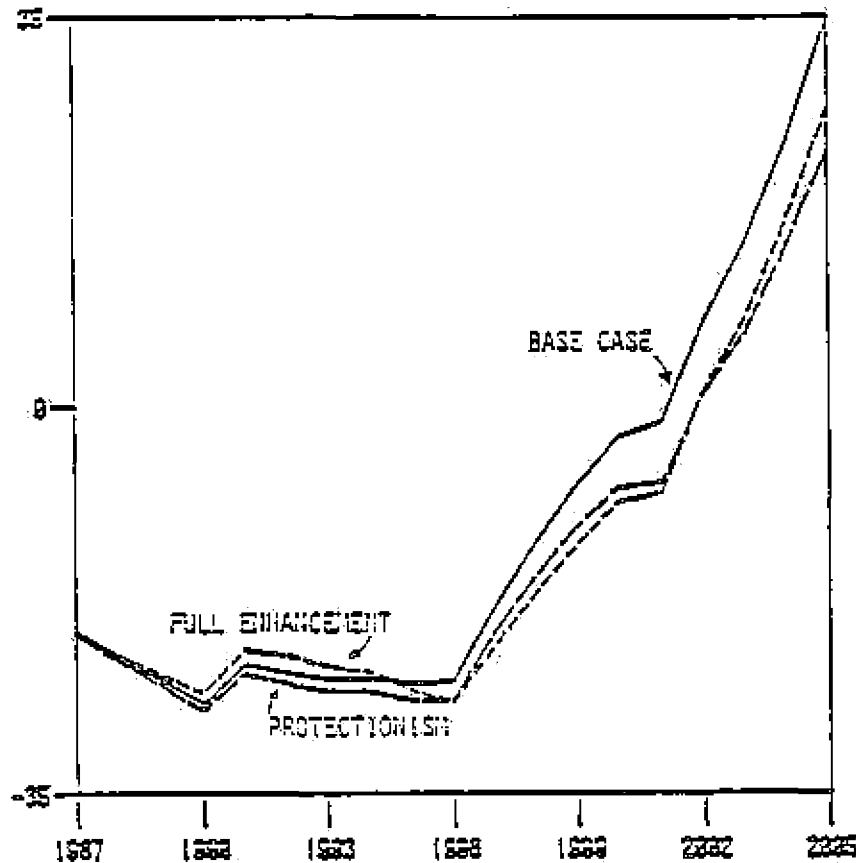


Figure 6

FEDERAL GOVERNMENT BALANCE
BILLIONS OF CURRENT DOLLARS



In general, non-federal government balances are benefitted by trade enhancement. Initially, and assuming as we have that federal personal income taxes are increased to offset direct customs duty losses, the federal treasury benefits as well. Increased supply competition which is a direct benefit of trade enhancement, implies reduced profit margins, however. And in the longer term, this deterioration in a key federal tax base is sufficient to generate negative effects on the federal balance. It may be noted, however, that as provincial and municipal balances are improved, at least part of this unfavourable effect could be offset by reduced transfers from the federal to other orders of government.