The EU-US Transatlantic Trade and Investment Partnership and the Role of Trade Impact Assessments: Managing Fictional Expectations

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1. Introduction

The proposed European Union (EU)-United States (US) free trade agreement (FTA), also known as the Transatlantic Trade and Investment Partnership (TTIP), represents the potentially most significant preferential trade deal to date. While bringing together the world's two largest economies into a single 'transatlantic marketplace' is by no means an entirely new idea it is the first time that policymakers are seriously seeking to translate it into practice: negotiations have been on-going since July 2013, with the aim of completing them 'within two years' (Parker and Houlder 2013). There are, however, important political obstacles in the way of achieving the TTIP, obstacles which in the past led to the abandonment of plans for an FTA between the EU and the US. When such an agreement was most recently on the cards in 2004 it was viewed as 'over ambitious' and 'unlikely to be realized' (Peterson *et al.* 2005: 76-9) against the backdrop of a transatlantic agenda that had only yielded mixed results in the areas of economic cooperation (Pollack 2005; Smith 2009).

In this vein, and in the light of past failures to effectively communicate trade policy decisions to the public (Siles-Brügge 2014: 151-7), EU trade policymakers have realised the importance of discursively framing the agreement on their terms. As a leaked European Commission 'Issues Paper' on 'Communicating on TTIP' lays out, '[s]trong political communication will be essential to the success of the Transatlantic Trade and Investment Partnership (TTIP), both in terms of achieving EU negotiating objectives and of making sure that the agreement is eventually ratified'. More importantly, the 'aim' of such communication should be 'to define, at this early stage in the negotiations, the terms of the debate by communicating positively about what the TTIP is about (i.e. economic gains and global leadership on trade issues)' (European Commission 2013c). The central message of this 'information' campaign (which has brought together the European Commission and certain pro-liberalisation Member States, including the UK) has been the claim that, in a period of economic recession, the TTIP represents 'the cheapest stimulus package you can imagine' (De Gucht 2013), 'a once-in-a-generation prize' that we should be 'determined to seize' (David Cameron 2013, cited in BBC News 2013).

At the heart of this rhetoric lie the claims, repeatedly invoked by the pro-TTIP camp, that the agreement will yield substantial economic gains for both parties (see, for example, European Commission 2013d; De Gucht 2014: 4; Clarke 2014). Drawing on a Commission impact study

on the matter (European Commission 2013a), the headline figures are of annual GDP gains of €119bn for the EU (and €95bn for the US), which translates into extra annual disposable income of €545 for a family of four in the EU (or €655 for a family in the US). These figures are derived from two key economic studies on EU/US trade liberalisation commissioned by the European Commission (CEPR 2013; ECORYS 2009). These draw on Computable General Equilibrium (CGE) modelling techniques to arrive at estimates, which are then presented by advocates of the TTIP as reasonable *predictions* of the agreement's economic impact.

Our central argument in this paper, drawing on the insights from the economic sociologist Jens Beckert (2013a,b), is that these CGE models – and the figures they have produced – represent an important exercising in the 'management of fictional expectations'. Beckert's notion of 'fictional expectations' implies that although these models are shrouded in uncertainty, as the social world is too contingent to be modeled in terms of the assumptions of neoclassical economics, they are presented as reliable predictions of future outcomes. In this vein, we show how the models make overly optimistic predictions about the ability of the EU and US to eliminate regulatory barriers to trade – which are unlikely to be realized in the face of considerable political opposition. Rather than act as a reliable guide to future outcomes, we show that these models serve the pro-liberalisation agenda of the European Commission and other advocates of the TTIP. These actors are engaged in an exercise of 'managing' these fictional expectations by presenting them as incontrovertible evidence in favour of the agreement. Moreover, by glossing over the differences in impact that different forms of liberalization will have – a mutual recognition of standards is more likely to lead to a potential 'downgrading' of standards across the Atlantic than regulatory harmonization – and focusing simply on the gains of ill-defined regulatory 'liberalisation', the economic studies have been used to privilege the interests of those calling for market access gains over those concerned with a stricter regulation of the market.

Our contribution to the literature is thus two-fold. On the one hand, we offer an up-to-date contribution to the literature on the obstacles and modalities of transatlantic regulatory cooperation (see, for example, Pollack 2005; Smith 2009; Pollack and Shaffer 2009). Moreover, we also add grist to the mill of accounts which have pointed to the strategic use of economic ideas, such as the notion that the EU has no choice but to liberalise in a globalized economy, to legitimate extrernal trade liberalization in the EU in the wake of the crisis (Siles-Brugge 2014; see also De Ville and Orbie 2014). Against a rising tide of opposition to the TTIP's free market agenda from civil society and some Member States (De Ville and Siles-Brügge 2014), the Commission clearly hopes that repeatedly invoking the (supposed) benefits of the agreement is likely to serve as an ideational counterweight to the growing anti-TTIP camp.

The remainder of this paper is structured as follows. In section 2 we introduce Beckert's notion of 'managing fictional expectations' and show how it can be applied to CGE models. In section 3 we turn to the history of transatlantic economic relations and suggest why past efforts at EU-US regulatory cooperation have struggled to get past anything but limited mutual recognition. In section 4 we turn our attention to the impact assessment study used by the Commission to justify the TTIP negotiations and highlight the Commission's preference for mutual recognition as a more reliable means to deliver market access gains to EU business interests. In section 5 we then focus on how the impact assessment – and the CGE models on which it relies – paper over the uncertain liberalization gains of the TTIP and serve to disguise the Commission's mutual recognition agenda, with its potentially

problematic consequences for the level of social and environmental protection in the EU. We conclude the paper in section 6.

2. Managing 'fictional expectations': a political economy of Computable General Equilibrium analysis

The so-called 'ideational turn' in political economy has been known by many names – including 'constructivist institutionalism', 'discursive institutionalism' and constructivist IPE (for a review, see Bell 2011; see also Hay 2004; Schmidt 2002) – but one common thread has been the critique of rationalist research programmes in political science and their exogenous models of interest-formation. Within this, the work of Mark Blyth (2002) has been particularly influential, and especially the distinction he draws between situations of 'risk' and 'uncertainty'. According to Blyth (2002: 30-9), who borrows the insights of economist Frank Knight (1921), in moments of crisis (such as the 1970s period of stagflation) actors face a situation of 'radical uncertainty' where they are unable to determine their interests. He contrasts this with institutionalist economist Douglass North's (1990) characterisation of 'uncertainty as complexity', or 'risk', where actors know their interests but are uncertain of how to attain them. Given actors are uncertain of their interests, these 'cannot be given by either assumption or structural location [as in rationalist accounts] and can be defined only in terms of the ideas that agents themselves have about the causes of uncertainty' (Blyth 2002: 32).

Expanding on this view in subsequent work, Blyth (2010) argues that situations of Knightian 'uncertainty' do not just characterise moments of crisis but the social world more generally; in other words, actors are not able to *rationally* determine their interests and instead rely on ideas to navigate the uncertain waters of the social world. While Blyth's work has been taken to be the reference point for an allegedly 'new' stream of 'constructivist IPE' (see Abdelal *et al.* 2010), it has its roots in the (slightly) older tradition of the 'new economic sociology' (for a review, see Convert and Heilbron 2005). Much as the 'ideational turn' in political economy has critiqued the prevalence of rational choice approaches to political science, so the 'new economic sociology' sought to re-assert a sociological understanding of the market in the wake of the rise of neoclassical economics and its atomised view of market relations. More specifically, Blyth draws on the work of Jens Beckert (1996, 1997), who argues that managing and reducing uncertainty is the underlying feature of markets. However, the premise of 'fundamental' or 'radical' uncertainty underpinning such work has been criticised for providing insufficient guidance in determining '*why* certain ideas matter' (Siles-Brugge 2014: 34-6; see also Bieler and Morton 2008), or, as Beckert (2013a: 222) recently put it, how actors '*interpret* the social situation'. In other words, and to use the metaphor from above, what drives actors to choose one current rather than another when navigating the uncertain waters of the social world?

