The Trans-Pacific Partnership

Good for Wall Street, Bad for Main Street

The Trans-Pacific Partnership (TPP) also known as "NAFTA on Steroids" is poised to become the largest free trade agreement ever. Current negotiating countries account for 38% of the global economy and include the U.S., Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. Negotiators have refused to release the text of the TPP to the public but have given access to members of special advisory committees which are dominated by hundreds of corporate officials, lawyers and lobbyists - including those representing Wall Street. There are many concerns with the TPP including its adverse impact on jobs, food safety, drug prices, and our democracy. It also would undermine the stability of the global financial system.

Wall Street Ties to the U.S. Trade Representative.

The USTR is the ambassador level agency that negotiates trade agreements for the President. There are at least two levels through which Wall Street significantly influences the USTR.

■ **The USTR/Wall Street Revolving Door.** Michael Froman is the prime example of the Wall Street/USTR revolving door. Froman served as Chief of Staff to Robert Rubin, Clinton's Treasury Secretary. In 1999, Froman followed Rubin to Citigroup - the third largest U.S. bank with assets of $1.9 trillion. Froman – while still an employee of Citigroup – was on the Obama transition team that selected Timothy Geithner to be Obama's first Treasury Secretary. Froman then received over $4 million in various exit payments when he left Citigroup to join the administration as U.S. Trade Representative.[1] Citigroup – like many other large corporations – provides additional retirement pay upon leaving to take a "full time high level position with the U.S. government or regulatory body."[2] Mickey Cantor is another example of the Wall Street/USTR revolving door. When he retired as U.S. Trade Representative Cantor joined the law firm of Mayer Brown many of whose "largest clients are bank holding companies, commercial banks, investment banks, insurance companies…."[3]

■ **Wall Street Advisors to USTR.** Wall Street banks, insurance companies, law firms and investment companies as well as their industry associations have been well represented on the Industry Trade Advisory Committees (ITAC).[4] The USTR provides committee members with the text of USTR proposals and they, in turn, provide advice to the USTR.

The TPP is a Backdoor Way to Impose Wall Street's Agenda on the U.S.

The TPP would provide big banks with a means of rolling back efforts to re-regulate Wall Street in the wake of the global economic crisis. Journalist Gretchen Morgenson neatly summarized this paradox in the *New York Times*, "Even as our regulators try to devise a safer financial system, our trade representatives thwart efforts to reduce risks these operations pose to taxpayers."[5]

Wall Street could use the TPP to undermine current and future policies developed by Congress and regulators after the 2008 collapse. These laws and regulations address rampant speculation that proved so devastating to the U.S. economy during the housing bubble (2000s), the dot com bubble of the (1990s) and the savings and loan bubble of the (1980s).

■ **Domestic law must conform to the TPP.** The U.S. would be bound by all the TPP's provisions including those that impose the now-rejected model of extreme deregulation that caused and/or exacerbated the Great Recession and other economic crises.

■ **Giving Wall Street the power to sue the U.S. and other countries in UN and World Bank tribunals.** The TPP creates a special Investor State Dispute Settlement (ISDS) process that allows foreign corporations to initiate proceedings against a sovereign government for failure to enforce the expansive investor rights and protections contained in the agreement. These challenges would be heard before World Bank or UN tribunals staffed by private lawyers. These tribunals could require governments to compensate corporations for any alleged loss of future profits. There are over $38 billion in pending claims filed by corporations against sovereign governments using the ISDS provisions of U.S. trade agreements that are similar to the TPP.

■ **Undermining the ability of governments to limit private banks from using taxpayer insured deposits for their own speculative investments.** The TPP would threaten the use of "firewalls" – policies that are employed to stop the spread of risk between different types of financial institutions and products. For example, the TPP could undermine the Volcker Rule which was passed by Congress as part of the Dodd-Frank bill. This rule was intended to prevent financial companies from making bets for themselves with deposits backed by taxpayers. The Investment Industry Association of Canada has called the Volcker Rule "an unprecedented breach of extra-territorial regulation… as a result, the Volcker Rule may contravene the NAFTA trade agreement."[6] This is no idle threat since private financial corporations could use NAFTA or the prospective TPP to challenge the Volcker Rule in international tribunals and force the U.S. to pay compensation.

