1.3 The Base Case Issue, Or Similar And Competing Trends

Explanatory noise can also come from failure to include all elements that explain what has happened. Early indications for 1989 suggest that investment in manufacturing sectors has been especially strong. There may also be indications that the number of "quits" and "starts" in the labour market has accelerated; and the number of one-day trips from Canada to the U.S. appears to have increased.

Is the apparent increase in investment real or not, and if it is, is it an early sign of investment associated with FTA-related specialization and economies-of-scale effects, or is it simply part of the normal, cyclical acceleration of investment? Are the accelerated number of "quits" part of an FTA-related shake out of comparatively weak Canadian industries, and the increased number of one-day trips part of an "attitude" effect on Canadian consumer expectations about a "bonanza" to be found across the border, or are these explained by decelerating U.S. and Canadian consumer growth, the especially strong Canadian dollar, and an extraordinarily high interest rate spread that have characterized the year?

For each of the next ten years, any analysis designed to provide a wrap-up of that year's FTA effects on the economy will be confounded by similar problems. And efforts to look back in 1993, or 1998, and determine what the effects of the FTA were on all previous years will face similar issues. Many of the events cannot be foreseen; some can.

Before 1998, there is a better-than-even chance that a Goods and Services Tax (GST) will be introduced. While most analyses of the FTA indicated a positive effect (through real income impacts) on services sectors, the GST is likely to have, at the margin, some negative effect on this part of production (and employment). Before 1998 arrives, major action on the natural environment is highly likely. Many Canadian analyses of the FTA suggested especially beneficial effects for primary producers, and early-stage manufacturing related to primary production. Business and political support in Canada tended to mirror this expectation, as did the little opposition to the FTA that emerged in the U.S. (in the form of senators from states with heavy concentrations of primary industries). Action on the environment, however, is likely to have its most concentrated negative effects on these sectors. In 1998, it will be very difficult to look back over the previous ten years and decompose these competing influences on the performance of the primary sectors.

Many such events will be unrelated to the FTA in the sense that the FTA does not cause them, or reduce or improve the country's capacity to respond to them. As we noted earlier, however, a broad political-economy perspective will suggest that the capacity to respond is affected by the FTA in some instances. While there is a significant element of truth to this, there is little capacity to describe what the Base Case economic performance without an FTA would have looked like. Indeed, descriptions of that performance would face the same requirement for detailed analysis as does the marginal effect of the FTA. Thus, technical analysis will have to focus on isolating FTA effects against a background of what otherwise did occur in the international economy and in domestic policy development.