which the EU apparently views as a barrier, happens to sit at the center of Wall Street reforms enacted to rein in the excessive risk-taking that led to the Great Recession. Undermining such critical financial reregulation via TAFTA would heighten the risk of more accounting scandals or another financial crisis, threatening dire impacts on the real economy. Such risks hardly seem worth a speculated blip in GDP.