COMMITTEE I—ECONOMIC AND TRADE QUESTIONS

Agenda

I. The international economic climate

1. The economic outlook in the United States and Canada including budgetary deficits, inflation rates, unemployment levels, the investment climate, trade balances and the value of the U.S. dollar.

2. Multilateral trade developments:
   (a) trends toward protectionism;
   (b) competition in export credits.

3. Prospects for a new GATT round of negotiations to liberalize trade in agriculture, resource products, and services, etc.

II. Specific trade irritants

1. Canada's FIRA.
2. U.S. marking regulations for imports of steel pipes and fittings.
3. U.S. investigation of Canadian hog and pork imports.
4. Certain provisions of the U.S. omnibus Trade Act of 1984.
5. Extraterritoriality.
6. Canadian fish product exports.
7. Canadian softwood lumber exports.
8. Tax on tourist literature.
9. Border broadcasting.
10. Canada's subsidized freight rates.
11. Canadian patent law relating to pharmaceuticals.
12. U.S. sugar quota.
13. Trade in beef.

Committee I met in three sessions. The first was devoted to macroeconomic questions relating to the overall performance of the two economies. The second and third sessions focussed on bilateral trade problems, with particular attention devoted to a few issues. Even though bilateral free trade hung over much of the dicussion, Committee I members consciously refrained from considering the question, since it was to be taken up in plenary.

I. The International Economic Climate

State of the U.S. and Canadian Economies

An American spokesman commented that growth in the U.S. economy had declined from 7 per cent to 2.4 per cent, with the result that new job creation was only sufficient to look after new entrants and unemployment remained high. There had actually been a decline in jobs in manufacturing, with the service industry and construction taking up the slack. At the same time, inflation remained relatively low and interest rates were continuing to decline. This sluggish growth performance was being called 'growth recession'.

There were differences of opinion as to what to expect from the U.S. economy in 1986 and 1987, ranging from four per cent to zero growth. Whatever the figure, there was agreement that the prospect was unsatisfactory, although there was no consensus on the appropriate policy response.

Not surprisingly the level of the U.S. dollar was a matter of concern. Noting that at the end of the Second World War the Bretton Woods agreement had produced an overvalued U.S. dollar, a U.S. participant mentioned that this situation had been reversed in the 1970s with the unpegging of the dollar, which allowed it to decline. This in turn had generated a ten fold increase in trade. But now the situation was once again reversed and no one knew what to do. Although the dollar was overvalued, the United States had the world's highest real interest rates and it was the safest and most attractive country to invest in.

There were some differences of opinion among U.S. participants as to whether Americans were continuing to invest abroad. Some claimed that foreign investment had not increased and that the reverse flow of investments in the United States resulted from the decision of Americans to invest at home rather than abroad. Others argued that U.S. industrial investment was migrating abroad, while yet another pointed to increased sourcing abroad by U.S. industry, often in facilities built through joint ventures and not requring large U.S. investments. There was agreement that the U.S. balance-of-payments was heavily negative and that even after taking account of invisible transfers, the deficit on current account amounted to about $120 billion.

Another U.S. participant asserted that the problems of the American economy were greatly aggravated by over expenditure by government. The deficit was in fact larger than was admitted and the last increase of the borrowing ceiling of $225 billion voted in October which was supposed to be sufficient for one year had been used up by the following June. This observation opened up another debate among American participants, with some maintaining that Congress had voted to hold down defence expenditure and to cut the COLA out of social security payments while others insisted this was posturing and that only when Congress finally voted an agreed budget resolution—which had not yet happened—did it mean anything.

A Canadian participant led off with a comment on the state of the Canadian economy, where the recession had bitten more deeply than in the United States. At its lowest point, real business investment had declined by 21 per cent and actual employment had decreased by 5.5 per cent. The federal deficit in Canada was proportionately considerably greater than that of the federal deficit in the United States. The new government had a pro-business stance, had worked out a new oil agreement with the Western provinces and had modified the approach to foreign investment. Nevertheless, hopes for improvement of the economy depended on U.S. action to reduce its domestic deficit. Canada's heavy trade with the United States made it particularly vulnerable to protective