Beckert's recent solution to this issue is to put forward the idea of 'fictional expectations', or 'imaginaries of future situations that provide orientation in decision-making *despite* the uncertainty inherent in the situation' (Beckert 2013a: 222, emphasis in the original). Beckert (2013a: 225-6) draws an important analogy here to literary texts: both literature and fictional expectations involve the 'suspension of disbelief' on behalf of the reader/social participant. That said, in the case of the former this is down to the choice of the reader, who may well take enjoyment from reading about the fictional exploits of *Tom Sawyer*, while 'fictional expectations' are a coping mechanism for actors facing an uncertain future: 'represent[ing] future events *as if* they were true, [they] mak[e] actors capable of acting purposefully […] even though this future is indeed unknown, unpredictable, and therefore only *pretended* in

the fictional expectations' (Beckert 2013a: 226, emphasis in the original). Fictional expectations shape economic decision-making not just by providing a series of static predictions of the future, but more broadly by providing 'a story of how the present will be transformed through several causally linked steps into the depicted future state' (Beckert 2013a: 226). Focusing on whether such narratives are true or false, however, is missing the point; they are '*necessarily* wrong because the future cannot be foreseen' (Beckert 2013a: 226, emphasis in the original). In this vein, fictional expectations 'remain ever fragile because the images can be contested and the actual future development remains open' (Beckert 2013a: 225).

This brings us into the realm of political contestation. As Beckert highlights in a subsequent article, '[a]ctors have different interests regarding prevailing expectations and will therefore try to influence them' (Beckert 2013b: 326). Our argument here is that the idea of 'managing fictional expectations' can be seen as a useful contribution to the growing literature on the role of 'strategic' or 'communicative' discourse in political economy, whose purpose it is to 'communicate [policy decisions] successfully to the public at large' (Schmidt 2002: 234; see also, amongst others, Hay and Rosamond 2002; Watson and Hay 2003; De Ville and Orbie 2014; Siles-Brügge 2014). Such accounts have, in much the same way as Beckert, emphasised the strategic agency of particular actors deploying particular ideas about the economy to further their ends. Beckert's focus on how such actors conceptualise the future allows us to turn to a specific form of strategic imaginary, namely the economic modelling that is so crucial in shaping economic decision-making. As Lorenzo Fioramonti claims in his recent book *How Numbers Rule the World* (2014: 6), 'numbers have been used and abused in governance processes to entrench the power of markets and undermine public debate'. In this vein, the rest of the section will show how elites can draw on the imaginary provided by economic forecasting. This often takes the form of computable general equilibrium (CGE) modelling, premised on the general equilibrium theory of neoclassical economics.

Computable General Equilibrium analysis and the 'management of fictional expectations'

At the heart of general equilibrium theory lies the Arrow-Debreu model devised in the 1950s (see Arrow and Debreu 1954). This provided a mathematical proof of what are now known as the two fundamental theorems of 'welfare economics':

1. Under conditions of perfect competition, a market equilibrium will be Pareto efficient (that is to say, it will be impossible to improve anyone's welfare without making anyone worse off).
2. Therefore, under additional conditions (e.g. convex consumer preferences), any Pareto efficient allocation of resources is a market equilibrium for a given series of prices.

It is the interpretation made by neoclassical economists of this second theorem which is particularly significant. Going to the heart of the profession's understanding of the relationship between 'equity' and 'efficiency' (as is suggested by the use of the term 'welfare economics' to refer to the theorems), the idea is that '*any efficient allocation of resources* – for instance, one based on a preferred distribution of income – *could be achieved by market competition*, after an appropriate lump-sum redistribution of initial endowments' (Ackerman 2004: 16, emphasis added). While this appears to suggest that welfare economics is agnostic on the question of equity, and so much is often emphasised by mainstream economists who are unwilling to engage in such discussions (see Decanio 2005: 420-1), the fact remains that mainstream economists see significant constraints on meeting the requirements of the

second theorem by intervening in the market (Farrell 1987: 116). Most notably, in order to prevent market-distorting dynamics, which would invalidate the theorem, any interventions would have to come in the form of lump-sum transfers, as alluded to above. Efficiency, in contrast, is more straightforwardly assured by competitive markets, which will always yield a (Pareto) efficient allocation of resources in equilibrium. This is down to the optimising behaviour of individual agents, which are assumed to hold perfect information in their quest to maximise individual utility (for a more extensive critique of general equilibrium theory, see Ackerman and Nadal 2004).

CGE models, for their part, take these assumptions as given, namely the existence of 'macroeconomic general equilibrium links among incomes of various groups, the pattern of demand, the balance of payments and a multisector production structure' (Thissen 1998: 2). In other words, they are models of how the entire economy interacts in general equilibrium, where there is no excess demand and all markets clear. In addition, such models must be 'computable', that is, they must involve 'numerical' data and results (Grassini 2007: 317). Starting with the work of Leif Johansen (1960), the availability of increasingly powerful computers capable of more sophisticated computations has allowed such models to grow in importance within the economics profession (for a history of CGE modelling, see Dixon and Rimmer 2010). For our purposes, they have been particularly influential when it comes to measuring the economic 'welfare' implications of policy decisions, including the effects of trade liberalisation and the impact of economic decisions on various other domains such as social welfare and the environment/sustainability (see Decanio 2005; Ackerman and Gallagher 2004; George 2010). The key metric used by CGE modellers to measure welfare is the concept of 'equivalent variation' (Piermantini and Teh 2005: 14). Originally attributed to John Hicks (1939), and used in the context of assessing price changes on consumer utility, the term refers to the change in income which would have an effect on a household or individual consumer's utility *equivalent* to the policy decision being considered. So, for example, if a new environmental tax was imposed on cars, the equivalent variation of this measure would be the (in all likelihood) decrease in household or individual income that has the same effect on their utility as the change in taxation policy. Such models have, of course, been the subject of some critique. But even those who have criticised CGE modelling's unreasonable assumptions have generally failed to appreciate the broader political implications of such models (e.g. Taylor and von Armin 2006; Scrieciu 2007; for an exception, see Cypher 1993). In this vein, our argument is that the use of CGE modelling should be conceptualised as an exercise in the management of fictional expectations in the context of an uncertain social world.

CGE models correspond to such fictional expectations in that, while presented as reliable forecasts, they are underpinned by considerable uncertainty. This is first and foremost a product of the simplifying modelling assumptions taken from general equilibrium theory that individuals are rational optimisers and that all markets clear. With respect to the first, this ignores that individuals are often driven by a 'more complex set of values' (Scrieciu 2007: 680), while there are also often information asymmetries between parties involved in market transactions (see the seminal piece by Akerlof 1970). General equilibrium conditions, moreover, are unlikely to be met in the real world, where labour and product markets rarely all 'clear' at a given moment in time (Ackerman 2004: 16; Grassini 2007). Even where measures are taken to adjust for such a mismatch between 'reality' and the 'model' (see, for example, Böhringer and Löschel 2006: 54-6), considerable uncertainty remains due to the requirements for parsimony and internal consistency. As one experienced modeller, Clive George, has ultimately noted, '[e]conomic models are limited in what they are capable of

modelling, and require many simplifying assumptions and approximations […] This limits the accuracy and reliability of the findings'. Moreover, George highlights how policymakers are willing to accept an extremely high degree of uncertainty: '[i]n some cases, the uncertainty is bigger than the number itself, such that a number predicted to be positive could easily be negative' (George 2010: 25).

