

TTIP and the Scottish Economy

STUC briefing in advance of Scottish Parliament TTIP
debate on Wednesday 29 April 2015

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Summary

- No serious efforts have been made to quantify the impact of TTIP on the Scottish economy.
- All the evidence presented so far – at EU, UK and Scottish level – indicates that the best case scenario is a trivially small positive impact on growth and jobs.
- Trade agreements have most impact on growth where traditional barriers to trade (tariffs and quotas) are high. However traditional barriers to trade between the US and EU are already very low. The trade weighted tariff protection in the US for EU exports is estimated at 2.1% while the trade weighted tariff rate for US exports to the EU is estimated at 2.8%.
- Therefore, removing these already slight barriers will have a minimal impact on growth; a conclusion borne out by the very research the European Commission uses to promote the benefits of TTIP. The very best case scenario presented by the Commission – one that is highly unlikely to be achieved - is a 0.5% increase in EU GDP by 2027.
- The STUC is disappointed that Government at all levels has ignored and continues to ignore the distributional impact of TTIP. When traditional barriers to trade are already low, the impact on growth of reducing them further is likely to be meagre. However, the distributional consequences will be acute as a lot of economic and social dislocation is generated for little overall gain.
- The STUC notes that TTIP is not a traditional trade agreement and cannot be described as primarily concerned with promoting 'free trade'. Its purpose is to reduce non-tariff measures (NTM's) in a process of regulatory harmonisation that could not be achieved through domestic democratic processes. This process further undermines the already weak legitimacy of global markets.
- No authority (including the US Trade Representative, European Commission, UK and Scottish Governments) currently seems able to present a persuasive case on the economics of TTIP. The available evidence points towards a deal that may boost corporate profits but do little to create quality sustainable jobs.

1 **Will TTIP boost the Scottish economy?**

The only honest answer to this question is that no one really knows. There have been no serious efforts made at quantifying the effect of TTIP on the output of the Scottish economy. But there are very sound reasons for believing that the impact on growth will be, at best, negligible. All forecasts will of course be speculative until such times as the detail of the final agreement is published. Even then, the impact on Scotland will remain difficult to quantify.

In his responseⁱ (published on 28 April) to the European and External Relations Committee report, John Swinney MSP, Cabinet Secretary for Finance, Constitution and Economy argues that the Scottish Government's "*indicative modelling... suggests that the agreement is likely to have a positive, albeit modest, impact on headline indicators such as GDP*". Mr Swinney's oral evidenceⁱⁱ to the Committee was more specific:

"the impact could mean Scotland's GDP expands by 0.2 to 0.3%. We estimate the range of export growth at between 1.8 and 3.6% but the range of import growth is expected to be between 0.8 and 1.5%".

The STUC notes the following about the Scottish Government's assessment:

- The very small positive impact on GDP described above is a **best case scenario** ('ambitious' scenario) which assumes the complete removal of traditional trade barriers (tariffs), a 25-50% reduction in non-tariff measures (NTMs) and a 50% reduction in barriers to public procurement; and,
- The research on which the Scottish Government's assessment is based also modelled other scenarios (described as 'less ambitious' and 'limited options'). The 'less ambitious' scenario – which some would argue is much more realistic outcome – results in benefits to the EU economy of just over half those accruing from the 'ambitious' scenario. The increase in GDP provided by the 'limited options' ranges from around 10 to 25% of the ambitious scenario.

Therefore, the increase in Scottish GDP resulting from TTIP is indeed likely to be 'modest'. The STUC would argue that it will almost certainly be indistinguishable from statistical noise. As the US economist Dean Baker has noted, '*as growth policy TTIP doesn't pass the laugh test*ⁱⁱⁱ.

2 **Will TTIP boost growth across the EU?**

A number of studies have been published which attempt to determine the impact on GDP growth at EU level. The most influential is that completed by the Centre for Economic Policy Research^{iv} (CEPR) for the European Commission which found that TTIP is likely to increase the size of the EU economy by 120bn euros or 0.5% of EU GDP by 2027. This is the study on which the Scottish Government based its own modelling.

