

3 CATEGORIES OF INDUCED EFFECTS

Seen in broad terms, the FTA's economic impacts can be characterized as impacts on the trade flows of Canada and the United States, and as a consequence of this and other elements of the Agreement, a policy instrument designed to promote industrial restructuring. From a Canadian perspective, the hope is that this will provide net benefits in the form of increased real incomes of Canadians through more efficient use of labour and capital resources, and reduced costs of operations and domestic prices.

At the same time, it can be expected to cause more "churning" in labour markets and in the birth and death of enterprises. In the long term, it could well increase Canadian ownership of capital (both in Canada, the U.S. and elsewhere), which would be reflected in a positive effect on the current account balance, and, if the economy is made more "efficient", some modest upward pressure on the exchange rate and possibly some reduction in the spread between Canadian and American interest rates.

These macroeconomic effects can be expected to be reflected in a variety of ways. In the following sections, we document how these effects are expected to show up in key indicators of economic performance, where the FTA net effect is a combination of both direct impacts and those that are induced by the interactions in the economy's expenditure, income and production sectors.

Both the expectations and our sensitivity to the indicators that require monitoring reflect a series of interviews we have conducted with government and private organizations. These have necessarily been limited by the resources and time available to complete this project, but were undertaken with a view that analytical groups, and organizations that focus on production or factor markets of special significance should be consulted. These are documented in Appendix A.

Following our review of expectations and interview results, each section provides an outline of recommendations for measurement, and discussion of data opportunities and limitations, and analytical approaches. Both descriptive analysis and causal approaches are recommended. A variety of research techniques, including surveys, econometric models, statistical analysis and case studies are recommended.