

exports. The United States might maintain -- as it has with the VAT in the EC -- that this procedure gives an unfair subsidy to Canadian exports. It might then press at the bargaining table for Canada to harmonize tax policies by dropping the VAT. This would be an irrational pressure because it follows from an incorrect evaluation of the economic forces at work.

The fourth source of negotiating pressures is a set of political and legal pressures that, for want of a better name, we call "philosophical". For example, the United States might decide that it just does not like the tenor of Canada's unemployment insurance system or Canada's health-financing system. It might feel Canada's regulatory policies are not sufficiently market oriented, and so on. In such cases, it could put pressure on Canada to abandon these systems just because it did not like them. Once again, there is no reason for Canada to accede to these pressures.

#### Policy Areas with Marginal Increases in Economic Pressures

Concerns are frequently expressed about various kinds of potential, post-agreement, economic pressures that will act to promote the harmonization of taxation and social security charges. Earlier in this paper, we mentioned that broad-based differences in the two countries' tax systems, overall level of wage compensation, or social security charges will not set up post-agreement economic pressures. Nonetheless, problems could arise from anomalies within the tax structures of either country or from differences in the pattern of wage rates in the two countries that are predicated on trade barriers.