This apparently wanton disregard for the accuracy of the predictions points to how CGE models are used as a political tool. They often generate a headline figure or series of statistics that are likely to be widely quoted by policymakers and politicians in defence of particular policy decisions: the TTIP (which we are focusing on in this article) is a case in point (for a discussion of the role of such models in the public debate around NAFTA, see Cypher 1993). However, aside from these widely publicised numbers, CGE models suffer from a remarkable lack of transparency, making them hard to scrutinise by the lay reader (Decanio 2005: 423). This 'black-box feel' to CGE models (Piermantini and Teh 2005: 10) serves to mask the incredible uncertainty underpinning the modelling. To use Beckert's (2013a) turn of phrase, we are willing to 'suspend our disbelief' because the models seem 'plausible', with their inherent uncertainty and fragility shielded from public view.

If we 'open up' the 'black box' of the CGE model, we can begin to discern in what ways CGE models skew the terms of economic debate. Drawing on Ross McKitrick's (1998) categorisation of the information contained within CGE models – 'analytical' (relating to underlying assumptions); 'functional' (relating to how the model is specified algebraically) and 'numerical' (relating to the calibration of the models, such as the magnitude of coefficients in the model specification) – we can see how the models themselves privilege certain interpretations of socioeconomic interaction and can thus be used as tools to push a particular political economic agenda. We should stress, at this stage, that while we draw on literature that is critical of CGE modelling, our aim is to not to engage in a detailed economic *critique of* such models. Rather, we suggest that they generate 'fictional expectations' – i.e. ones underpinned by considerable uncertainty, as noted above – containing particular biases; in other words, they represent an exercise in the 'management of fictional expectations', regardless of the accuracy of their predictions. As Beckert (2013a: 226, emphasis in the original) notes they are '*necessarily* wrong because the future cannot be foreseen' in an inherently uncertain social world (Beckert 2013a: 226).

Beginning with its underlying assumptions, it is clear that these privilege a particular *weltanschauung*, derived directly from the neoclassical welfare theorems discussed earlier. As we saw then, the Arrow-Debreu model appears to be agnostic on the question of equity. This finds its way into the writing of CGE modellers. Böhringer and Löschel (2006: 50), in a key piece advocating the use of such techniques to measure the environmental impact of economic policy decisions, note that 'the decisions how to resolve potential trade-offs [between equity and efficiency] must be taken on the basis of societal values and political decisions'. No calculations can, however, be mustered for such assessments, privileging the notion of economic efficiency, for which economic models can be rallied. To refer again to Fioramonti (2014: 9), '[m]arkets […] are more malleable to measurement' than 'social relations and the natural world'. This bias in favour of what *can* be measured within narrow, economistic frameworks is mirrored in the measures used in such calculations. Equivalent variation in consumer welfare is invariably monetised, given the 'computable' nature of CGE models, and rests on a microeconomic foundation; this reifies the view of the atomised utility maximiser of neoclassical economics and downplays the broader socioeconomic impact of the policy decisions being modelled. In a similar vein, CGE models are also largely

static: they measure the difference between two equilibrium points (at t_1 and t_2) without considering the mechanism of adjustment between them (George 2010: 24-5). Much like its microeconomic foundations, this *static* bias downplays the significance of broader intervening environmental and social *adjustment* processes and reifies the idealised 'general equilibrium' outcome of smoothly operating competitive markets that generate Pareto efficient outcomes (Scrieciu 2007: 681-2).

Such problems are underscored by the form that CGE models often take (in other words, by the 'functional' information they contain). There is a preference amongst certain CGE modellers for a 'consistent' approach to modelling social and environmental 'costs' within a 'single integrated […] framework [where] data and functional relationships from other models must be condensed and synthesised in a way compatible to the structure of the core model', rather than a 'soft-link' approach where multiple models are run simultaneously (Böhringer and Löschel 2006: 59-60; see also Kemfert 2002; Hanson and Leitner 2004). Given that such models are presented as powerful predictors of future developments (see above), their parsimony, a product of the simplifying assumptions of general equilibrium theory, requires that other measures/models be *adapted* to its strictures. Much as Ben Fine (1999) writes of a 'colonisation' of the social sciences by economics, here we can speak of an *absorption* of alternative forms of modelling – such as the more multi–faceted Sustainability Impact Assessment (SIA) methodology developed by Colin Kirkpatrick *et al.* (1999) which includes not only econometric modelling but also case study and causal chain analysis – by the increasingly widespread CGE. This works within the static, microeconomic framework noted above, amplifying the bias towards seeing social and environmental issues in terms of economic 'trade-offs'. The debate on climate change, for example, 'has been couched largely in terms of economic costs [as a result of the prevalence of such CGE models], thereby contributing to the notion that environmental protection is a luxury that can only be purchased at the expense of the other good things of life' (DeCanio 2005: 418).

This brings us to the final way in which CGE models introduce biases. As highlighted by McKitrick (1998), the degree to which both functional form and parameter values can influence the results of CGE models raises important concerns for the validity of CGE modelling. This puts considerable power into the hands of the researcher. For example, if a researcher posits a positive relationship between economic growth and poverty reduction then this can be emphasised in particular models through the use of generous parameters for the growth elasticity of poverty (Scrieciu 2007: 681), or by including certain measures of poverty reduction (e.g. income per capita) rather than others (e.g. income inequality). As a result, even *The Economist* (2006, cited in Scrieciu 2007: 681), which is usually wont to cite such studies in an authoritative manner, notes (in reference to the relationship between trade and productivity/growth) that '[i]f the [CGE] modeller believes that trade raises productivity and growth […] then the model's results will mechanically confirm this'. Moreover, researchers often rely on very limited data in constructing their CGE model (Barker 2004: 4) underscoring not only the 'fictional' nature of such expectations, but also how researchers navigate uncertainty in their model and parameter specification by drawing on their underlying assumptions.

'Information' contained within the CGE model (categorisation from McKitrick 1998: 545)	**The biases of CGE modelling**
Analytical (the neoclassical assumptions	

underpinning the model) • General equilibrium theory • Static and microeconomic analysis	• Privileging economic efficiency, which can be measured, over questions of equity, which cannot be measured • Downplaying dynamic, long-term and broader macroeconomic effects
Functional (model specification) • Preference for a single, integrated CGE modelling framework • In the hands of the researcher	• Amplifying bias towards seeing 'non-economic' objectives in terms of economic trade-offs • Using models where the functional form can be set to confirm the hypotheses the modeller wishes to confirm
Numerical (model calibration) • Limited data • In the hands of the researcher	• Using models where the data and model parameters can be set to confirm the hypotheses the modeller wishes to confirm

Source: authors' elaboration

Table 1 – The biases of CGE modelling

In sum, in this section we have shown how CGE models should be conceptualised as an exercise in the management of fictional expectations. While often yielding figures that are quoted repeatedly to justify particular policy decisions, their *modus operandi* is not only shielded from view (the 'black box' problem) but contains important biases that privilege a neoclassical, microeconomic perspective of socioeconomic developments. In the specific case considered by this article, we will show how such biases have been mustered by those willing to bolster the case for free trade. Before we turn to examine this in the case of the TTIP, however, we have to turn to the history of EU-US trade relations, which provides important clues for interrogating the optimistic claims being made in today's context about the potential effects of transatlantic trade liberalisation.

