CETA Without Blinders:

How Cutting 'Trade Costs and More'
Will Cause Unemployment, Inequality and Welfare Losses

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Disclaimer

The views expressed in this study are solely those of the author and do not necessarily reflect the views of his employer.

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Quantitative studies on CETA: "1 for the price of 4"

- 2001: Cameron and Loukine
  - Report of the former Canadian Ministry of Foreign Affairs and International Trade
- **2008: Hejazi and Francois**
  - Joint report of Canada and the European Union, which serves as **reference study** and has the most optimistic projections
- 2010: Kitou et Phillippidis
  - Paper of the Joint Research Centre of the European Commission
- 2011: Kirkpatrick et al.
  - Sustainability Impact Assessment study of the European Commission

- **2016: Kohler and Storm**
  - Critical analysis and independent projections

Methodology: strength and weaknesses (1)

- **Deontology et epistemology**

  (-) Same financing source

  (-) Same neoclassical model (GTAP)

  Neoclassical approach of the economy

  - *The economy works like a perfect Newtonian machine*

  ⇒ "Natural" forces, whose energy remains constant, force the economy back to a pre-determined "equilibrium"

  - *Void does not exist*

  => All prices adjust as much as necessary to balance all markets, not unlike "an ether filling the cosmic void"

⇒ **Lack of independence and intellectual diversity**

Methodology: strength and weaknesses (2)

- **Assumptions**
  1. **Neoclassical GTAP model**

     (-/+) Trade-only model, sectoral details

     (-) Static (compare just before/after liberalization, no transition)

     (-) Full employment of all productive resources

     – No idle capital (all savings are reinvested…)

     – No unemployment (all workers are employed…)

     (-) No inequality (and if it exists, it has exerts no effect on the rest of the economy)
  2. **CETA simulation**

     (-) Lower trade costs and <u>NOTHING ELSE</u>

⇒ **Lack of realism: fantasy economic world without any risk or cost & truncated simulation of CETA**

“The plausibility of a model’s results cannot exceed those of its assumptions.”

Results (without costs)

	Cameron and Loukine (2001) *CA-DFAIT report*		**Hejazi and Francois (2008)** Joint report		**Kitou and Phillipdidis (2010)**		**Kirkpatrick et al. (2011)** EU-SIA	
***PROJECTIONS FOR EMPLOYMENT AND INEQUALITY** (compared to base scenario)*								
	Unemployment	*Inequality*	*U*	*I*	*U*	*I*	*U*	*I*
Canada	☭	☭	☭	☭	☭	+	☭	+ ou -
EU	☭	☭	☭	☭	☭	+	☭	+
Note: "☭" = does not exist by assumption								
***PROJECTIONS FOR EXPORTS** (in %, compared to base scenario)*								
	Bilateral	*Total*	*B*	*T*	*B*	*T*	*B*	*T*
Canada	11,2-15,6%	0,78-0,86%	20.4%	N/A	N/A	N/A	N/A	0,54-1,56%
EU	34,3-34,8%	N/A	24.2%	N/A	N/A	N/A	N/A	0,05-0,07%
Note: "N/A" = not available								
***PROJECTIONS FOR GDP** (in%, compared to base scenario)*								
	Gain de PIB		*Gain de PIB*		*Gain de PIB*		*Gain de PIB*	
Canada	0,03-0,04%*		0.76%		0,36-0,45%		0,18-0,36%	
EU	0,003-0,009%*		0.08%		0,04-0,05%		0,02-0,03%	
Note: "*"= for EU-15								

“CETA is a **Comprehensive Economic and Trade Agreement**, and a **mixed** agreement, whose effects are not limited to bilateral trade. Analyzing its impact on economic growth thus requires taking into account its effects on employment, inequality, fiscal policies, investment, etc., using a **model that is dynamic and more global**.

Our study

- More realistic **assumptions**
  1. **United Nations *Global Policy Model (GPM)***
     - **No sectoral details, but** details about certain EU countries
     - Dynamic (new policy triggers costly transition)
     - **Economy is** not forced to run full capacity
       - Idle capital possible
       - Unemployment possible
     - Inequality **exists and exerts an** effect on the economy
     - Hysteresis: past events affect future economic trajectories
  2. **CETA simulation**
     - Does not contest and **takes as a given the trade projections** of the neoclassical reference study

     \+ Competitive pressures on production costs **(and hence wages)**

     \+ Competitive pressures on fiscal policies **of taxing businesses, fiscal balances and public expenditures**

Results (with costs) in words

- EU exports will grow, but distort intra-EU trade flows
- Lower average wages
- Income transfer from labor to capital
- Smaller public sector
- Lower aggregate demand
- Stagnating investment
- Job losses
- Lower economic growth
- Race to the bottom

