

The experience of the EFTA bears out Johnson's contention. In the words of Victoria Curzon:

The whole point of a free trade area is that it requires an absolute minimum of policy coordination and little freedom of movement of factors of production. This is what made it possible for such different nations as Portugal, Sweden and Switzerland...to join together in EFTA.<sup>8</sup>

So the presumption of any free trade area is that policy coordination will not be required, except in those cases where special circumstances create coordinating pressures. Of course, there may well be more special cases in a Canadian-American FTA than in other existing FTAs.

The second reason follows from the fact that much perceived harmonization pressure is based on a neglect of the role of the exchange rate as an overall adjustment mechanism. The worry is often expressed, for example, that pressures will arise for harmonization of such overall forces as labor compensation policy from a general inability of Canadian exports to compete across the board. Such a situation, in the unlikely event of its occurring, would cause the exchange rate to change until trade once again flowed in a balanced manner between the two countries. (This is in conformity with the basic economic law that trade depends on comparative rather than absolute advantage.) This theme of imagined pressures as a result of a failure to appreciate the mechanism that equilibrates trade flows was first raised earlier in this paper and is taken up several times below.

#### Assessment of the FTA

Notwithstanding the important differences between a customs union or common market and an FTA, the terms of an FTA would almost certainly imply some constraints on discretionary Canadian policy. To the extent that Canada