

Subsidies, Regional Development, and the Canada-U.S. Free Trade Agreement

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Economists discussing the impact of the Canada-U.S. Free Trade Agreement (FTA) on regional development tend to assume that the agreement will bring free trade. They then try to determine the effects of the FTA on various regions in terms of comparative advantage, elasticities of supply and demand, and the like. In truth, however, the FTA may well result in more restrictions on trade than ever and seriously hamper Canada's efforts to develop regions with relatively low incomes or relatively high unemployment or regions with unexploited potential. Even before the agreement was signed, there was ample evidence of American eagerness to impose countervailing duties on those Canadian exports originating in regions where governmental assistance to new or expanding enterprises was available through regional development programmes. The FTA has made Americans more conscious than ever of Canadian subsidies for regional development, and the subsidies have been cited as justification for countervail in virtually every recent case brought before the U.S. International Trade Administration (ITA) or the U.S. International Trade Commission (ITC). The U.S. Congress is under pressure from various lobbying groups, and the administration is being pushed by Congress to "do something" about Canadian subsidies.

Rugman and Anderson (1987: 152) have described the situation:

An increasing number of Canadian exports have been subjected to review under U.S. trade law in the last six years. In particular, the anti-dumping and countervail sections of the 1930 Tariff Act, as revised by the Trade Agreements Act of 1979, have been used extensively. Under these sections, individual American producers are entitled to file petitions with quasi-judicial U.S. agencies, requesting them to investigate charges of "unfair" trade practices against foreign exporter(s). If it is determined

that the subsidized or dumped imports are causing “material” injury to the U.S. plaintiff(s), various restrictions and imported duties can be placed upon the importing country’s/countries’ good(s). . . . Political pressure has continued to grow . . . to protect declining American industries, leading to a dangerous over-simplification of trade law procedures and their administration. Administration is no longer based on economic analysis and efficiency considerations, but rather bends to political and other non-economic factors. Flimsy evidence based on inconclusive data generated mainly by questionnaires is the basis for rulings of injury—which frequently do not relate to the subsidies allegedly being received by the foreigners.

This procedure, they claim, is contrary to the General Agreement on Tariffs and Trade (GATT) Codes on Subsidies and Countervailing Duties and on Anti-dumping Duties to which the United States is a signatory. “The result of the United States moving away from internationally prescribed rules and adopting its own form of administered protection is that industries in Canada and other countries face harassment and uncertainty in exporting to the United States” (153). Under Section 201 of the trade agreement act, Americans can obtain relief from foreign competition even if there is no evidence of “unfairness” but only evidence of “serious injury” or the threat of it.

The U.S. economy is, of course, riddled with subsidies, especially at the state and local levels, and often they are much more generous to individual enterprises than anything existing in Canada. But the U.S. government has consistently maintained the view that there are no subsidies in the United States, or, if there are, they do not take a form that distorts trade. Throughout much of the negotiation process on the FTA, the United States was reluctant even to discuss American subsidies. Its negotiators took the view—with which Canada agreed—that agricultural subsidies were a special case that could not be resolved bilaterally; it needed to be handled multilaterally. The American negotiators did not want to discuss non-agricultural subsidies. Indeed, ample American legislation had been passed to deal with Canadian subsidies, but the negotiators preferred that the question of American subsidies not be raised. It was not until the fall of 1986 that the Americans finally agreed to the establishment of a “working group on subsidies and related matters”, but the American team within that group appeared determined to see Canadian regional development programmes scrapped and to oppose any Canadian effort to take analogous action against American enterprises. Throughout the free trade negotiations and since then, the United States has displayed no willingness to budge from its hard-line position: subsidies to enterprises that are limited to a specific region—even a region as big as Atlantic Canada, the West, or Quebec—are just cause for countervail.

Since the prospect of access to the American market is a major factor in both the FTA and assistance to Canadian enterprises within the regional development programmes, the American steadfastness on subsidies and countervail puts the Canadian government, Canadian enterprises, and the Canadian people in a very awkward position. Retaliation is not something to be embarked upon lightly. If Canada retaliates by using its existing legislation, which is similar to that of the United States and is administered in a similar manner, to ferret out subsidies and impose countervailing duties on a case-by-case basis, the so-called Free Trade Agreement could lead to a serious deterioration of Canada-U.S. relations and to trade practices more restrictive than those in force before the FTA. The alternative would be an international agreement, perhaps at the level of GATT but incorporated into the FTA as well, specifying that genuine regional development programmes should be exempt from countervailing duties to offset subsidies. Such an agreement would require a clear and sensible definition of “genuine” regional development policy, as well as clear distinctions between those subsidies that are just cause for imposition of countervail and those that are not. Such a definition and such distinctions call for a re-examination of the whole concept and theory of subsidization.