Again, it must be stressed that the 120bn euro increase in GDP is a best case scenario. The 'less ambitious' scenario (98% reduction in tariffs, 10% reduction in NTMs and a 25% reduction in barriers to public procurement) yields only a 69bn euro increase^v. The figures in both scenarios are the annual increase in GDP by 2027.

The meagre impact of TTIP should not come as a surprise. If TTIP was being introduced to reduce high traditional barriers to trade between the EU and US then it would be reasonable to assume that the impact on growth and jobs would be significant. But traditional barriers to trade are already very low: the trade weighted tariff protection in the US for EU exports is estimated at 2.1% while the trade weighted tariff rate for US exports to the EU is estimated at 2.8%^{vi}. As a number of prominent economists have noted, cutting already very low tariffs will not produce such a small impact (positive or negative) on GDP that will be indistinguishable from other factors^{vii}.

Other research^{viii} (Capaldo 2014) has actually concluded that TTIP would lead to:

- a fall in GDP particularly within the Northern European nations;
- a decrease in EU employment of 583,000;
- a reduction in the labour share (the share of total income accruing to workers)
- losses in net exports; and,
- a loss in Government revenue.

While the STUC is sceptical about placing too much emphasis on one study, these results do highlight that the CEPR study – oft-quoted by the EU Commission in making the case for TTIP – shouldn't be considered as the last word. Economists are split on the extent of its effects on the EU and US economies. However the salient point is that very little substantive research has been carried out especially with regard to sub-EU impacts.

3 Will TTIP boost employment in Scotland?

Again, no serious effort has been made to forecast the impact of TTIP on the Scottish labour market. The CEPR and Ecorys studies assume full employment and therefore make no predictions about the impact of TTIP on employment. These studies do forecast a small increase in wages (0.5%) and labour reallocation of less than 0.7%.

It is likely that some sectors will see modest employment growth but that others will see job losses – the downside in this respect is not denied by either party to the agreement.

In the circumstances, and noting the lack of relevant research, the STUC believes it would be helpful for the Scottish Government to commission a study into the potential sectoral and geographical impacts of TTIP in order that any dislocation can be properly managed.

4 ***TTIP extends free trade which must be a good thing?***

TTIP is not a 'free trade' agreement and neither the US nor EU can claim the moral high ground in promoting free trade. If this deal was about extending free trade then elimination of agricultural subsidies would be on the table. As the Nobel economics laureate and Scottish Government adviser Joseph Stiglitz has regularly noted, the office of the US Trade Representative (USTR) does not promote a 'free trade'; instead it has a "*managed trade regime that puts corporate interests first, and a process of negotiations that is undemocratic and non-transparent*"^{ix}. There is nothing to indicate that the European Commission's approach is radically different.

TTIP is not primarily about the removal of traditional barriers to trade (tariffs and quotas) which, as noted above, are already very low between the US and EU. It is instead about a reduction in NTMs or 'regulatory harmonisation' which:

- ***offers meagre potential returns in terms of growth and jobs*** – as outlined above;
- ***undermines democracy by introducing new 'harmonised' regulatory standards which could not be implemented through domestic democratic process*** – thereby threatening the dilution of vital worker, consumer and environmental protections. Given the history of bilateral agreements and the approaches adopted by the European Commission and USTR, it is difficult to envisage standards being harmonised upwards. Many countries have, for example, tax and regulatory provisions that discourage large cars – not because they are trying to discriminate against US goods but because they worry about pollution and energy efficiency. TTIP could circumvent these legitimate democratically expressed aspirations.
- ***extends the scope for rent-seeking by multinational corporations*** - for instance, stronger and longer patent and copyright protection. It is entirely possible that the higher prices associated with this additional protectionism will more than offset any gains associated with the reduction in the other trade barriers in these pacts. To be clear, in this respect, ***TTIP will actively undermine growth in jobs and output.***

The STUC believes that where traditional barriers to trade persist and where these are asymmetrical (i.e. US firms do not confront similar tariffs when selling to the EU that EU firms confront when selling to the US) there is a strong case for their removal. But this is not the primary purpose of TTIP. Both the EU Commission and the US Trade Representative (USTR) have made it very clear that the main prize is NTMs/harmonisation.

