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ECIPE PRESS RELEASE — NEW OCCASIONAL PAPER

"Splendid Isolation" as Trade Policy: Mercantilism and Crude Keynesianism in "the Capaldo Study" of TTIP

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Brussels, Belgium, 29 April 2015 - A recent study by Capaldo suggests that TTIP would have seriously negative consequences for trade, growth, income and employment in Europe. It has been given a surprising amount of attention, despite the fact that errs on the extreme side of trade estimates. Such serious flaws, however, beset the study, that its results should neither be regarded reliable nor realistic. The paper has been translated into several European languages and influential anti-TTIP campaign groups in Europe particularly distribute it. The use if the study and the flaws of the applied methodology give the impression that the results are constructed.

Capaldo has chosen a model that is by and large a demand-driven model that does not makes efforts to capture the supply-side effects of trade, which are the effects that are proven to be the core positive effects of trade liberalisation. Equally problematic, the model is not designed to assess the effect on trade from trade agreements – in fact, the model is profoundly ill suited for such an exercise. No trade economist, regardless what school of thought he or she comes from, has ever used this model to make estimates of trade. The reason is simple: if a model cannot predict the effects on the flows and profile of trade as a consequence of trade liberalisation, it is of no use at all. And yet, to cover up the flaws of the model, Capaldo reinforces the problems and makes the model, and the resulting estimates of TTIP, even less reliable. In addition, despite the ownership of this model by a United Nations agency, access to it is denied and so is the possibility to replicate the model in order to check its predictive power and robustness.

If Capaldo's claims were right, Europe should have economically disintegrated as a result of its trade integration with any other part of the world. The Capaldo reasoning suggests that Europe's trade integration with China, for instance, would have fractured EU economic integration. In fact, European economic integration deepened considerably even though import competition from the Asia-Pacific increased significantly over the past two decades.

According to the Capaldo reasoning, economic integration within the European Single Market should have triggered a tremendous fall in wages and employment due to the greater exposure of EU economies to trade and the proclaimed negative impact on income and aggregate demand. None of this has happened. In fact, nominal and real wages have risen continuously across countries in Europe. Moreover, although the EU was exposed to accelerating globalisation, the EU benefited from economic convergence. Intra-EU trade considerably intensified in a way that all EU members experienced increased in employment over time.

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