

Congress of the United States
House of Representatives
Washington, DC 20515

February 15, 2016

Lisa R. Barton
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

**Investigation No. TPA-105-001, Trans-Pacific Partnership Free Trade Agreement:
Potential Economy-wide and Selected Sectoral Effects**

Dear Secretary Barton,

We write to request that you include necessary information and accurate modeling within your analysis as you investigate the economic impact of the Trans-Pacific Partnership (TPP) free trade agreement. Your role is important to the public interest as your analysis will help to guide decision making, but the United States International Trade Commission's (USITC) TPP report will only be relevant if the content reflects the realities of our modern economy. With respect to past USITC studies, projections have been contradicted by actual trade agreement outcomes.

Today, after the loss of more than five million American manufacturing jobs and related wage stagnation across the economy, Americans in communities nationwide are struggling to make ends meet. The offshoring of American jobs and import competition from low wage countries has translated into fewer well paid workers and fewer domestic manufacturing firms to contribute to local tax revenue that is necessary for basic infrastructure. Water systems, schools, hospitals and roads are left to deteriorate as state and municipal governments, including places like Flint, Michigan, face fewer resources while more of their residents need help.

Among our chief responsibilities as policymakers in an era of growing income inequality is to ensure that today's American economy is inclusive and does not leave working class and middle class families behind. Taking the record of inaccurate USITC trade pact projections into consideration and correcting the USITC's modeling methodologies and the assumptions incorporated into USITC models is important to the public interest. To that end, in advance of TPP consideration by the US Congress, we must have reliable data to understand the impact this free trade agreement may have on American families, domestic businesses, and farmers.

The Trans-Pacific Partnership was modeled on the US-Korea Free Trade Agreement (KORUS); in many places the text is nearly identical. The 2007 USITC report that accompanied KORUS projected a negligible positive impact on American output and employment, and an improved trade balance with Korea.¹ However, the US-Korea goods trade deficit grew between

¹ Christ, N., Fan, Q., Alejandro, L. F., Baumert, J., Bloodgood, L., Bonarriva, J., ... Butcher, A. (2010). *U.S.-Korea Free Trade Agreement: Potential economy-wide and selected sectoral effects*. (USITC 3949). Washington, DC: United States International Trade Commission.

2011 and 2015 by at least 93 percent. Notably, as the terms of the agreement continue to come into implementation, the trade deficit with Korea continues to grow. The mounting deficit has been particularly harmful to the domestic automotive industry. From 2011 to 2015, the vehicles trade deficit with Korea has increased 71 percent to \$19 billion. When American workers assembling automobiles and those producing automotive parts lose jobs to unfair imports, they frequently compete for jobs in the service sector. That suppresses wages across the economy.

As the USITC considers the design of its TPP analysis, how will it take into consideration that the TPP's rules of origin are very weak? Only 45 percent of a vehicle must be made in a TPP country for it to receive the tariff benefits of the trade agreement. With potentially 55 percent of motor vehicle parts originating in a non-TPP country like China, the threat to the American auto industry is serious. Already, the number of plants in China's automotive sector has increased dramatically in recent years, leading to a capacity surplus that has risen by 82 percent in the past two years alone. A large portion of the excess surplus is bound to be exported to foreign markets.² By 2017, China will have over 11 million vehicles worth of idle capacity, leaving TPP export markets as prime dumping ground. Please consider how the TPP may deliver another blow to the American automotive sector in your projections, as the agreement leaves a large hole in the rules of origin chapter that will allow automotive parts and components from non-TPP countries like China to receive tariff-free treatment.

The reality of the modern globalizing economy is that too many Americans are in jobs that do not pay them enough to live on. The primary concern that the USITC must consider with regard to the economic impact of the Trans-Pacific Partnership is its role in sending American jobs overseas, flooding our markets with more imports, and thus suppressing wages at home. As you engage in economic analysis of the TPP, we urge you to consider not only projected gains from any increase in exports under the agreement, but also the impact of projected increases in imports.

