

Assessing the FTA: An Executive Overview

The Canada-United States Free Trade Agreement is approaching its first anniversary. Supporters, critics, journalists, and others will be reporting their assessments of the first year of the Agreement, using impressions, anecdotes, and pointing at data which may or may not be relevant.

Monitoring the FTA on an ongoing basis, with continuity and sufficient resources, is more likely to yield the information required to answer the question, "Is it working?"

1 WHY MONITOR?

The FTA was a major initiative of the federal government; there is a responsibility to measure its effects. Analysis prior to the Agreement suggested that certain effects would occur. Did they occur? Are there other, unanticipated events that can be linked to the Agreement? Do these require policy responses?

The tools of analysis used to study the Agreement before the fact, can benefit from the ex-post monitoring, either to corroborate the expected effects, or to suggest the need for improvement in the analytical techniques.

2 GENERAL DIFFICULTIES OF EX-POST POLICY ANALYSIS

When a new policy is enacted, the public generally assumes that it is immediately effective. But there can be lags before those affected take advantage of a new opportunity or begin to change their behavior; for example, smaller firms may wait for advice from their accountants or trade associations. The focus of an organization may initially result in no reaction; only at some indeterminate time in the future may it be appropriate to take advantage of the new program or environment.

A policy change may not be effective in full at any one point in time. If phased in, the initial effects may be small, but with a tendency for the effects to be cumulative over time. Structural economic policies (e.g., de-regulation, tax reform, UI reform) have this characteristic, since they may have provisions for the phasing in of new measures or the phasing out of old measures.

Even if the policy effect happened at a specific point in time, and was immediately effective, some time might lapse before the statistical system measures the economic activity occurring. Data lags are short for certain surveys (e.g., Labour Force Survey), but it may be a year or more before data from corporate and personal tax returns becomes available for statistical purposes. For example, it will be 1991 before information on 1989 becomes available for processing. In the case of the Census of