

are, in fact, nonexistent. Both the second and third parts of the discussion refer to political and legal actions taken by the U.S. government. The distinction between the two parts lies in what is being reacted to. In the second part, reactions are to Canadian policies that are correctly believed to affect our trade flows — although disagreement may occur over whether or not they confer "unfair" advantage. In the third part, reactions are to Canadian policies that are incorrectly believed to affect our trade flows.

Economic Forces

The first set of pressures to harmonize policies operates through the mobility of goods and services and of factors of production — both capital and labor.

The Mobility of Goods and Services

Left unhindered, internationally tradable goods will move between countries so as to equalize their prices net of tariffs and transport costs. This mobility exerts a powerful harmonization pressure on policies that work through the prices of goods. Any government or private-sector policy designed to raise prices of tradable commodities solely by restricting their supply in a small country is doomed to failure by the international mobility of such commodities. For example, an agricultural marketing board that engages in supply management by restricting domestic production of a particular commodity would be unable to raise the domestic price of that commodity above the world price unless the marketing board also has the power to restrict imports.

The imposition of tariffs makes it possible for policies to force price differentials to the maximum the tariffs allow. Quotas are more