another country because of perceived but imaginary channels by which these policies are thought to work to the detriment of the other country.

Most imagined pressures come from what may be called "generally available advantages". It is basic to an understanding of international trade that such advantages do not affect the pattern of trade, which depends on differential advantages — that is, on one industry having a greater advantage than another in the export market.

The reason generally available advantages do not affect the pattern of trade is, of course, to be found in the operation of flexible exchange rates. If a country starts with a zero current account balance and then gains an across-the-board advantage in all products, a surplus will emerge and the external value of its currency will rise until the current account balance is once again restored.[5] At this point, the overall advantage is removed and trade once again follows the pattern of comparative advantage. It does not matter if the initial advantage was created by a slower rate of inflation than in the other country; by a general subsidy to all that country's industries; by a general tax placed on all the other country's industries; by faster productivity increases than in the other country; or by any other generalized cost reduction at home or cost increase abroad.

In summary, because of the workings of flexible exchange rates, anything that raises costs of production by an equal percentage across all of a country's industries does not put it at a long-term disadvantage in foreign trade. By the same token, an across-the-board lowering of its costs does not give a country a long-term advantage. No generally available advantage or disadvantage affects the flow of trade.

It is worth noting, however, that generally available advantages or disadvantages may cause international movements of factors of production. Say, for example, that Canadian efficiency fell by 10 percent across the