Additionally, the study must assess how the TPP will impact aggregate demand. Which different regions of the country will be particularly devastated by the agreement? How many middle class jobs will be lost? How will the agreement's intellectual property increase the price of medicine and information technology? In addition, how will you calculate the effect of the TPP's investor protections with respect to the promotion of outward capital flows and the implications it would have for displacing investment in US production capacity and, as a result, job creation? How will the agreement's investor protections expand U.S. liability to damage awards for investor-state dispute settlement challenges, given thousands of additional firms would be empowered to pursue such challenges?

To appropriately weigh these critical questions, we urge you to adopt a new economic model for evaluating potential impact of trade agreements. Effective economic models rely upon assumptions that describe key facts in the real world. As researchers at the Global Development and Environment Institute at Tufts University have pointed out, many of the modest growth projections for the United States under the deal, including recent projections by the World Bank

² Ho, A. (2015, February 12). Too many car factories in China? *Bloomberg Businessweek*. Retrieved from <http://www.bloomberg.com/news/articles/2015-02-12/china-s-car-factory-binge-risks-hurting-automakers-margins>

and Peterson Institute for International Economics, are premised on unrealistic economic assumptions in their analysis.^{3,4,5} Indeed, past economic projection analyses by the USITC have relied upon similar computable general equilibrium (CGE) models. A growing pool of academic research has begun to question the assumptions of CGE models. In fact, former Harvard economist Lance Taylor, who helped create CGE models, has identified the use of such models for projecting the impact of trade liberalization as “highly problematic,” for its “implausible assumptions about elasticities, the exchange rate and macro causality.”⁶

The primary problems with CGE models are the assumptions of full employment, a stable trade balance, and constant income distribution. As a result, CGE and similar models do not match the realities of the American economy. These models are deeply flawed. In fact, the researchers at Tufts, using the United Nations Global Policy Model, found that the TPP will cause net GDP loss for the United States, increased unemployment, and higher income inequality.⁷ The USITC’s evaluation of the agreement should be based on the economic realities of the current environment, where full employment is no longer a given. Assuming zero unemployment and no current account deficits will not provide the necessary information for Congress and the American public to accurately evaluate the TPP.

The long running assumption of fluidity in US labor markets has been discounted. Regarding trade in particular, the non-partisan National Bureau of Economic Research recently revealed findings that workers exposed to trade shocks over the past decade “experience greater job churning and reduced lifetime income” and that after job loss in domestic industries exposed to import competition, concurrent employment gains in other industries have not materialized.⁸ The assumption in historic CGE models, that individuals impacted by trade can reliably find employment in other industries or sectors, is incorrect. Simply stated, middle class American jobs are not interchangeable widgets.

Several decades of experience has taught us that it is not safe to assume that wages in the US will grow with the economy. This has not been true for a majority of United States workers since the late 1970s. Despite productivity growth of 72.2 percent between 1973 and 2014, median inflation-adjusted hourly compensation rose just 8.7 percent over the same period.⁹

³ The World Bank. (2016). *Potential Macroeconomic Implications of the Trans-Pacific Partnership*. Retrieved from <http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2016a/Global-Economic-Prospects-January-2016-Implications-Trans-Pacific-Partnership-Agreement.pdf>

⁴ Peterson Institute for International Economics. (2016). *Assessing the Trans-Pacific Partnership: Volume 1: Market access and sectoral issues (Briefing 16-1)*. Retrieved from <http://piie.com/publications/briefings/piieb16-1.pdf>

^{5,7} Capaldo, J., & Izurieta, A. (2016). Trading down: Unemployment, inequality and other risks of the Trans-Pacific Partnership agreement (Working Paper No. 16-01). Retrieved from Global Development and Environment Institute website: http://www.ase.tufts.edu/gdae/policy_research/TPP_simulations.html

⁶ Taylor, L. & von Amin, R. (2006). Modelling the impact of trade liberalization: A critique of computable general equilibrium models. *Oxfam International*. Retrieved from <http://policy-practice.oxfam.org.uk/publications/modelling-the-impact-of-trade-liberalisation-a-critique-of-computable-general-e-112547>

⁸ Autor, D. H., Dorn, D., & Hanson, G. H. (2016). The China shock: Learning from labor market adjustment to large changes in trade (Working Paper No. 21906). Retrieved from National Bureau of Economic Research website: <http://www.nber.org/papers/w21906.pdf>

⁹ Bivens, J. & Mishel, L. (2015). Understanding the historic divergence between productivity and a typical worker’s pay: report from the Economic Policy Institute (Briefing 406). Retrieved from

Additionally, the periods of greatest economic and wage growth for the United States included trade largely with developed countries that had similar average incomes.¹⁰ Spanning twelve countries that account for 40 percent of global GDP, the TPP includes several developing nations such as Vietnam where workers earn as little as 65 cents per hour. The drastic economic disparity within the TPP free trade zone should be a major consideration in your analysis.