Space limitations preclude any lengthy discussion here of the vexing question of whether government assistance to private enterprise in backward regions, as distinct from encouragement of migration to more dynamic regions, inevitably results in misallocation of resources in Canada. I have dealt with this question elsewhere (Higgins 1988; also see Courchene and Melvin 1988 and Vanderkamp 1988), so I only add here that in a national economy in which high levels of unemployment prevail in all regions, a movement from a backward or stagnant region to a prosperous or dynamic one does not necessarily mean either a move from unemployment to employment or a move from a low-productivity job to a high-productivity job. Moreover, the social costs of such a move—in the form of abandoned infrastructure, abandoned friends and family, and distorted age and educational structures (the young and more highly trained are most likely to move)—can be very high. In my view, subsidies that are designed to lure capital and jobs to a particular region from elsewhere, with no consideration of the long-run comparative advantage, result in many cases in misallocation of resources. The newer Canadian regional development programmes—Atlantic Canada Opportunities Agency (ACOA), Western Diversification Agency (WDA), Enterprise Cape Breton (ECB), and Enterprise Cape Breton Cooperation (ECBC)—are moving away, however, from this sort of subsidization in favour of encouraging the start-up or expansion of enterprises with good

prospects for becoming efficient and competitive within a relatively short period.

Both sides must understand that the very purpose of a free trade agreement is to make enterprises more efficient and more competitive. In the neoclassical literature, this process is described as “adjustment” and presented as something that is instantaneous, costless, and painless. It is not. Yet, unless free trade drives “inefficient” enterprises out of business (or forces and enables them to become efficient), it is useless. If existing enterprises that seem likely to fail because of cheaper imports from the other country run screaming to some government agency to obtain countervailing duties that will keep the competing product out of the country, trade will become progressively less free, and a great deal of bitterness will be engendered in the process. The whole business is an enormous challenge to Canada’s skills in economic analysis, legal debate, and diplomacy—indeed, more so in Canada than in the United States since Canada, with its much smaller domestic market, is so obviously the weaker partner in the agreement.

Concept of Subsidization

Two grounds exist for regarding subsidies as justification for countervailing duties. The first is founded on the neoclassical theory of international trade, which states in effect that free trade among countries with free domestic markets results in a world-wide optimal allocation of resources from which all trading partners gain. Within this framework of analysis, subsidies are seen as distortions of the operation of a free market, one consequence of which is the misallocation of resources. Subsidies constitute a departure from the principle of strict adherence to comparative advantage for the determination of patterns of international (and interregional) trade. The second ground for the use of countervailing duties is more nebulous, relating to the concept of “unfair competition”.

There is a great deal wrong (as well as right) with the neoclassical theory. But a wholesale attack on neoclassical theory in general would probably be an unsound strategy in the context of a debate about regional development and countervailing duties. Nonetheless, it is surely legitimate to point to specific instances in which the “distortion” argument does not apply to measures undertaken to promote regional development.

First, a duly elected government in any democratic sovereign nation has the right to determine its own incomes policy and to redistribute income from one group of citizens to another as it—and its

electorate—sees fit. Such deliberate transfers cannot be regarded as subsidies resulting in distortion that injures people in other countries.