■ **Promoting the unfettered flow of speculative hot money.** The TPP would undermine the ability of the U.S. – and each of the other 11 countries in the TPP – to adopt and enforce measures that would in any way impinge on Wall Street's ability to move vast amounts of speculative money into and out of countries and economic sectors "freely and without delay."

■ **Promoting toxic derivatives.** The TPP would undermine countries – including the U.S. - from banning particularly risky financial products, such as the toxic derivatives that led to the $183 billion government bailout of AIG.

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■ **Undermining safeguards against "too big to fail."** The TPP would enable corporations to sue the U.S. and other countries in private UN and World Bank tribunals for policies that would limit the size of financial institutions and safeguard against "too big to fail."

■ **Undermining the use of policies that promote financial stability.** The TPP could ban capital controls, an essential policy tool to counter destabilizing flows of speculative money. Even the International Monetary Fund has recently endorsed capital controls as a legitimate tool for mitigating or preventing financial crises.[7]

■ **Undermining the ability of governments to tax Wall Street speculation.** There would be no hope of passing proposals like the Robin Hood Tax, which would impose a tiny tax on Wall Street transactions to tamp down speculation-fueled volatility while generating hundreds of billions of dollars' worth of revenue for social, health, or environmental causes. Eleven European countries have already adopted such taxes.

Economists and International Financial Institutions Agree the TPP would Promote Global Financial Instability and Wall Street Speculation.

The TPP could promote global financial instability by prohibiting the very policies that would lead to financial stability – a fact recognized by international institutions and hundreds of economists.

■ **The International Monetary Fund** changed its position on capital flows so that it now recognizes that they create risks that can cause devastating financial instability – particularly waves of capital inflows that create bubbles and then waves of capital outflows that create crises. To avoid such instability, the IMF now recommends the regulation of capital flows – especially the inflows that cause speculative bubbles.[8]

■ **250+ economists from around the world** submitted a letter in 2011 that expressed "particular concern regarding the extent to which capital controls are restricted in U.S. trade and investment treaties… [even though they] can stem the development of dangerous asset bubbles and currency appreciations." This letter included many economists who support free trade agreements.[9]

■ **100+ economists from TPP nations** submitted a letter explaining why the TPP should allow nations the flexibility to utilize capital controls and NOT replicate past FTA bans on capital controls. "We are concerned that… the TPPA… will unduly limit the authority of participating parties to prevent and mitigate financial crises….. Thus, we recommend that the TPPA permit governments to deploy capital controls without being subject to investor lawsuits, as part of a broader menu of policy options to prevent and mitigate financial crises."[10]

■ **Economists at the Peterson Institute for International Economics and Johns Hopkins University** have demonstrated how cross-border financial flows generate problems because investors and borrowers do not know (or ignore) the effects their financial decisions have on the financial stability of a given country. Foreign investors may well push a country into financial difficulties – even a crisis. Given that constant source of risk, regulating cross-border capital flows can correct this market failure and also make markets function more efficiently.[11] However, the TPP, by undermining such measures, would promote financial instability.

■ **Practical experience in a number of countries proves that the regulation of capital flows promotes financial stability.** Malaysia, Brazil and South Korea have proven that "capital controls" actually promote financial stability. These regulations restricted the ability of financial firms to move vast amounts of capital into and out of these countries without any regard for the impact on the country's financial stability.[12]

We don't need another free trade agreement that narrowly serves the interests of Wall Street at the expense of Main Street. Let's develop a fair trade agreement that benefits everyone and promotes financial stability.

WHAT YOU CAN DO TO PREVENT ANOTHER WALL STREET MELTDOWN

www.stoptheTPP.org

CWA

Communications Workers of America

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