Global Development And Environment Institute
At Tufts University
Web: www.gdae.org
Phone: 617-617-6909

CETA Without Blinders:
How Cutting 'Trade Costs and More' Will Cause Unemployment, Inequality and Welfare Losses

Pierre Kohler[1] and Servaas Storm
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Executive Summary

The Comprehensive Economic and Trade Agreement (CETA) is now in the process of being ratified by Canada and the European Union (EU). Like other 'new generation' trade agreements, CETA aims at further liberalizing trade, investment and other sectors of society so far protected from market competition. CETA is thus more than just a 'trade deal' and needs to be approached in its complexity, without blinders.

CETA's proponents emphasize the prospect of higher GDP growth due to rising trade volumes and investment. However, official projections suggest GDP gains of up to 0.08% for the European Union 0.76% for Canada. More importantly, all these projections stem from a single trade model, which assumes full employment and no negative impact on income distribution in all countries excluding the major risks of deeper liberalization. This lack of intellectual diversity and of realism shrouding the debate around CETA's alleged economic benefits calls for an alternative assessment grounded in sounder modeling premises.

We provide alternative projections of CETA's economic effects using the United Nations Global Policy Model (GPM). Allowing for changes in employment and income distribution and acknowledging that CETA is more than just an old-fashioned trade deal, we obtain very different results. We find that CETA will cause unemployment, inequality, welfare losses and a reduction of intra-EU trade.

Specifically, we find that:

- CETA will lead to *intra-EU trade diversion.* Trade balances and current accounts in Germany, France and Italy may improve but to the detriment of the United Kingdom and other EU countries.
- CETA will lead to a *reduction of the labor income share*. Competitive pressures exerted by CETA on firms and workers will raise the share of national income accruing to capital reducing the share accruing to labor. By 2023, the profit share will have risen by 1.76% and 0,66% in Canada and the EU, respectively, mirroring the decline in the labor share.
- CETA will lead to *wage compression*. By 2023, workers will have foregone average annual earnings increases of €1776 in Canada and between €316 and €1331

[1] Email : kohler.pierre@gmail.com

in the EU depending on the country. Countries with higher labor income shares and unemployment, such as France and Italy, will experience the most pronounced wage compression.

- CETA will lead to *net losses of government revenue*. Competitive pressures exerted by CETA on governments by international investors and shrinking policy space for supporting domestic investment, production and investment will reduce government revenue and expenditure. Government deficits will also increase as a percentage of GDP in every EU country, pushing public finances closer or beyond the limits set by the Maastricht treaty.
- CETA will lead to *job losses*. By 2023, about 230 thousand jobs will be lost in CETA countries, 200 thousand of them in the EU, and 80 thousand more in the rest of the world, adding to the rising dependency ratio (the average number of people supported by one job).
- CETA will lead to *net losses in terms of GDP*. As investment and foreign demand remain sluggish, aggregate demand shortfalls nurtured by higher unemployment will also hurt productivity and cause cumulative welfare losses amounting to 0.96% and 0.49% of national income in Canada and the EU, respectively. While the United Kingdom (-0.23%) and Germany (-0.37%) may be least affected, France (-0.65%) and Italy (-0.78%) will lose more than other EU countries (-0.53%).

In sum, CETA will lead not just to economic losses but also to rising unemployment and inequality, with negative implications for social cohesion in an already complex and volatile political context.

We draw two general conclusions from these bleak prospects for EU policymakers. First, quantitative studies that are by construction oblivious to proven risks related to comprehensive liberalization do not represent an adequate basis for informing policy-makers about the economic implications of CETA. Alternative approaches to modeling, which acknowledge the risks of deeper liberalization and can quantify their impact and cost, are required for providing meaningful insights as to the likely consequences of CETA.

Second, seeking to boost exports as a substitute for domestic demand is not a sustainable growth strategy for the EU or Canada. In the current context of high unemployment and low growth, improving competitiveness by lowering labor cost can only harm the economy. Were policy-makers to adopt CETA and go down this road, they would soon be left with only one option for reviving demand in the face of growing social tensions: increase private lending, possibly through renewed financial deregulation, opening the door to unsustainable debt and financial instability. Instead of repeating the same errors of the past, policy-makers should rather stimulate economic activity through coordinated and lasting support of labor incomes and seek ways of initiating a much-required socio-ecological transition.

Read the full study: www.ase.tufts.edu/gdae/policy_research/ceta_simulations.html