Second, in some situations subsidies can improve the functioning of the market. Where monopoly exists, a subsidy per unit of output just equal to the price minus the marginal cost at the level of output that would prevail under pure competition will induce profit-maximizing entrepreneurs to move to that level of output. Then, the subsidy and any supernormal profits can be recaptured by a lump sum tax (Higgins 1960). Suppose, for example, that some industry in Atlantic Canada is at a competitive disadvantage because the American supplier of its raw materials, equipment, or technology exercises a good deal of monopoly power. A subsidy is then called for to improve the market and move the equilibrium and the resource allocation closer to the ideal of pure competition. The same would be true if the prices of imported American inputs were unduly high because of American sales taxes or because of American tariffs on imports that go into the materials and equipment exported to Canada. Costs for Canadian enterprises may be too high because of Canadian sales taxes, and the Canadian government, as a matter of federal policy, may want to give relief from these taxes to selected firms by offering them grants or concessional loans. These cannot be regarded as subsidies introducing distortions; the total amount of distortion is reduced by the relief offered to selected enterprises. Consider as well the “infant industry” argument, which applies just as much to regional development as to national development. If an enterprise faces both increasing costs and bottlenecks in the form of inadequate access to capital, managerial skills, and information and technology, neoclassical theory demands that the government intervene to break these bottlenecks so that the enterprise can expand, lower its costs, and compete effectively in world markets, thus improving resource allocation not only in Canada but also in the world economy as a whole.

One of the major considerations in the subsidy debate is the question of transport costs, long a source of contention in Canada, particularly Atlantic Canada. It has often been argued that federal transport policy has disadvantaged the Atlantic provinces, and the argument may well be right. Under some circumstances, it may make good sense to retain the general federal transport policy—with other objectives in mind—and to offset the harmful effects of this policy on enterprises in the Atlantic provinces in other ways, such as by providing capital at relatively low interest rates and sharing the risk of investment in new ventures. In such cases no net subsidy is involved; the capital assistance is necessary to prevent the distortion of resource allocation. Similar questions arise regarding telecommunications and, more generally, access to information and new technology.

These very complex issues must be studied within the framework of conditions in the economies of all trading partners. The fundamental question is: Will the Canadian enterprise, *once it is mature*, be able to compete in free world markets where there is no restrictive intervention or “unfair” assistance from any government? The concept of “unfairness” is necessarily a bit fuzzy, but in the end it boils down to considerations similar to those involved in the application of neoclassical theory. If the U.S. government, for instance, argues that any subsidy to Canadian enterprise constitutes “unfair” competition, it is in essence saying that pure competition prevails in the United States—that is, that costs and prices are “right” throughout the American economy and that those devices in other countries that make it possible to sell at lower prices without lowering production costs are “unfair”. In theory, it would be possible to argue that if competition is imperfect in both countries but the degree of monopoly power is the same in both, then any subsidy granted by either is “unfair”. But the empirical measurement of the degree of “monopoly power”—price minus marginal cost over price—is a horrendously difficult task. By the same token, any subsidy in one country that just offsets market imperfections in the other is not “unfair”. If the prices of materials, equipment, and technology imported from the United States are too high because American trade unions are too strong and wages are unreasonably high (that is, do not accurately reflect differences in productivity) while the monetary authorities allow enough monetary expansion to keep profits from being squeezed to the danger point—which, in many respects, is what happens—Canada is justified in subsidizing its own industries to prevent the distortions in the U.S. economy from spreading to Canada.

Undervalued or overvalued exchange rates in one of two trading partners may provide justification for subsidies in one or the other of them. Moreover, since it is relatively easy for Canadians to emigrate to the United States, wages in Canada are to some degree influenced by the wage structure in the United States. Thus, some wages in Canada may be too high because the American wage structure is distorted by trade union action. Wage subsidies may then be called for in Canada. To decide whether or not a subsidy granted to one industry in one country is “fair”, one must look not only at that industry in both countries, but also at the whole structure of costs and prices in both countries.

When Is a Subsidy Not a Subsidy?

Not every payment—whether made by private individuals, organizations, or governments—is a subsidy. This concept, as applied in trade

negotiations, means some competitors are able to market their product more cheaply than others—not because they are more efficient than others but because in some “unfair” fashion they are able to obtain inputs at less cost than those inputs are worth in terms of contribution to output. To have any logical foundation within the framework of free trade negotiations, however, the concept also must imply that the “subsidy” leads to an international allocation of resources and a distribution of markets that does not conform to true comparative advantage—that is, it constitutes a misallocation of resources.

“True” comparative advantage means that a competitor is able to produce at lower costs and sell at lower prices when “the rule” (prices equal marginal costs) prevails throughout the entire economic system of every trading partner. Of course, nothing like that prevails in the existing world economy or in any national or regional economy within it. We live in a world of monopolies. Measuring the degree of monopoly in different regional or national economies, or even for enterprises within a single regional economy, is virtually impossible. But if the purposes of free trade are to be attained, good policy would require a system of taxes and subsidies to offset precisely the degree of monopoly exercised by every enterprise in the trading system.

