

EMPLOYMENT AND SOCIAL AFFAIRS

TTIP AND JOBS

BACKGROUND



In February 2013, the European Union (EU) and the United States of America (US) started the procedures necessary for initiating formal negotiations on a free trade agreement, referred to as the “Transatlantic Trade and Investment Partnership” (TTIP). The bargaining mandate of the EU Commission from June 17 2013 states that a key objective for TTIP is to “generate new economic opportunities for the creation of jobs”. This is echoed in the EU Parliament’s resolution adopted on 8 July 2015 which posits that “*TTIP ... should be seen as an element in a broader European strategy to create jobs*”.

FOCUS OF THE STUDY

This study **TTIP and Jobs** analyzes and synthesizes existing literature on the employment and wage effects of European trade agreements in general and of the proposed Transatlantic Trade and Investment Partnership (TTIP) in particular. It complements the recent TTIP Sustainable Impact Assessment (TSIA) carried out by the European Commission (2016) and offers a more detailed perspective on the labour market effects of the agreement. A second study by Policy Department A is focused on **TTIP and Labour Standards**.



KEY FINDINGS

1. How have past episodes of trade liberalization affected labour market outcomes?

There is **very little ex-post evaluation work on the long-run employment effects** of existing trade agreements. However, cross-country studies show that higher international trade openness is associated to slightly lower structural unemployment rates. The **direction of causality**, however, is **difficult to establish** and **effects are rather small**. According to estimates, in the sample of EU countries, an increase of openness by 10 percentage points lowers the long-run unemployment rate by about 0.2 percentage points on average.

Empirical evidence convincingly demonstrates that, on average, regional trade agreements (RTAs) increase overall openness. In the EU, net **trade creation effects due to RTAs have often ranged around 40 %**. So, a country at average levels of openness and with a share of external trade of 70 % covered by RTAs, has benefitted from these agreements through a reduction of unemployment of about 0.4 percentage points.

At the same time, empirical evidence points towards **short-run unemployment-increasing effects** of trade liberalization episodes as workers have to move from shrinking firms and industries to growing ones. However, the literature finds that 3 years after liberalization, structural unemployment tends to fall below the initial level.

Evidence from EU Eastern enlargement and the WTO entry of China shows **job losses in regions specialized in import-competing industries** while **regions specialized in export-oriented industries experienced job gains**. In Germany, the net effects of recent trade integration may have created some 440 000 jobs, while the US may have suffered net job losses. Results do not easily extend to other EU countries. However, they show that job destruction and job creation effects can be sizeable and that the economic costs to individual workers can be high.

2. A What do ex ante assessments of TTIP predict and why do results differ?

Most quantitative ex ante **assessments of TTIP assume away any effects on aggregate employment** by holding employment constant. However, all studies predict – explicitly or implicitly – that **workers relocate from shrinking firms and sectors to growing ones**.

More precisely, despite substantial uncertainties, estimates suggest that the **automotive sector** (not only in Germany) might add employment of both high-skilled and low-skilled workers; similarly, the **insurance sector** (e.g., in France and the Netherlands) or processed food (e.g., in Spain, Italy, and Denmark) might create additional jobs. In contrast, the **sectors of electrical machinery** (e.g., in Germany) and **metal products** (e.g., in Poland or the Czech Republic) might shrink as workers are competed away into growing sectors.

Studies differ as to the potential economic benefits to be expected from TTIP, mostly because they assume **different scenarios**. Typically, approaches borrowing from the experiences with existing RTAs typically find larger economic effects than studies that limit the scenario to specific tangible policy changes. So far, all existing studies ignore the effects of TTIP on R&D, technology adoption, or human accumulation, all of which can lead to dynamic economic benefits.

The size of economic benefits (measured, e.g., by gains in real per capita incomes) is commensurate to the amount of reallocation of workers across sectors and industries. In the **more conservative studies, about 0.3 % of the work force could be displaced** by the agreement over a ten year adjustment period; in **more ambitious studies, this share could be as high as 1.5 %**. These calculations typically neglect firm-to-firm transitions within industries, and therefore may underestimate the effect. However, compared to the normal yearly labour market turnover TTIP-induced effects are almost negligible.

Short-term reallocation can be seen as a one-time investment to unlock **long-run efficiency gains**. Studies using computed general equilibrium (CGE) models find that long-run benefits outweigh the costs. In one conservative study, long-run yearly gains are about 0.5 % of baseline GDP, while one-time reallocation needs affect about 0.6 % of the workforce. Even if reallocated worker transit through one year of unemployment, accumulated benefits outweigh costs by a factor of 9:1.

Few studies calculate the potential effect of TTIP on **long-run unemployment rates**. For Europe, existing studies based on extended **computable general equilibrium trade models** find **small positive aggregate job gains** between 99 000 and 1 346 000 (0.04 % to 0.54 % of EU labour force). The **Keynesian approach** by Capaldo (2014), finds **negative effects of 600 000 jobs** (-0.24 % of EU labour force).

3. Which policy options exist?

Labour market policies aiming at reducing adjustment to trade liberalization come with the negative effect that they undo some of the economic gains that would be otherwise achievable. **Phasing-in provisions in the most vulnerable industries** could smooth adjustment needs over time and lower their adverse impacts. **Unemployment insurance systems** can cushion a possible temporary surge in joblessness triggered by TTIP. If inadequate, they need to be revised.

EU member states will likely differ with respect to the reallocation effects triggered by TTIP. **Small countries** such as Malta, Lithuania, or Bulgaria **could be more severely affected**. To facilitate the functioning of social security systems, these countries should have access to temporary assistance from central EU funds.

To prepare for possible disruptions, the budget of the **European Globalization Adjustment Fund (EGF)** could be temporary increased. Also, eligibility rules could be extended to cover displacements due to a large trade agreement such as TTIP.

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Contact: Poldep-Economy-Science@ep.europa.eu; This document is available on the Internet at: www.europarl.europa.eu/supporting-analyses

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