Table 4

Long-Run Economic Impacts of the Free Trade Agreement: Department of Finance Estimates

	Percentage change
Real income[1]	2.5
Scale-related cost reduction[2]	2.1
Sectoral changes in real output[1]	
Primary	2.1
Manufacturing	10.6
Service	0.9
Total[3]	3.5

(1) Estimates are sensitive to the assumed response of exports and imports to changes in relative prices and the price response of import-competing manufacturing firms to the reduction of domestic trade barriers. These issues are discussed in Annex 2.

(2) Percentage reduction in total production costs due to the exploitation of economies of scale in the manufacturing sector.

(3) Real output changes are reported on a gross domestic product (GDP) basis whereas real income changes are measured on a gross national product (GNP) basis. GDP measures production within Canadian borders while GNP is a measure of income earned by Canadians, regardless of where they live.

free trade, however, are already reflected in the current performance of the Canadian economy. The Harris-Cox study was prepared in 1984 and is based on outdated estimates of tariff rates, economies of scale and non-tariff barriers to trade.

The long-run employment gains from the Agreement will depend largely on the extent to which the labour force expands through increased participation rates responding to higher real wages and better quality jobs, and the extent to which current structural rigidities in labour markets are reduced as a result of improved markets and fewer distortions in a free trade environment. Economic analysis suggests these effects can be substantial, but precise long-run estimates are difficult to quantify. Department of Finance estimates of the employment impacts of the Agreement over the government's medium-term fiscal planning horizon (to 1993) are provided in Chapter V.