**TRADE AGREEMENTS: New evidence of the impact on jobs and incomes**

International trade agreements like the EU-US Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership (TPP) only have a relatively small effect on jobs and incomes. That is the central finding of research by **Frédéric Robert-Nicoud** and colleagues, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015.

The study reconciles different opinions on the effects of trade agreements on wages and unemployment, where economists focus more on wage effects while policy-makers focus more on employment effects. Estimating the likely effects of the TPP, the researchers find that wages collectively will rise by only around 1.2% while unemployment will fall by 2-5% in Canada, Japan, New Zealand and Mexico (but by less than 1% in the United States).

The study also finds that the benefits of trade agreements are not uniform. The North American Free Trade Agreement (NAFTA), for example, led to hundreds of thousands of manufacturing jobs being lost, with more than half a million workers switching to more export-focused industries. Meanwhile, the overall effects on countries with low trade barriers to begin with are relatively small.

But the study also shows how trade imbalances play a massive role. With the United States running a deficit of 3.4% of GDP and Germany running a surplus of 5.8%, removing trade barriers would lead to deficit countries seeing a rise in unemployment by 2-5%, which could explain some of the unemployment crisis faced by Portugal and Greece.

The authors comment:

> 'The income and unemployment effects of trade agreements are not huge. The quantitative effects are also of comparable magnitude with what both opponents and supporters find – though they typically cast their findings in absolute numbers so as to make the effects look bigger. The effects of removing trade imbalances are much larger for countries with huge deficits or surpluses.'

**More…**

Trade economists tend to insist on the real wage effects of trade, often dismissing its unemployment effects as of second-order importance, whereas policy-makers and the public at large tend to voice concerns or express support for trade agreements in terms of jobs gained or lost. This paper reconciles these views and computes the potential unemployment and welfare effects of several trade partnerships and of trade imbalances.

On 24 June, the US Senate granted President Obama 'fast track authority' to negotiate the Transpacific Trade Partnership (TPP), which is essentially a free trade agreement among 11 nations on both sides of the Pacific Ocean from which China is conspicuously left out. Importantly, this trade deal aims at lowering tariffs and other trade barriers and homogenise regulations in a wide range of sectors, including agriculture and banking. The Trade Promotion Authority, as the 'fast track authority' is formally known, was granted to the White House by the Republican-controlled Senate amid controversy and opposition by trade unions.

This paper estimates the welfare (per capita real income) and unemployment effects of the TPP for 28 OECD countries. It finds heterogeneous but mostly minor welfare effects (with real wages increasing by less than 1.2% for all participating countries). Unemployment effects are more sizeable: the number of unemployed workers is expected to fall by 2-5% in Canada, Japan, New Zeeland, and Mexico but by less than 1% in the US. The welfare and unemployment effects of the EU-US Transatlantic Trade and Investment Partnership are predicted to be of similar magnitudes.

These numbers hide substantial heterogeneity, with some people winning and some others losing – but in terms of jobs gained or lost or wages hikes or crashes. The welfare and unemployment effects associated with trade deficits are much larger.

That the welfare effects of lowering trade barriers where they are already low should not come as a surprise: after all, previous research estimates that NAFTA increased real wages in Mexico by 1.3% and had a trivial effect on US and Canadian welfare (+0.08% and -0.06%, respectively), even though it increased the intra-bloc trade by 11% for Canada, 41% for the US, and 118% for Mexico. The effects estimated here are of comparable magnitudes.

So why are trade unions so opposed to such trade agreements? And why would the Senate pass in the same breath the Trade Adjustment Assistance programme, or PAA, that helps workers make the transition to new jobs?

Part of the answer is because average welfare and unemployment effects hide substantial heterogeneity. NAFTA is associated with the loss of hundreds of thousands of (mostly manufacturing) jobs, according to liberal outfits such as ‘Public Citizen’ in the US. The pro-trade Peterson Institute for International Economics estimates that TPP will reallocate 0.5% of the labour force (more than half a million workers) towards exported oriented jobs by 2015. In this context, the PAA makes a lot of sense.

The study goes further than simply computing the reallocation effects rate by designing a model of the world economy where unemployment arises in a structural way. Trade does have a macro impact on the unemployment rates of countries. When comparable, the magnitudes found are consistent with those of the earlier studies.

Finally, by contrast to remaining trade barriers in the OECD, trade imbalances are large: the trade deficit in the US is currently running at about 3.4% of GDP, while Germany’s trade surplus is worth 5.8% of its GDP. Accordingly, removing them can have sizeable welfare and unemployment effects.

The number of unemployed workers would typically rise in countries with trade deficits (by 2% in the US and 5% in France) and fall in surplus countries (by 3% in Germany and 14% in Switzerland). According to the model, the double-digit increase since the crisis of the unemployment rates of countries such as Greece or Portugal can to a large extent be associated with the tightening of their trade gaps since then.

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