Furthermore, as you project job losses under this agreement, we urge you to account for a growing trade deficit in your employment projections. Imports displace American jobs, while exports create them. Today, the United States suffers an annual \$177 billion trade deficit in goods with free trade partners.¹¹ Access to cheap foreign imports manufactured by impoverished workers provides little good for an American who no longer has a job of his or her own. The United States has been running account deficits since 1975. The current free trade agreement model has largely exacerbated the problem. Net trade deficits with our free trade partners have increased 430% since we entered into them.¹² The effect of the trade deficit is a loss of millions of domestic jobs and suppressed wages. It is little coincidence that wages for working men and women effectively stalled with the end of our trade surplus around 1975.

Finally, we note the absence of any enforceable currency management disciplines in the TPP text. Japan, in particular, has an extensive history of currency management as a means of protecting its domestic economic interests. Although it is not currently party to the TPP agreement, China's currency management efforts have directly contributed to the loss of millions of American jobs. Shortly following China's recent actions, TPP partner nations Vietnam and Malaysia also devalued their currency in August of 2015. This cheating on the part of our trading partners in the region is not addressed in the TPP. Former International Monetary Fund Chief Economist Simon Johnson has labeled the separate currency "declaration" among TPP member nations, which largely reasserts existing commitments, as "window dressing."

As Nobel Laureate and world renowned economist Joseph Stiglitz has said, the US "is about to become the first society that ceases to be a middle class society."¹³ The costs of the TPP are likely to fall asymmetrically on the American middle class, low income men and women, and communities of color. As Members of Congress, we need to know the full price of TPP's burden on working families in America's economy. When agreements such as the TPP frame rules that are most favorable to multinational corporations at the expense of workers, the entire nation suffers. We look forward to reviewing your report on the economic impact of the TPP and how

<http://www.epi.org/publication/understanding-the-historic-divergence-between-productivity-and-a-typical-workers-pay-why-it-matters-and-why-its-real/>

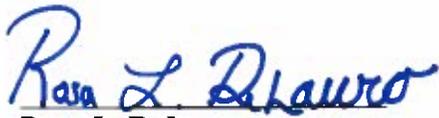
¹⁰ Autor, D. H., Dorn, D., & Hanson, G. H. (2016). The China shock: Learning from labor market adjustment to large changes in trade (Working Paper No. 21906). Retrieved from National Bureau of Economic Research website: <http://www.nber.org/papers/w21906.pdf>

^{11, 12} Hindery, L. (2015, February 17). As free trade pacts expand, U.S. trade deficit soars. Why add one more? *Reuters*. Retrieved from <http://blogs.reuters.com/great-debate/2015/02/16/as-free-trade-pacts-expand-u-s-trade-deficit-soars-why-add-one-more/>

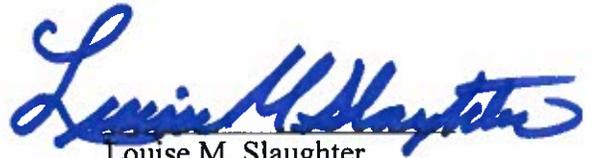
¹³ Stiglitz, J. (2015, November 12). "A very big mistake": Joseph Stiglitz slams Obama for pushing the TPP. In S. Goodman (Producer), *Democracy Now!*. Retrieved from http://www.democracynow.org/2015/11/12/a_very_big_mistake_joseph_stiglitz

each of the shortcomings in previous USITC projections, as outlined in this letter, are addressed and improved upon.

Sincerely,



Rosa L. DeLauro
Member of Congress



Louise M. Slaughter
Member of Congress



Peter A. DeFazio
Member of Congress



Barbara Lee
Member of Congress