

Long-Term Economic Benefits of the Canada-United States Free Trade Agreement

IV

Introduction

Over the past several years, a number of empirical studies have been undertaken in Canadian universities, as well as by private and public research organizations, on the economic impacts of freer trade between Canada and the United States. These studies come to the same fundamental conclusion. Bilateral trade liberalization will improve the long-run performance of the Canadian economy. It will raise Canada's productivity and will thereby provide permanently higher real incomes for Canadians.

The Royal Commission on the Economic Union and Development Prospects for Canada expressed a similar point of view:

"Our conclusion has been that in the long run, Canada would benefit substantially from bilateral free trade with the United States, particularly from access to the expanded unrestricted market and from economies of scale. Many studies have confirmed this view, and among Canadian economists it now seems a mainstream opinion. The consistency expressed in this area of intellectual debate over the last 30 years has impressed us..."⁽⁸⁾

Going further, the Royal Commission noted:

"All economic analyses of possible effects of changes in Canada's trade policies examine unobservable situations; inevitably, therefore, their results are uncertain ... Nevertheless, the results of the analyses have convinced us that such

disagreements as exist are quantitative not qualitative. The debate concerns the size of long-term gains that free trade has to offer Canada, not whether such gains will occur."⁽⁹⁾

A recent study by the Economic Council of Canada, for example, estimates that Canada-U.S. free trade will raise Canadian real income by more than 3 per cent. The results of this study, and other studies that have arrived at similar conclusions, are supported by analysis prepared in the Department of Finance. The Department estimates that the level of real income in Canada in the long run would rise by at least 2.5 per cent as a result of the Free Trade Agreement. All regions of Canada would share very evenly in these economic benefits. This chapter reports on these empirical studies of the long-term economic benefits of Canada-U.S. free trade.

Sources of the Economic Gains from Free Trade

By eliminating all tariffs between Canada and the United States and reducing a number of non-tariff barriers to trade, the Agreement will generate a wide range of economic benefits for Canadians. These benefits will flow both directly, through a reduction in consumer prices, and indirectly by increasing the productivity and competi-

⁽⁸⁾ Royal Commission on the Economic Union and Development Prospects for Canada, *Report*, Volume One, Minister of Supply and Services Canada, Ottawa: 1985, p. 327.

⁽⁹⁾ Op. cit. p. 330.