Economic models behind EU-Canada free trade agreement questioned

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The EU-Canada Comprehensive Economic and Trade Agreement (CETA), recently approved by the European Parliament, will ultimately result in unemployment, inequality and loss of economic efficiency, according to a paper published in the *International Journal of Political Economy*.

CETA, a free-trade agreement that will eliminate 98% of tariffs between Canada and the EU, is predicted to result in significant GDP gains for all countries involved. However, widely cited official CETA projections are based on the assumption of unchanged employment and unchanging income distribution in all countries, and do not take additional factors into consideration, the study shows.

Authors Dr Pierre Kohler from the United Nations, New York and Dr Servaas Storm of Delft University of Technology, The Netherlands, examined the four existing studies which accompanied CETA negotiations and predicted positive outcomes for the agreement, then made their own alternative projections using the United Nations Global Policy Model (GPM).

While the four earlier studies all rely on the same computable general equilibrium (CGE) model, and are thus based on standard but unrealistic assumptions such as the permanent unchanged employment of workers in Canada and the EU, the GPM takes into account the possibility of changes in employment and income distribution.

This model indicates that CETA will lead to net losses in terms of employment, personal incomes and GDP in Canada and, to a relatively lesser extent, the EU.

In particular, by 2023, about 230,000 jobs would be lost in CETA countries, 200,000 of them in the EU, and 80,000 more in the rest of the world. Slower wage increases would transfer more national income from labor to capital owners, with the share of national income accruing to capital rising by 1.76% in Canada and 0.66% in the EU. Consequently, workers would have foregone average annual earnings of €1,776 in Canada and between €316 and €1,331 in the EU, depending on country. Shortfalls in demand nurtured by heightened unemployment would also harm productivity. Besides hurting GDP, these CETA-induced effects would add to rising inequality and social tensions.

"Official studies do not offer a solid basis for an informed decision on CETA," the authors said. "The lack of intellectual diversity and of realism shrouding the debate around CETA's alleged economic benefits calls for an alternative assessment grounded in more realistic modeling premises which acknowledge the risks of trade liberalization and can quantify their impact."

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