mercial strength of Europe and Japan was generally admitted. However, the sudden shock of the combined measures, and particularly the import surcharge, was quite unexpected.

**Nixon program**

The various features of Mr. Nixon's new economic policy covered a broad spectrum. On the domestic side, they included wage-price controls (preceded by a 90-day wage-and-price freeze), repeal of the excise tax on automobiles, earlier-than-expected increases in personal income tax exemptions, reduction of government expenditures, postponement of certain welfare measures and a job-development investment credit plan. Measures having a more direct international impact were the suspension of dollar convertibility, a 10 percent import surcharge, the "Buy America" provisions of the above-mentioned tax credit, the DISC program for tax deferrals on export earnings and a 10 percent reduction in foreign aid. As a whole, the measures were designed to curb inflation and stimulate U.S. employment and exports.

World reaction was immediate and, outside the United States, strongly critical. Widespread concern was expressed regarding the serious danger of ill-conceived retaliatory measures which would escalate to involve several countries, the development of virtually self-contained trade blocs and permanent damage to the process of trade liberalization.

*In many ways Canada was most vulnerable*

Long-run implications aside, the short-term effects of the measures clearly helped the U.S. economy and hurt those of other countries. Canada, one of the first countries to react, was in many ways the most vulnerable. It is by far the largest trading partner of the United States.

Approximately 70 per cent of Canadian exports go to the United States, and of these the surcharge potentially affected a quarter of the total, or about \$2.5 billion. This, in turn, represents 3.2 per cent of Canada's GNP, considerably more than in the case of any other industrialized country. The "Buy America" feature of the tax credit plan affected about a billion dollars worth of Canadian exports, nearly a third of which was also subject to the import surcharge. Fortunately these two measures were removed at the time of the international monetary settlement.

The DISC plan, which has, however, been enacted, is specially harmful for Canada. In addition to subsidizing U.S. products competing against Canadian products, it in effect encourages firms to cut down on investment in Canada and, indeed, to transfer export-oriented operations across the border. Moreover, it chiefly affects the labour-intensive manufacturing sector of Canada's economy.

Canada responded to the August measures on three separate fronts. First, at home, the Canadian Government introduced an Employment Support Program by which a fund of \$80 million was made available for grants to firms which would otherwise have to cut back manpower due to the surcharge. To supplement this, the General Adjustment Assistance Program (GAAP) was amended to provide loan insurance and direct loans to affected companies.

Second, bilaterally, Canada took two lines of attack. The extremely serious implications for Canada of the U.S. measures were energetically explained to American officials, legislators and the U.S. public at large. To the extent that the American Administration, Congress and the press now clearly demonstrate a much greater knowledge of the Canadian situation than formerly, these efforts were not in vain. At the same time, Canada stepped up the tempo of discussions on trade matters. While bilateral discussions on a host of items have been taking place for many years, the U.S. measures brought into sharp focus the importance of certain trade issues.

On November 4, senior officials and ministers began a series of closed-door meetings with their U.S. counterparts on these issues. Each side has its complaints. These include such items as the Automotive Products Agreement, U.S. restrictions on uranium, Canadian tourist allowances, defence production sharing and trade in aircraft and agricultural machinery. At the time of writing, December 20, no conclusive agreements had been reached and trade talks were continuing, the monetary settlement notwithstanding.

The third area of action on the U.S. measures has been with multilateral bodies. Several major international organizations gave urgent attention to the crisis. One of the first to react was the GATT. The GATT Council, meeting on August 24 and 25, appointed a Working Party to examine the implications of the import surcharge on international trade. The Working Party, of which Canada was a member, concluded that the United States was not justified in applying the surcharge or other trade restrictive measures to remedy its balance-of-payments problem.

The six countries of the European Economic Community decided to maintain a united position in dealing with the