

## The Status Quo

By the status quo, we mean a continuation of existing policies in both countries, not a continuation of the existing state of the economy. The outcome of the status quo is called the "base case" -- the benchmark against which to assess the changes in pressures caused by moving to an FTA. An understanding of the base case is critical to judging the significance of what would happen during and after negotiation of an FTA, and it is particularly important if pressures already in existence are not to be confused -- as they so often have been in the debate on free trade with the United States -- with those that may be created by an FTA.

To develop this understanding, the discussion of the status quo can be divided into three parts. The first is an analysis of reactions in Canadian economic behavior to policy differences between the two countries. These reactions manifest themselves in undesirable changes in flows of goods, services, capital, and labor. Since they are part of the workings of the two economies in the status quo, we call these reactions the working of "economic forces" that may push the small country to harmonize its policies with those of the larger one.

The second part focuses on U.S. laws, policies, and regulations consciously designed to pressure that country's trading partners to change their laws, policies, and regulations so as to reduce any "unfair" advantage they are perceived to confer on exports to the United States. We call these "political and legal forces".

The third part of the analysis deals with "imagined forces": motivations for political and legal arrangements to induce policy harmonization that are reactions to imagined advantages and disadvantages that