3. The bumpy history of transatlantic regulatory cooperation: the difficulties of getting past (limited) mutual recognition

This section explains why manufacturing optimistic expectations about the consequences of an EU-US trade agreement has been deemed necessary by the European Commission to garner support for the launch of negotiations on such a deal. Attempts at establishing a transatlantic market have been made on repeated occasions since the end of the Cold War. But these have had very limited success due to stiff resistance on both sides of the Atlantic. With the Great Recession, which has been especially protracted in the EU, and the perceived threat of China dominating the world economy within a couple of years, Atlanticists within the EU saw their chance to advocate TTIP as a silver bullet to remedy the EU's economic and geopolitical woes. To overcome the opposition that blocked regulatory cooperation in the

past, playing up the benefits of a transatlantic trade deal and appeasing fears was imperative.

When the Cold War ended, American and European political leaders sought to redefine their relationship beyond its traditional security footing (Steffenson 2005: 30; Fröhlich 2012). With the completion of the Single Market in 1992, and the possible enlargement to Central and Eastern Europe, the EU had become a more interesting market to the US and a more credible negotiating partner (Pollack and Shaffer 2001: 3), while, with the post-Cold War ebbing of security concerns, the US was less willing to accept trade deficits with Europe. Therefore, in 1990 the EU and the US for the first time institutionalised their bilateral relationship with the Transatlantic Declaration, committing to cooperation in economic, cultural and security issues. While the content has been described as 'minimalist' (Peterson 1996), the declaration established an institutional framework for meetings at different levels. The results soon proved disappointing, due to lack of interest by member states, especially France (Steffenson 2005:34), and the Commission wanting to keep the EU's own identity before embarking on transatlantic cooperation (Featherstone and Ginsberg 1996: 32).

However, some events outside (the Gulf and Bosnian war) and within the economic sphere (conflicts within the General Agreement on Tariffs and Trade's Uruguay Round, and looming trade wars on, *inter alia*, bananas, beef and aircraft) convinced Atlanticists that a more effective partnership was needed. Realising that a Transatlantic Free Trade Area (TAFTA) would be too sensitive (Steffenson 2005: 36), in 1995 the EU and the US signed the New Transatlantic Agenda (NTA), containing four chapters on 'Promoting peace, stability, development, democracy around the world', 'Responding to global challenges', 'Contributing to the expansion of world trade and promoting closer economic relations' and 'Building bridges across the Atlantic'. While the NTA produced some deliverables (for an overviews, see Steffenson 2005: 39), its core achievement was a renewed commitment to the transatlantic relationship. In the run-up to the NTA, the Transatlantic Business Dialogue (TABD) (Cowles 2001) was established, which from then on become one of the main advocates of transatlantic economic integration. To counter the impression that transatlantic economic governance was being dominated by business interests, shortly after the NTA a Transatlantic Labor Dialogue (Knauss and Trubek 2001) and a Transatlantic Consumer and Environmental Dialogues were also set up (Bignami and Charnovitz 2001), but with much more limited influence than the TABD.

The main deliverable of the NTA were mutual recognition agreements (MRAs) for six sectors (telecommunications, medical devices, electromagnetic compatibility, electrical safety, recreational craft and pharmaceuticals) signed in 1997. These did not go as far as real mutual recognition, defined as reciprocal and simultaneous acceptance of the counterpart's regulatory system (Nicolaïdis 1996), but were limited to the elimination of duplicate certification procedures. These MRAs notwithstanding, there was disappointment with the scope of achievements in the economic chapter of the NTA. Therefore, in 1998 a new tack was tried with Sir Leon Brittan's proposal for a New Transatlantic Market Place, which was intended remove tariffs as well as non-tariff barriers and establish a transatlantic market for services, government procurement and investment and develop new rules for intellectual property rights (Pollack & Shaffer 2001:16). However, this was again blocked by Member States, once more led by France, in the Council of Ministers. Consequently, eager to deliver something, a less ambitious and vaguer 'Transatlantic Economic Partnership' was agreed in 1998. Its aim was to try to build the transatlantic market more incrementally mainly by further reducing regulatory barriers in a number of new goods sectors, including full

equivalence agreements for marine safety, as well as extending the MRAs to services. However, it soon turned out that both negotiations on new sectors as well as implementation of the early MRAs stalled (Ibid: 298).

The EU and the US have tried to reinvigorate this process of regulatory cooperation many times, such as through the adoption of non-binding Guidelines for Regulatory Cooperation in 2002, more substantive 'Roadmaps for US-EU Regulatory Cooperation' in 2004 and 2005, establishing a high-level Regulatory Cooperation Forum that should inspire progress through, amongst other things, a US-EU experts exchange programme and the identification of some 15 sectoral priority areas for the future, but also with limited results (Lester and Barbee 2013: 850). In the latest innovation before the TTIP, the Framework for Advancing Transatlantic Economic Integration (FATEI), the Transatlantic Economic Council (TEC) has been established, consisting of several relevant European Commissioners and US Secretaries, including the US Trade Representative (USTR), and thus bringing new high-level political ownership to transatlantic economic relations (Lütz 2011: vii-ix).

How is it that two decades of efforts to establish transatlantic regulatory cooperation have struggled so deeply, even when, in the 2000s, structural changes in the global political economy and in EU-US economic relations made such cooperation more likely (Smith 2009)? Pollack (2003: 101-2) highlights five factors that have impeded progress so far: large differences in regulatory procedures and (more profoundly) philosophies; domestic limits on information sharing; the multi-level character of EU and US polities; the weak or even non-binding character of MRAs; and domestic politicization. He later added two further explanations: resistance to regulatory cooperation by regulatory (mostly) officials jealous of their competences and the importance of distributive consequences, leading to a 'battle of the sexes' game where 'US and EU regulators have a strong preference for retaining and indeed exporting their domestic standards at the international level, giving advantages to their own producers and placing the onus of legislative change and economic adaptation on the other side' (Pollack 2005: 912). As the author concludes (based on a similar statement in Peterson *et al.* 2005: 76) '[a] legally binding treaty or a fully-fledged transatlantic free trade agreement [...] are unlikely to be realized in the near future in the face of difficult domestic ratification requirements and predictable domestic opposition on both sides of the Atlantic' (Pollack 2005: 916). However, according to the assessment of Meyer and Barber (2011), it is precisely a broader agenda beyond non-tariff barriers which is needed to move transatlantic economic relations forward.

When the European Commission itself took stock of the history of regulatory cooperation in 2004, it concluded that the "traditional" type of MRA 'has proven difficult to negotiate and even more difficult to implement', and that, consequently, 'it is not worth pursuing new negotiations on this type of MRA [while] the "enhanced" type MRA [...] is the one offering the best prospects of implementation and trade facilitation'[i] (European Commission 2004: 3). In the remainder of this section, we discuss the difference between harmonization and mutual recognition and between 'traditional' and 'enhanced' mutual recognition, and we explain why the enhanced form of mutual recognition is politically more intrusive and hence more prone to resistance.

Harmonization, traditional and enhanced mutual recognition: Obscuring the differences in TTIP

It is indeed essential for this article to understand the difference between different strategies for 'regulatory convergence', especially between mutual recognition and harmonization. Mutual recognition can be defined as 'creating conditions under which participating parties

commit to the principle that if a product or a service can be sold lawfully in one jurisdiction, it can be sold lawfully in any other participating jurisdiction' (Nicolaïdis and Shaffer 2005: 264). It is, as a trading rule managing regulatory divergence, very different to 'national treatment', which 'provides that a host state is only prohibited from applying discriminatory standards to foreign products and services, and is otherwise free to set the standards that it deems appropriate' (Nicolaïdis and Shaffer 2005: 269). When the national treatment principle prevails, regulatory diversity is simply left untouched and no convergence mechanism is attempted. Somewhere in the middle lies harmonization, 'where diversity is overcome by finding a common denominator' (Schmidt 2007: 261) through adopting identical regulatory obligations *ex ante*.

These approaches differ in the degree to which they let 'politics' prevail over the 'market'. With national treatment, the primacy of politics rules, while with mutual recognition, the primacy of trade governs. According to others, mutual recognition does not imply the abandoning of regulatory authority, but a 'legalized form of horizontal cooperation' (Nicolaïdis and Shaffer 2005: 277) or transfer of competences, different from a vertical transfer of competences in the case of harmonisation. It is thus allegedly more tolerant of (regulatory) diversity.

In contrast to such rather optimistic assessment of mutual recognition, Trachtman (2007: 783) argues that '[mutual] recognition is by its nature purely deregulatory'. He argues that it is only desirable when accompanied by essential harmonization, an agreed applicable minimum standard. Above this threshold, mutual recognition then applies: states may still apply higher standards to their own suppliers but not to the ones of the partner country. According to the author, regulatory competition will, however, mean that in the end regulation will converge towards the agreed minimum standards or the lowest standard if mutual recognition is not managed. Trachtman (2007: 785) further usefully differentiates between mutual recognition and equivalence. Under equivalence, an institution, usually a court, determines case-by-case (based on a treaty-inscribed principle) if a home state regulation is functionally equivalent to host state regulation.

Another important distinction touched upon above is between the recognition of substantial standards as such ("enhanced type MRA"), and the recognition of each other's conformity assessment bodies (CABs) that certify, monitor and enforce (host state) standards. The latter form of mutual recognition of CABs is a more shallow (in terms of transfer of authority) type of mutual recognition that can be economically costly. It is this type that has been denounced by the Commission in 2004. However, as our discussion above has made clear, and as the enhanced type of MRA is much more politically intrusive, there is reason for considerable doubt that the EU and the US might succeed in agreeing to a more ambitious type of regulatory convergence where a more shallow alternative already failed because of resistance of actors hostile to regulatory convergence.

To sum up, in the light of this string of failed attempts at establishing a transatlantic market, or even the more modest goal of eliminating technical barriers to trade, it is clear that only if both sides were able to produce very forcible arguments in favour of an agreement (in other words, *an ideational imperative*) that a new attemptto launch such negotiations (with all the potential political damage in case of failure) would stand a chance. The economic crisis experienced by both sides but especially within Europe created a window of opportunity (Kingdon 1984) to make such a strong case by presenting an EU-US trade agreement as a tremendous boost to growth and jobs without burdening stretched public finances. As the

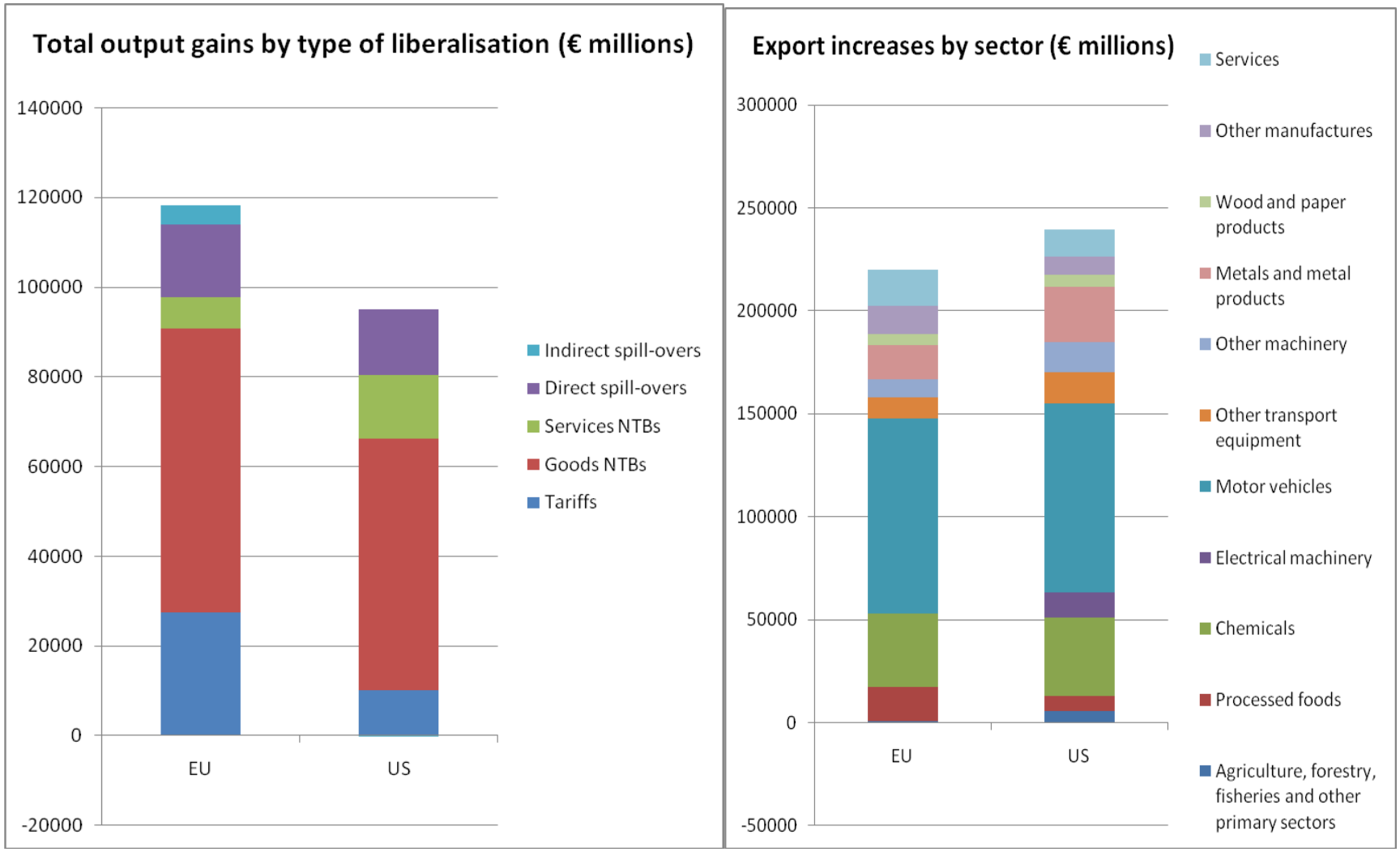
crisis coincides with, and reinforces, the ascendance of China as an economic powerhouse, the ability of a transatlantic market to set global trading standards for the 21st century has also been stressed (however, this might still come too late, cf. Smith 2009). Finally, to appease opponents of previous attempts at a transatlantic market, who might not be convinced by the positive arguments of growth and jobs and global standards, the European Commission has from the beginning made clear that no lowering of European standards or surrendering of regulatory sovereignty is envisioned.

In the next section, we critically review the trade impact analysis on which the European Commission's assertions of a 'tremendous impact' is based. We show that this analysis and its subsequent usage can be understood as a practice of 'managing fictional expectations'. A CGE model used in the Commission's impact assessment allows it to generate much sought-after growth and jobs figures in a time of economic crisis. While our aim is not to critique the intricacies of CGE modelling, we hope to show how the CGE model is used to manage expectations and obscures considerable uncertainty over the outcome of liberalization as well as the difficult choices that have to made to achieve such an outcome. We will demonstrate how the Commission's attempt of seducing proponents of an EU-US trade deal while at the same time appeasing potential opponents leads to intrinsic contradictions in its attempt at managing expectations.

4. The TTIP Impact Assessment and the Commission's Preference for Mutual Recognition

The current set of transatlantic trade negotiations trace their origins to a Summit in November 2011 between US President Barack Obama and European Council President Herman Van Rompuy. Here they set up a High Level Working Group on Jobs and Growth (HLWG), led by the European Commission's DG Trade and USTR, and which was tasked with identifying how increased trade and investment might contribute to job creation, economic growth and competitiveness (HLWG 2013). Its final report was published on 13 February 2013 (the day of the US President's 'State of the Union' address to Congress) and concluded that 'a comprehensive agreement, which addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules, would provide the most significant mutual benefit of the various option considered' (HLWG 2013: 5).

On the EU side, this analysis was complemented by an extensive economic study on the potential economic impact of liberalising 'Non-Tariff Measures in EU-US Trade and Investment' (ECORYS 2009) as well as a broader study by the Centre for Economic Policy Research on 'Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment' which covered both NTMs and tariffs (CEPR 2013). The results of these two studies were then summarised in a European Commission Impact Assessment (European Commission 2013a). This identified three policy options for future transatlantic trade relations: A. a baseline scenario without any substantial policy change; B. tariff-only, services-only or procurement-only agreements; and C. a comprehensive scenario, involving a fully-fledged free trade agreement covering tariffs, regulatory barriers for goods, services, investment and government procurement simultaneously. Scenario A. logically implied the *status quo*. In the B. scenarios, the tariff-only agreement (B.1) assumed 98% tariff elimination, B.2 assumed a 10% reduction of barriers to trade in services and B.3 a 25% reduction of barriers to cross-border government procurement. Scenario C. was divided into a conservative and ambitious variant. In C.1 the assumptions of the B. scenarios were combined, including a reduction of 10% of non-tariff measures (NTM) for goods. The ambitious option (C.2) estimated 100% duty elimination, a 25% reduction of NTM barriers to



Source: CEPR (2013: 47, 64, 66), Tables 17, 29 and 30.

Figure 2 – Breaking down the gains from the TTIP (2013 CEPR study, ambitious regulatory convergence scenario

goods, a 25% reduction of services barriers and a 50% of liberalisation of government procurement. The economic impact of the different scenarios was subsequently estimated using a computable general equilibrium model. This included 'spillover effects', namely the effect of the agreement on third parties. 'Direct spillovers' captured the effect that reduced trade barriers would have on third party exporters, who would find it easier to export to the EU and US while 'indirect spillovers' captured the trade effects of other countries adopting new, common transatlantic standards.

Evidently, scenario A. assumed no changes in trade policy and hence no effects on trade and growth. Under scenario B.1, EU GDP would rise by 0.10% (it is important to note that these projections are always for the year 2027), in B.2 by only 0.01% and in B.3 by 0.02%. The benefits here are thus clearly limited. In the case of a more comprehensive scenario, the gains become more substantial. In scenario C.1, projected extra GDP growth is 0.27% for the EU. This increases to 0.48% in scenario C.2, and it is this figure (rounded up to a half per cent) that is consistently referred to by advocates of the TTIP. On this basis, the Commission Impact Assessment concluded that based on this analysis 'there is a clear-cut case for the EU to enter into negotiations for a comprehensive and ambitious FTA (policy option C.2) as the preferred option' (European Commission 2013a: 58).

Figure 2 provides a breakdown of the gains that would accrue under policy option C.2 for the EU and the US by type of liberalisation. What becomes obvious from this figure is that the largest gains from the agreement come from the elimination of NTBs in goods and services. A whole 59 per cent of the total output gains for the EU (and 74 per cent for the US) depend on eliminating such barriers to trade between the EU and the US. Eliminating all tariffs, in turn, only accounts for 23 per cent of the output gains from the TTIP for the EU (and 11 per cent for the US). The final source of gain for both parties are so-called spillover effects. Noted above The agreement's direct spillovers and indirect spillovers account for respectively 14 and 3.5 per cent of the EU's modelled output gains (and 16 and -0.23 per cent in the case of the US, in the sense that indirect spillovers have a small negative impact on US output).

How is this objective to be achieved? Interestingly, the Commission's preference is for mutual recognition of standards rather than the more extensive harmonisation of regulations. In order to appreciate this, we turn to the cases of the largest sectoral beneficiary of the deal (motor vehicles) and the sector most negatively affected, electrical machinery. The motor vehicle industry accounts for 43 per cent of the projected export increases from the TTIP for the EU and would see its overall output increase by 1.54 per cent in such a scenario (see Figure 2) – while the electrical machinery sector is expected to have output contract by 7.28 per cent, or more than any other of the sectors considered (all statistics are for the ambitious scenario, C.2). Both in the case of the major 'winners' from liberalisation as well as in the case of the 'losers', the Commission is acknowledging that a strategy of pursuing mutual recognition may indeed be both more feasible and desirable than more comprehensive regulatory harmonisation.

Oddly enough, this is most obvious in the Impact Assessment when the Commission discusses the case of the 'losing' electrical machinery sector. Here, it concludes that 'the model reveals that regulatory alignment is harmful to EU industry because third countries would also benefit from the bilateral liberalisation in light of their comparative advantages' (Commission Staff 2013: 41). The report then tries to take away the fears of the sector. In light of the arguments of this article, it is enlightening to quote the passage in full:

> For modelling purposes, a horizontal spillover has been assumed across all sectors. However, in the reality of negotiations, the spillover of reduction of NTMs itself is up for negotiations, depending on the agreed implementation (i.e. bilateral vs. erga omnes elimination of NTMs). In the view of the different concepts of international standards between the EU and the US, it is not expected that the approach followed would necessarily involve in any case the acceptance of international standards or other measures, which are more likely to have some type of MFN effect and therefore entail spillover effects to third countries. Instead, the expected approach to be followed in the negotiations with the US would focus on regulatory coherence and a degree of mutual recognition between the EU and the US standards, particularly in the field of safety regulation relevant for electrical and electronic equipment (Commission Staff 2013: 41).

Here, the Commission staff is downplaying the fear of losses in the electrical and electronic equipment sector by acknowledging that the approach that will be followed particularly in (but hence not limited to) this sector will be mutual recognition and not (the more ambitious) harmonization approach. A similar logic is reiterated in the case of the motor vehicle sector, the largest beneficiary of an ambitious comprehensive agreement[ii]. Buried in a footnote, the Commission notes that 'it can reasonably be assumed that in reality the outcome of negotiations on the NTMs in certain sectors would rather result in bilateral than in *erga omnes* recognition of safety standards which are also of particular relevant (sic) for the motor vehicles sector [..., in that case] the positive effect on output in the car sector could eventually be even bigger' (Commission Staff 2013: 43).

