

Some such developments could conceivably occur after an FTA is formed, and it is clearly better to have the exchange rate play its natural equilibrating role rather than pegging it, thereby compounding the problem of the capital-exporting country. Thus, some general statement about the exchange rate being left free to be determined by market forces would be useful in an FTA agreement. Any attempt to peg the Canadian-U.S. exchange rate while the currencies of other industrial countries float should be resisted.

Social Policy

For Canadians, one of the most worrying issues -- because it is so difficult to come to grips with -- is the possibility that an FTA would create harmonization pressures on such broad-based social policies as unemployment insurance and hospital and medical care. Some Canadians have expressed fears that the United States might argue during the FTA negotiations that some Canadian social policies have the incidental effect of distorting trade. For example, Canadian unemployment insurance could be thought of as a generally available subsidy. Special features of Canada's unemployment insurance system, such as additional benefits in regions of high unemployment or programs for particular industries, are more likely to be regarded as subsidies. Competing U.S. industries, which do not have these subsidies, might argue that they have a legitimate complaint. Indeed, this is currently being argued with respect to East Coast Canadian fisheries. Thus, pressures on some Canadian social policies already exist through normal U.S. countervail procedures. It is hard to see why these would increase after the implementation of an FTA, but they may well come up during the negotiations.

Canada's best negotiating position on these issues would seem to be to argue four interrelated points: