

Where Pressures Should Be Unchanged

There are some exceptions to the general conclusion that added pressures to alter commercial policies are unlikely because an FTA, by definition, allows both countries to pursue their own. Retaining independent commercial policies would require, however, that agreed-upon criteria for rules of origin be negotiated to determine which goods qualify for duty-free trade between the two countries. Both countries also could be expected to pursue their own commercial policy objectives in future multilateral trade negotiations.

Added pressures to harmonize monetary and fiscal policies are unlikely as long as the Canadian-U.S. exchange rate is allowed to adjust in response to market forces. Pressures to harmonize the two countries' tax systems are unlikely to change significantly, although administrative problems with the Canadian manufacturers' sales tax could be compounded by the difficulty of establishing appropriate border tax adjustments.

Containing some possible harmonization pressures depends on reaching agreement on the view accepted by economists that, despite perceptions to the contrary, broadly based policies that confer "advantages" or "disadvantages" across the whole economy do not affect trade flows significantly. Thus, for example, the negotiation of an FTA should not affect Canada's decision about the imposition of a value-added tax. Similarly, broad-based social policies such as medical insurance, health and education expenditures, or income security policies could be unaffected because they do not affect trade patterns either. Canada should reject as nonnegotiable any suggestion that it alter its social services and income redistribution programs to correspond more closely to those of the United States. The view that such programs