Suppose, for example, that the Esperanza Company buys equipment from a monopoly in the United States, making its costs higher than they would be under a system of universal pure competition. “Efficiency” then requires that the company be compensated for the excess cost of the equipment so that it can expand output and sales to the level that would prevail under pure competition. The payment would not constitute a subsidy as defined above.

Obviously such a compensatory system would be virtually impossible to administer and would lead to endless tirades and squabbles. The system that will be used will, in practice, probably completely ignore questions of relative degrees of monopoly power and make no attempt to pin down just who is exploiting whom. Instead, the system is likely to raise only one relatively simple question: Is any competitor being “subsidized”, in the sense that it has access to inputs whose net costs are below market price? It is also likely that the concept of “subsidy” will be applied only to those government actions that lower the net costs of some competitors, although logically it should make no difference whether the source of the subsidy is public or private—one is just as “unfair” to rivals as the other. In addition, it is extremely unlikely that “negative subsidies” (taxes) will be taken into account, although, logically, if a positive subsidy warrants a countervailing duty, a negative subsidy warrants a countervailing grant. If Quebec importers are at a disadvantage because of excessively

high taxes or all Canadian producers are made less competitive because of the sales taxes of the federal government, the American government should be required to pay a compensation per unit of output to the Quebec or Canadian producers to offset the higher taxes. Otherwise, the international division of labour will not reflect "true" comparative advantage, and resources will be misallocated.

Even if what constitutes a "subsidy" is limited to government actions that somehow reduce the costs of production of particular producers, tracking down those subsidies and evaluating their impacts entails a veritable hornets' nest of problems.

Unemployment and Unemployment Insurance

In recent years there has been a great deal of literature contending that unemployment in disadvantaged regions is artificially high because of over-generous provisions for unemployment insurance and that the outlays for regional development are unnecessarily high as a result. There have even been suggestions in the United States that Canada's generous health programmes constitute "unfair" subsidization. At some point in the ongoing negotiations on free trade and regional development, such arguments may be made by one or another of Canada's trading partners.

The Canadian government, however, should stand firm on these issues; transfer payments are not subsidies, and any sovereign nation has the right to determine its own incomes policy. Canadians have every right to say that they want their government to enable people who have lost their jobs to live with human decency while looking for another job, and that such people should not be forced to leave their homes, schools, churches, relatives, and friends to search elsewhere for jobs that may not be there anyway. Insistence on human decency and social justice does not constitute justification for the imposition of countervailing duties. Even in terms of maximizing gross national product, without consideration of the impact on particular social groups, migrations from backward to more advanced regions are by no means always efficient.

Concessional Loans

One bone of contention in free trade talks has been the concessional loans (or admixture of grants and loans) that are part of the ACOA programme. In its provisional statement to GATT, the Canadian

government argued that only the difference between the effective rate of interest on such loans and the rate that would be charged by private financial institutions on such loans should be regarded as a subsidy. Or, if it is not possible to estimate what these differences would be, the subsidy would be the rate of interest at which the government can borrow for the intermediate or long term.

The Canadian government gives far too much away with this position. The "free trade and free market" argument holds that interest rates should accurately measure the marginal efficiency of capital, with appropriate discounting for risk (or uncertainty) and illiquidity so that the interest rate accurately measures the social opportunity costs of using capital in the production of a particular good or service. There is no reason to suppose that the interest rates charged by private financial institutions are close to such an interest rate. In the first place, although the banks seem to compete, competition is not perfect. More important, the level of interest rates is essentially determined by the Bank of Canada and certainly influenced by the policy of the Board of Governors of the Federal Reserve System. Generally speaking, the rates reflect what the Bank of Canada and the "fed" think will curtail inflation, as well as the excessive budget deficits in both countries. The rates need have no close relationship to the marginal efficiency of capital, or to Hayek's "natural rate of interest", which generates a rate of capital accumulation consistent with steady growth.