⇒ **The global competitiveness race to the bottom is not a viable strategy for sustainable development**

Results (with costs) in numbers

	Unit	Canada	European Union
PROJECTIONS FOR THE REDISTRIBUTION INCOME AND EXPENDITURE IN THE PUBLIC AND PRIVATE SECTOR (compared to the base scenario)			
Public revenue	*%GDP*	-0.12	-0.16
Public expenditures	*%GDP*	-0.2	-0.08
Capital income share	*%GDP*	1.74	0.66
Private investment	*%GDP*	0.02	-0.01
Average yearly labor earnings	*€/empl*	-1788	-651
Private savings	*%GDP*	0.14	0.11
PROJECTIONS FOR EMPLOYMENT (compared to the base scenario)			
Jobs	*Nombre*	-23’000	-204’000
Dependency ratio	*%*	0.21	0.20
PROJECTIONS FOR GDP (compared to the base scenario)			
Cumulative GDP loss	*%GDP*	-0.96	-0.49

Note: 7 years after the entry into force of CETA, ie. 2023, compared to the base scenario (without CETA).

Conclusion

- Economic growth promises of "official" studies on CETA rely on unrealistic neoclassical models, which exclude from the outset any risk and cost associated with the deep liberalization of economies and societies that is seeded in the CETA.
- Modeling CETA as a mere trade agreement amounts to a truncated simulation.

$\Rightarrow$ **"Official" studies on CETA do not represent a solid basis for informing the public and policy-makers**

- A more realistic and more accurate modelisation of the workings of the economy, which acknowledges risks, costs and cuts resulting from the implementation of CETA, leads to very different projections that highlight the consequences of the agreement on the EU by 2023:
  - Distorsion of intra-EU trade flow to the detriment of smaller countries
  - Significant redistributive effects to the benefit of capital: 651 euro transferred every year from the pocket of workers to those of capital owners (amounting to 0,66% of EU GDP))
  - 204'000 jobs destroyed
  - EU GDP 0.49% lower

=> CETA is bad for European economies and societies

Thanks for your attention!

Reference:

Pierre Kohler and Servaas Storm (2016) « CETA Without Blinders: How Cutting 'Trade Costs and More' Will Cause Unemployment, Inequality and Welfare Losses », *GDAE Working Paper 16-03*

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Results by country (with costs) (1)

Redistribution of income and expenditures

	Gov. income	Gov. spending	Capital income share	Private invest-ment	Average annual earnings	Private savings
Units	*%GDP*	*%GDP*	*%GDP*	*%GDP*	*€/empl*	*%GDP*
Canada	-0.12	-0.20	1.74	0.02	-1788	0.14
EU Total	-0.16	-0.08	0.66	-0.01	-651	0.11
Germany	-0.10	-0.03	0.76	0.00	-793	0.12
France	-0.26	-0.20	1.34	0.03	-1331	0.30
Italy	-0.25	-0.20	1.00	-0.02	-1037	0.13
United Kingdom	-0.06	-0.02	0.29	-0.01	-316	0.02
Other EU	-0.17	-0.05	0.42	-0.01	-407	0.08
CETA Total	-0.16	-0.09	0.76	0.00	-742	0.11
Rest of the world	0.00	0.00	0.00	-0.01	-4	-0.02

Note: Change in the relative share in GDP, 7 years after the entry into force of CETA, ie. 2023, compared to the base scenario (without CETA).

Results by country (with costs) (2)

Employment

	Employment	Dependency ratio
Units	*Jobs*	*%*
Canada	-23'000	0.21
EU Total	-204'000	0.20
Germany	-19'000	0.08
France	-45'000	0.39
Italy	-42'000	0.46
United Kingdom	-9'000	0.06
Other EU countries	-89'000	0.21
CETA Total	-227'000	0.20
Rest of the world	-80'000	0.01

Note: 7 years after the entry into force of CETA, ie. 2023, compared to the base scenario (without CETA).

Results by country (with costs) (3)

Cumulative economic losses

	Average growth rate	Cumulative welfare loss
Units	*%*	*%GDP*
Canada	-0.12	-0.96
EU Total	-0.06	-0.49
Germany	-0.05	-0.37
France	-0.09	-0.65
Italy	-0.11	-0.78
United Kingdom	-0.03	-0.23
Other EU countries	-0.07	-0.53
CETA Total	-0.07	-0.53
Rest of the world	-0.01	-0.06

Note: 7 years after the entry into force of CETA, ie. 2023, compared to the base scenario (without CETA).

Canada is not the US, but…