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Memo to Reporters

Beware of Outlandish Claims About Economic Benefits of U.S.-EU 'Free Trade' Deal

This Week's U.S. International Trade Commission Study Assumes Total Elimination of U.S.-EU Consumer, Environmental, Financial Policy Differences, Follows British Embassy's 50-State Rehash of Discredited 2009 Study Based on Similar Assumption

On Thursday, the U.S. International Trade Commission (USITC) sent a report to the U.S. Trade Representative (USTR) on the projected economic impact of the Trans-Atlantic Free Trade Agreement (TAFTA), a report that is premised on the ridiculous assumption that 100 percent of the differences between U.S. and EU health, safety, environmental and financial regulations will be eliminated. Given that the report, which is not being made available to the press or public, relies on a premise that can only lead to fanciful results, U.S. negotiators should not consider it, much less use it to guide their approach to the agreement.

That study comes two days after yet another think tank report that recycled a litany of flawed assumptions from a 2009 study on TAFTA, chopping up baseless findings to present a 50-state version of imaginative projections of economic gains from a similar dismantling of public interest safeguards.

The core premise of these studies is the unproven business mantra that rolling back Wall Street reforms, food health standards and medicine safety regulations will somehow deliver economic gains to us all. The main contribution of the recent flurry of studies is the addition of extra gloss and fancy printing to the old, debunked assumption that such an assault on consumers, workers and the environment would have zero costs.

In its request for Thursday's study, the USTR asked the USITC to assume an impossible outcome of U.S.-EU negotiations: "that any known U.S. non-tariff barrier will not be applicable" to imports from the EU if the sweeping deal were to take effect. By the USTR's own definition, "non-tariff barriers" include differences in domestic financial regulations, food safety standards, product safety rules and other U.S. public interest safeguards that TAFTA apparently would render null.

Even the most fanciful pro-TAFTA study, the 2009 ECORYS study prepared for the European Commission that has been regularly rehashed, including in a British Embassy report this week, avoided such an outlandish assumption, stating, "It is unlikely that all areas of regulatory divergence identified can actually be addressed … because this would require constitutional changes … ; because there is a lack of sufficient economic benefit to support the effort; …because of consumer preferences…; or because of political sensitivities."

On Tuesday, the findings of the 2009 study were revived in another TAFTA-touting study, commissioned by the British Embassy in Washington, the Bertelsmann Foundation and the Atlantic Council. That glossy piece recycled the 2009 study's improbable assumptions – breaking them down to state-by-state projections – to hypothesize the "gains" that TAFTA could deliver to each state if public interest safeguards were sufficiently weakened. The study assumes that TAFTA would eliminate *one of every four* "non-tariff barriers" – from the Volcker Rule at the center of Wall Street reform to safety standards for children's toys to the U.S. ban on beef linked to mad-cow disease – at no cost to consumers.

While ignoring costs, the report uses a computable general equilibrium model to generate projections of hypothetical economic gains, despite studies showing that this methodology is inchoate and unreliable when studying non-tariff policies. Past studies using this cost-ignoring, gain-inflating methodology have still produced meager projections for TAFTA's "gains." A pro-TAFTA study whose findings were recycled in Tuesday's report estimated that, if TAFTA would significantly dilute or eliminate public interest regulations, the deal could produce a tiny 0.2 – 0.4 percent blip in U.S. gross domestic product (GDP). According to economists, that's a smaller contribution to GDP than was delivered by the latest version of the iPhone.

The list of "non-tariff barriers" slated for elimination in the underlying 2009 study includes food safety standards such as "Grade A dairy safety … rules and inspection requirements" for milk and financial stability measures such as the Sarbanes-Oxley Act that enacted accounting and anti-fraud standards to prevent a recurrence of Enron-like corporate accounting scandals. The study ignored the predictable social and economic costs that would result from such extreme regulatory rollback, such as an increase in the incidence of foodborne illness and a rise in financial instability.

Tuesday's report, like its predecessors, made clear that TAFTA is not primarily about trade. Acknowledging that tariffs between the United States and the EU are "already quite low," USTR and EU officials have made clear that TAFTA's primary focus will be on the "elimination, reduction, or prevention of unnecessary 'behind the border'" policies, such as the health, financial and environmental regulations targeted by Tuesday's study. Attempts to exclusively measure the economic impact of TAFTA-prompted tariff reductions have produced embarrassingly meager results, estimating that even in the unlikely scenario of 100 percent tariff elimination, TAFTA would deliver economic benefits equivalent to three extra cents per person per day.

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