

strategy is knowledge of how the negotiations are likely to affect existing pressures to harmonize. Will the negotiations increase certain pressures, leave them unchanged, or reduce them?

The General Presumption that Harmonization Pressures will be Unchanged

There are two reasons for holding -- where special considerations do not apply -- the presumption that a Canadian-American FTA would leave harmonization pressures unchanged. The first reason follows from the fact that Canada and the United States would form what would be called a "free trade area" under Article XXIV of the GATT. Unlike the closer associations of a customs union or a common market, an FTA is designed specifically to reap the advantages of free trade without requiring the partners to harmonize their other, noncommercial policies or any policies directed toward third countries. Furthermore, an FTA does not normally involve the negotiation commitments on internal tax subsidy policies or fiscal transfers among members of that are frequently a feature of common markets. Nor would an FTA involve the exchange rate pegging and the coordination of monetary policy that are essential features of a currency union.

Harry Johnson, during his lifetime the most famous Canadian economist, put it this way:

it is important...to distinguish between the philosophy of free trade and the philosophy of a common market. The latter...generally places an emphasis on uniformity of competitive conditions that is not logically necessary for the attainment of most of the benefits of free trade. In so doing, it suggests needs for harmonization of policy and the surrender of national sovereignty in policy-making that are not at all inherent in the more limited objective of a free trade area.<sup>7</sup>