

Conclusions

Are the impacts developed in this study large enough? The Business Council on National Issues has recently declared that "most economists who have studied the subject believe that freer bilateral trade would raise per capita GNP in Canada by 3-7 percents".^{3/} Our results are below the range of such estimates (2.5 per cent and an employment increase in 2005 of 150,000), assuming enhanced bilateral trade occurs, that there are productivity gains of the kind we have assumed, that governments choose to compensate themselves for loss of customs duties, and that current United States trade practices are continued. If, however, this is compared to a world in which there is increased "protectionism" in the United States, and it is assumed that the Government of Canada chooses not to compensate itself for customs losses, our results suggest that real GNP in 2005 would be increased about 3.5 per cent and employment would be increased by 250,000.

In our framework, it is possible to conceive of even larger impacts. Freer trade will increase United States economic activity slightly, although we have assumed in this study that does not occur. Access to a larger market may enable the Bank of Canada to target on a "real" interest rate that would be even lower than otherwise would be the case, reducing the appreciation of the Canadian dollar. The ability of Canadian entrepreneurs to alter production methods and penetrate world markets (or beat importers in the Canadian market) may be more robust than we have concluded. And it is certainly possible that Canadian policy makers will be unable to move the economy to potential by the mid-1990s, in which event the real impacts would be larger than we have estimated. On the other hand, there could be a much weaker investment response, especially if monetary authorities fail to react positively, expansion of industries in the United States rather than in Canada, and substitution of new non-tariff barriers for the old ones. Given these considerations, we think it possible that gains in real GNP could be one-half per cent lower than those we have estimated and as as much as 1.5 per cent higher.

But would this be truly significant? We think such differences are interesting but not critical to the debate as the central feature of these results does not lie in the percentage impact. What is important is the character of the results. There is "dislocation", but virtually all income, spending, and producing sectors, in all of the provinces, gain from the policy. It is difficult to conceive of any other policy setting which could provide such gains to everyone without encumbering future generations with a large debt load.

^{3/} BCNI, "Canadian Trade, Competitiveness and Sovereignty: The Prospect of New Trade Agreements With The United States", (Ottawa, August 8, 1985).