5 What will be the distributional impact of TTIP?

Often lost in the debate about TTIP is that trade and trade agreements have inevitable and potentially large distributional impacts. There are always winners and losers in international trade but:

“the more open an economy is, the worse the distribution to efficiency ratio gets. The political and social cost benefit ratio of trade liberalisation looks very different when tariffs are 5% instead of 50%. It is inherent in the economics of trade that going the last few steps to free trade will be particularly difficult because it generates lots of dislocation but little overall gain... advocates who claim that trade has huge benefits but only modest distributional impacts either do not understand how trade really works, or have to jump through all kinds of hoops to make their arguments halfway coherent. The reality is more simple: no pain, no gain”.

Dani Rodrik^x

The STUC is appalled that no serious distributional analyses on the impact of TTIP has been carried out by the EU Commission, the UK Government or the Scottish Government. It is particularly absurd that the European Union, which has economic and social cohesion as one of its primary objectives, has failed to commission any serious work on the distributional consequences of TTIP.

Given that the First Minister has emphasised that reducing inequality is her top priority, it is reasonable to expect that every new policy, programme and law should be examined from a distributional perspective. Agreements like TTIP have contributed to rising inequality. Corporations may profit and it is possible – though far from assured - that growth will increase. But it does not necessarily follow that the well-being of ordinary citizens will improve.

7 Do trade unions care about manufacturing?

In the Sunday Herald (26 April) a ‘non-Tory MEP’ was quoted thus:

“The nature of the debate on TTIP underlines how Scottish manufacturing is not being represented at trade union level any more. The old unions would have been fighting for it, not against it, because they would see that it helps jobs and exports of the things they made. Now the main concern is that it would damage jobs in public services”.

The STUC has rarely confronted such demonstrable guff. We have been, and will continue to be, at the forefront^{xi} of pushing the interests of Scottish manufacturing. No other organisation in Scotland has done as much as the STUC to press Government at all levels to support manufacturing and manufactured exports.

The STUC has seen no evidence whatsoever to suggest that substantial benefits will flow through TTIP to Scottish manufacturing. The sectors which the research highlights as standing to gain most – e.g. motor vehicles – are not prominent in Scotland.

Again, if unfair barriers to trade persist these should be addressed through the WTO which exists for that very purpose. There is no significant jobs dividend to be generated through regulatory harmonisation. On the contrary, in what are already very lightly regulated product markets (the US and UK are the most deregulated product markets in the developed world) the consequences of downward harmonisation for workers, consumers and the environment are potentially severe.

Conclusion

On the basis of the available evidence, the STUC believes:

- the very best case scenario is that TTIP will have a trivial impact on growth and jobs.;
- the distributional impacts, which have been ignored by Government at all levels, are potentially severe; and,
- The process of regulatory harmonisation central to TTIP holds significant potential dangers for workers, consumers and the environment and is irreconcilable with the model of economic and social development promoted by the Scottish Government.

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[http://www.scottish.parliament.uk/S4_EuropeanandExternalRelationsCommittee/Inquiries/DFM response to EERC report.pdf](http://www.scottish.parliament.uk/S4_EuropeanandExternalRelationsCommittee/Inquiries/DFM%20response%20to%20EERC%20report.pdf)

ii Para 61

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/87794.aspx#the>

iii <http://www.theguardian.com/commentisfree/2013/jul/15/us-trade-deal-with-europe-hype>

iv http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf

v See Impact Assessment Report on the future of EU-US trade relations, European Commission 2013 for a discussion on scenarios

vi Ibid pg 17

vii See for instance Krugman http://krugman.blogs.nytimes.com/2015/01/19/suspicious-nonsense-on-trade-agreements/?_r=0

viii <http://ase.tufts.edu/gdae/Pubs/wp/14-03CapaldoTTIP.pdf>

ix <http://www.project-syndicate.org/commentary/transatlantic-and-transpacific-free-trade-trouble-by-joseph-e--stiglitz>

xx <http://www.amazon.co.uk/The-Globalization-Paradox-Markets-Democracy/dp/019965252X>

xi For instance through the publication of major discussion papers in 2007 and 2011 <http://www.stuc.org.uk/files/Congress%202011/Manufacturing%20paper.pdf> presentations to the National Economic Forum in December 2010 <http://www.gov.scot/Topics/Economy/national-economic-forum/Meeting6February2008/September2010#top>