increase in that government's deficit. Finally, there also is considerable concern that Canadian sovereignty will be "unduly" compromised, it being argued that free trade of goods must necessarily be followed by a freer flow of labour between the countries, and closer coordination of fiscal, exchange rate, and monetary policies.

Assumptions of the Study

In this study, we assess the impact of removing both Canadian and United States tariff and non-tariff barriers staged over 1988-1992, with varying assumptions about whether Canadian methods of production are altered by access to the larger United States market, and whether current United States trade practices are continued or are altered to respond to "protectionist" pressures in that country. The following represent salient assumptions.

* The reduction in Canadian tariffs is equivalent, by 1992, to a direct reduction in the overall Canadian Consumer Price Index of 0.5 per cent. Assuming that removal of non-tariff barriers will also be passed on to consumers in the form of reduced prices because of increased supply competition further reduces overall prices by 0.25 per cent. This implies increased real incomes for Canadian households, but reduced profit margins for a wide range of Canadian producers.

* There are some partial offsets to these price reductions. Canadian exporters of a wide range of ores and primary fabrications, and of selected agricultural and forestry products sell into already, highly competitive markets. In selected "price-taker" cases, we have assumed that Canadian producers realize the full income gains of the United States government tariff reduction. In these instances, producer profits are increased, and there are upward pressures on Canadian commodity prices.

* There are no significant tariff or non-tariff barriers to trade in energy. Accordingly, we have assumed that Canadian energy production is unaltered by a trade agreement. Similarly, we have assumed that the Auto Pact remains in force. There is a small positive impact on Canadian production from elimination of non-tariff barriers on trade in autos, commercial vehicles, and parts.

* Normal behaviour of investors suggests that their spending in Canada would rise in response to increased real demand and reduced costs of capital. As well, past behaviour suggests there would be improved labour productivity with increased output. To reflect altered possibilities that Canadian producers could operate larger scale plants, however, we have assumed that investment spending will increase beyond that which could be expected normally ($600 million annually at