3.3 Impacts Of Tariffs

The tabulation on the following pages provides a summary of these effects. Reductions in tariffs account for about one-fourth of the combined positive impact on real Gross National Product and about one-half of the reduction in inflation in the first ten years. They also dominate the near-term gains in improved real exports, as relative price and income elasticities of individual trade sectors, and reduced Canadian price inflation combine to increase real exports by a little more than imports.

The initial, comparatively small impact on imports also reflects compositional effects within final demand. Reductions in nominal interest rates following from our assumption that real interest rates will be maintained at base case levels have a negative effect on personal incomes since the personal sector is a major recipient of interest income. This combined, with initial negligible effects on employment, has a negative effect on real disposable personal incomes. Accordingly, consumption demand is initially reduced, which in turn, dampens the positive effect on imports. Over the longer term, employment impacts are positive and personal sector incomes are increased to generate a generalized positive impact on all components of final demand.

Industry output impacts parallel those of general demand at the aggregate level. It is notable, however, that our results suggest a negative impact on non-durables manufacturing, reflecting especially strong negative effects on the textiles and clothing sectors. These effects are reflected in employment, which in aggregate is increased