What comes out of this discussion is that mutual recognition is preferable from a pure economic (even mercantilist) point of view because it actually results in more gains and fewer losses for certain EU exporters and EU import-competitors, regardless of the overall positive contribution that spillover effects make to EU output. Mutual recognition may be easier to sell to EU business interests given the distributional effects of trade liberalisation. The discussion above, however, has also suggested how it is also administratively easier to undertake mutual recognition than regulatory harmonisation, given regulatory differences between the EU and the US. In the following section, we turn to show how the CGE models underpinning the Commission's impact assessment of the TTIP not only disguise the considerable uncertainties that surround the feasibility of eliminating trade barriers across the Atlantic (which the Commission's Impact Assessment hints at), but also illustrate how they downplay the negative consequences of liberalisation.

5. The biases of CGE modelling in the case of the TTIP: the dangers of conflating mutual recognition with harmonisation

In this section we begin by illustrating how the CGE models at the heart of the impact assessment treat both mutual recognition and harmonisation outcomes as broadly equivalent in terms of the macroeconomic effect. We then show how this represents an exercise in the 'management of fictional expectations' in two ways; firstly by papering over the considerable uncertainty that surrounds the alleged economic gains from the TTIP and, secondly, by disguising the implications of the Commission's mutual recognition agenda.

Papering over the uncertain benefits of the TTIP

Turning to the first of these issues, our argument is that the CGE models and the impact assessment, by failing to explicitly resolve the ambiguity between modes of liberalisation, obscure the uncertainty surrounding the TTIP's economic impact and exaggerate its

potential benefits. In the studies on which the European Commission bases its optimistic expectations about the economic and other consequences of the TTIP (ECORYS 2009; CEPR 2013; European Commission 2013a), there is all talk about the extent to which 'regulatory divergence can be eliminated' or 'reduced' (e.g. ECORYS 2009: xiii), although the issue of *how* this will be achieved is never specified. The ECORYS Study simply states that 'the word 'reduction' is used as an overall catch-phrase for possible approaches to address regulatory divergence and NTMs, like for example recognition of equivalence, MRAs, harmonization of rules, common international standards development' (2009: 15). However, while it is convenient for modellers to conceive of these approaches as equivalent, and just assume that a percentage of the regulatory differences will be reduced, they are in fact very different means of achieving transatlantic trade liberalisation.

This is most obvious when we turn to the issue of the prophesised 'spillover' gains from the TTIP, in other words, the gains accruing to third parties from EU-US trade and investment liberalisation. Whether the EU and the US will harmonise their standards or simply mutually recognise each others' has considerable bearing on the degree to which other countries will find it easier to export to the EU and US (direct spillover effects) and whether they adopt common EU—US standards (indirect spillovers). In the case of mutual recognition, the incentives to undertake the latter are considerably reduced as no single transatlantic regulatory space will be created. Moreover, the Commission Impact Assessment talks about *bilateral* instead of *erga omnes* mutual recognition, it can even be expected that only producers and services suppliers based in the EU or the US will generally benefit from the elimination of trade barriers, while third country firms will still have to comply two different sets of standards (Rollo *et al.* 2013). In this vein, the failure to differentiate significantly between regulatory harmonisation and mutual recognition, treating both as having very similar outcomes, is symptomatic of the fact that such studies have an inbuilt bias to exaggerate the impact of liberalisation. More concretely, they consciously ignore the very important *political* obstacles that may exist in the way of achieving the prophesised level of liberalisation – and which often explain why mutual recognition is chosen over regulatory convergence by advocates of liberalisation.

To see this, we need to turn to the question of the feasibility of reducing non-tariff measures to trade. The ambitious scenario in the impact assessment assumes that 25% of all NTMs will be reduced. As only half of NTMs are actionable (Commission Staff 2013: 6-7) – using a very generous interpretation of the term, which assumes that all barriers that *theoretically* could be addressed through policy measures are 'actionable'[iii] – this means that 50% of all trade barriers that can be affected by policy are effectively reduced. Keeping in mind the lack of success in earlier attempts at regulatory cooperation between the EU and the US (see Section 3), this seems a very ambitious (and probably unrealistic) goal. For many sectors, regulatory philosophies and measures and levels of protection are far apart and divergence on the appropriate level of protection (or about what constitutes the highest level of protection) and the efficient tool for reaching this might be irreconcilable: Genetically Modified Organisms (GMOs) are a case in point in this regard (see Pollack and Shaffer 2009). Leaving aside this particularly controversial bone of contention between EU and US, we can see that there also considerable barriers in areas seen as key to realising the economic gains from the TTIP. In the area of chemicals, one of the key beneficiaries of TTIP liberalisation according to the CGE models and impact study, the Commission's own initial position paper for the negotiations noted 'that neither full harmonisation nor mutual recognition seems feasible on the basis of the existing framework legislations in the US and EU: [these] are too different with regard to some fundamental principles' (European Commission 2013b: 9). Speaking more generally of

impediments to regulatory convergence, even the impact assessment anticipates a more modest agreement by highlighting that '[i]n order to be able to adapt to future evolutions, an ambitious agreement with regard to regulatory coherence would have to be of a "living nature". Regulatory obstacles to trade that cannot be eliminated or reduced in a first phase should continue to be discussed under clear time lines following an institutionalised mechanism' (European Commission 2013a: 28).

Even in areas where differences in standards or conformity testing between the EU and the US seem uncontroversial, resulting from different historical practices, there are obstacles in the form of entrenched regulatory interests and multiple regulatory jurisdictions, the latter being especially true of the US. An example can be found in the safety standards for motor vehicles discussed earlier. While it is reasonable to assume that the level of protection in the US and the EU is equivalent, the exact standards differ as do the procedures for conformity assessment. The EU requires third-party certification (assessment by an independent body), while in the US cars can be lawfully marketed based on a self-declaration of conformity with the standards. In this instance, the ECORYS study assumed that mutual recognition (and costless conformity assessment procedures as self-declaration of conformity) should be feasible, without touching on the respective levels of protection and with significant economic benefits (ECORYS 2009: 46-7). However, this ignores not only the degree to which 'US regulatory policy' is 'fragmented' but also 'decentralised'. Rather than a single entity, such as the federal government, setting standards, the system 'relies heavily on voluntary conformity from over four hundred federal, state, trade and industry associations, scientific and technical societies' (Steffenson 2005: 129). Combined with the zeal with which US regulatory agencies have clung to their statutory independence (Cowles 1997: 35), this has created significant obstacles to even more limited regulatory cooperation in past rounds of transatlantic talks. The debate over the limited Mutual Recognition Agreement (MRA) negotiated between the EU and the US in the late 1990s is a case in point. Although this only provided for the mutual recognition of testing and certification standards in a very limited number of industrial products both the US Food and Drug Administration (FDA) and the Occupational Safety and Health Administration (OSHA) fought against the initiative and delayed the recognition of European standards (Steffenson 2005: 123-40; Pollack 2005: 909).

Perhaps most strikingly, in terms of both highlighting the uncertainty of the gains surrounding the TTIP but also the biases of CGE modelling towards projecting the benefits of the agreement, the ECORYS model of the gains from NTM elimination is premised on important synergy effects. In their words, '[t]he sum of sector-specific gains in isolation is much less than the full economy-wide gains if NTMs are aligned' (ECORYS 2009: xxi). The numbers are striking: if liberalisation of NTMs occurs across all sectors at once, the gains in terms of increased income to the EU and US economy are €121.5 billion and €40.8 billion, respectively, compared to equivalent figures of *only* €30.8 billion and €13.5 billion if each sector is liberalised in isolation (ECORYS 2009: xxi-xxii). What this clearly shows is the importance of liberalisation *across* the board to realise the ambitious 'predictions' (read, fictional expectations) of the CGE models and which, as we have shown above, is unlikely to materialise.

In sum, we have shown the considerable uncertainty regarding the projected benefits that the Commission's CGE models of the TTIP simply *paper over*. Treating mutual recognition and regulatory convergence as equivalent, they have generated exaggerated projections of the benefits of the agreement by *ignoring* the contentious politics of liberalisation (which is reflected in the Commission's preference for mutual recognition). In the next sub-section we

turn to look at how, at a deeper level, such models have also disguised the broader implications, beyond the trade sphere, of the Commission's mutual recognition agenda.

Disguising the mutual recognition agenda and its broader implications

Different modes of regulatory convergence (such as harmonization, adopting international standards, bilateral or erga omnes mutual recognition) do not only differ in their economic effects, which is obscured by the authors of the impact assessment. They also differ significantly in terms of their intrusiveness into democratic decision-making; their effects on the level of regulation (race-to-the-bottom, chilling effect or trading-up); and, as already alluded to above, on the consequences for third countries.

Indeed, it can be said that the CGE model allows to paper over these important differences between approaches to regulatory convergence. In this way, the increase in economic efficiency by way of eliminating or reducing 'non-tariff barriers' can be measured (analytical bias, see Figure 1), without taking into account the effects of the chosen method on other policy objectives. As highlighted in the ECORYS (2009: xxxv) study, this explicitly 'd[id] not judge whether a specific NTM is right or wrong or whether one system of regulation is better than the other. Instead the study focuses on identifying divergences in regulatory systems that cause additional costs or limit market access for foreign firms' (ECORYS 2009: xxxv) (functional bias, see Figure 1). Indeed, even the concept of regulations as 'non-tariff barriers' reduces them to economic parameters that can be traded-off. Moreover, as the socioeconomic world is characterised by fundamental uncertainty (see Blyth 2002; Beckert 2013a,b), in this case regarding the extent to which NTMs they can be reduced or eliminated between the EU and the US, the modellers have opted for a headline percentage of barriers to be eliminated, allowing them to manipulate the model parameters arbitrarily. More specifically these are based on interviews and surveys with industry representatives that themselves have all but perfect knowledge, and arguably a biased view, about the political feasibility of regulatory convergence (numerical bias, see Figure 1).

As we demonstrated above, the Commission itself thinks that bilateral (rather than erga omnes) mutual recognition is the most probable approach that will be taken. While this might be beneficial for firms, in that it allows them to choose one of the regulatory regimes and export freely to the other entity, it will have a number of negative consequences in other, non-economic aspects. As explained in sections 3 and 4, bilateral mutual recognition without minimum harmonization tends to lead to a race-to-the-bottom, has negative instead of positive consequences for third countries and will not lead to global standards. The CGE model, papering over the choice of the desired approach for regulatory convergence, thus leads to obscuring difficult political choices, and allows to portray the regulatory differences in pure economic terms as 'non-tariff barriers' that can be reduced by 50%.

The choice for (bilateral) mutual recognition is fully in line with the position of transatlantic business interests. Young (2013) analysed the submissions made to the joint consultation on regulatory issues organised by the EU and the US in preparation of the TTIP negotiations and concluded that while out of 61 submissions making specific suggestions on how to remove regulatory barriers, 34 advocated approximation (mainly unilateral adjustment by the other party), 13 out of 16 transatlantic coalitions favoured mutual recognition. This form of regulatory convergence is also favoured by most of the peak associations (8 out of 13). Thus, the EU position seems to be in line with that of transnational EU industries that stand to benefit most of having the ability to shop for the least costly rule under a mutual recognition regime.

Conclusions

This paper has critically reviewed the impact assessments by or for the European Commission regarding the consequences of the proposed EU-US TTIP. It is on the basis of these studies that the European Commission has built its communication strategy to promote the TTIP, trumpeting the 0.5% extra GDP growth or 545€ additional purchasing power per average household the agreement will allegedly bring as incontrovertible evidence that pursuing the agreement is in everyone's best interest. We have shown that these impact assessments should be seen as an exercise in 'managing fictional expectations' to convince stakeholders of the desirability of a transatlantic market. This is understandable when looking back at two decades history of (often more modest) failed attempts at establishing transatlantic free trade, as we have discussed in section 3. As tariffs are already very low for trade between the EU and the US, economic gains should for the most part come from 'regulatory convergence': reducing trade barriers arising from differences in regulation in the EU and the US. Moreover, it is the sum of regulatory convergence measures that will only deliver a real significant boost to both economies, as the studies show.

When looking into the details of these forecasts, as we did in this paper, it becomes clear that these have papered over many difficult, politically sensitive decisions that might take down the optimistic economic expectations, and/or might negatively affect sectors, third countries or non-economic objectives of the agreement. Especially the conscious blurring of the mode(s) through which regulatory convergence will be brought about enables the European Commission to combine arguments that at the same time seduce proponents with economic and geostrategic gains while appeasing internal and external opponents by arguing that regulatory convergence will not lower protection within the EU and will benefit third countries. However, at times, the Commission is also forced to reassure sectors by admitting that limited bilateral mutual recognition is the most probable way to go (see section 4), which is indeed also the most realistic mode from an administrative point of view, as argued in section 3. However, this means that the large economic gains that have been touted cannot be realised and that the TTIP might negatively affect regulatory protection in the EU and market conditions for third countries without establishing 'global standards'.

Besides offering a critical review of the outcome that can be expected from the TTIP, our paper adds to the political economy literature in at least two ways. Firstly, we show how impact analyses based on CGE models might serve policymakers by allowing them to manage expectations while obscuring difficult detailed decisions that will have to be made during negotiations. In this way, they can tailor their messages to specific audiences. In the case studied in this paper, it enabled the Commission to broadcast the growth and jobs boost to the population at large, inflate the gains and minimizing losses to sectors, and appease third countries and NGOs about external and non-economic effects. Thus, it is not objective consequences of trade agreements as such (that can simply not be known), but the management of expectations about the effects, which affects the support and opposition for the launch, conduct and conclusion of free trade negotiations. Second, this paper adds to the literature on the different degrees of complexity, difficulty and consequences of various modes of regulatory convergence. We have discussed, and applied to TTIP, the differential effects of harmonization versus mutual recognition, shallow versus enhanced and bilateral versus *erga omnes* mutual recognition. Outside of academia, we hope that our critical review here will allow for a more realistic, open and honest discussion on the potential benefits and

costs (in economic and non-economic terms) of TTIP, and 21st century free trade agreements in general.

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[i] The wording is even more clear with regard to the US: 'no more "traditional" type MRAs should be concluded with the US' (European Commission 2004: 9).

[ii] In the EU, the approval for marketing of vehicles is based on a type approval system that relies more and more on UNECE regulations, which partially replace EU legislation. The US is not a signatory of the 1958 UNECE agreement, and has developed its own standards in parallel, the Federal Motor Vehicle Safety Standards (FMVSS). According to the Euopean Commission (2013a: 43) '[t]hese differences favour domestic manufacturers who do not carry these double costs [of having to conform with different standards]. According to an analysis based on companies' input and expert opinion, NTMs in the US result in an additional cost of 30% of the exported value of motor vehicles in the US'.

[iii] As stated in the Impact Assessment Report: '[a] NTM was considered 'actionable' only when it is within the reach of policy to eliminate it or to find remedies for reducing its negative effect on trade. In some cases this is not possible. For example, barriers to market access that are associated with differences in consumer preferences are unlikely to be lifted by policy intervention' (Commission Staff 2013: 6-7).