In Canadian economic literature—including the publications of the Economic Council of Canada (ECC)—there has been a good deal of talk recently about "the natural rate of unemployment" consistent with stable prices (or with a constant rate of inflation), and more than a suggestion that the "natural" rate of interest is the one consistent with the natural rate of unemployment. But, as the ECC has shown, this natural rate of unemployment can be very high in the Atlantic provinces, and there is evidence that the natural rate is increasing. There is no justification for associating this natural rate with steady growth or "equilibrium", and, in any case, not all that is natural is desirable. The issues here are very complex, and no simple formula or rule can deal with them adequately.

The rate at which the government can borrow may constitute a closer approximation to an interest rate that is acceptable for measuring the element of subsidy in ACOA loans, but even it may be too high for the reasons stated. Certainly the risk-sharing element of ACOA participation in new enterprises should be regarded as a factor lowering the "appropriate" rate, even in the private sector. The whole business is so complicated that the best position for the government to take is this: concessional loans should be regarded as a

matter of internal policy. Only in this manner can the “free tirade” of the sort outlined above be avoided.

One can imagine all kinds of scenarios, few of them pleasant. For example, Esperanza, a Canadian company, sets up a plant, with ACOA assistance, to make widgets and starts exporting them to the United States. The United States slaps on countervailing duties, but Esperanza accepts a lower profit margin and shares the market with the U.S. producer (which means that the company did not really need a concession in the first place, although it may have needed capital, risk-sharing, and other assistance). The American producer (assuming that the duty just offsets the implicit subsidy) is in exactly the same position as it would have been if there had been no subsidy and no countervail, and so are the Canadian producer and the American consumer. What then has happened? The Canadian taxpayer has financed ACOA (or the Canadian deficit has been increased to finance ACOA), and the U.S. Treasury is collecting duties with which it can reduce the American deficit or cut taxes on the American taxpayer. In short, Canadians are subsidizing the American economy.

In another example, the United States imposes duties high enough to keep Esperanza's widgets out of that country altogether. Since Esperanza was formed and granted ACOA assistance mainly to take advantage of the FTA, it goes bankrupt, cannot repay its ACOA loan, and discharges its labour force. The Canadian taxpayer covers the ACOA loss and the unemployment benefits, receiving less than nothing in return. Since (by assumption) Esperanza might have survived no subsidy and no countervailing duties, or with a subsidy just offset by countervail, it follows that the global allocation of resources *is worse* than before. One can easily imagine such things happening, and one can easily imagine the impact on Canada-U.S. relations if they do. It is far better, therefore, to persuade our trading partner that there is no relevant element of subsidy in our regional development programme (which would have to be shown to be more or less true) and to negotiate in advance exemption of the entire regional development programme. Such a negotiation may be easier through GATT than through the FTA.

Fairness requires that interest rates in any country reflect the supply of and demand for capital in that country, and supply must include the funds that the people are willing to provide through the public fisc for certain specified purposes. If the people deliberately choose to provide capital for certain purposes at interest rates lower than those generally prevailing in the market for other purposes, no real subsidy is involved, only a transfer. Insistence by one trading partner that such purposes are unacceptable is a transgression of sovereignty. Equally unacceptable is the argument that any

disadvantaged country or region that tries to develop is acting “unfairly” and should be penalized by countervailing duties.

As to whether or not the effective interest rates on ACOA loans are so low as to constitute an “unfair” subsidy, the issue cannot be resolved by comparing ACOA rates with U.S. interest rates; rather, the ACOA rates should be compared with those charged by other development banks. As both the Organization for Economic Co-operation and Development (OECD) and the Economic Council of Canada (1988) have pointed out, the world economy is now dominated and threatened by the twin American deficits: budget and international trade. U.S. interest rates are high because no American government has been willing to cut expenditures or raise taxes by enough to bring sharp reductions in budget deficits, and the resulting fear of inflation produces high interest rates. These interest rates cannot be considered “natural” or “normal” or “equilibrium” rates, and there is no reason why the rest of the world should suffer, or why Canada should abandon its regional development efforts in response to unsound American fiscal policy. Fairness does not demand that every country have a combination of monetary and fiscal policy as inimical to the expansion of private enterprise as is the American policy. Nor does fairness mean that other countries must abandon national efforts to promote regional development because the United States has virtually abandoned them—that is, in terms of formal programmes of the federal government. One can still discern at the U.S. federal level a *sub rosa* regional policy through the defence, space, housing, and other programmes. As Niles Hansen (1990) puts it:

If the term *regional policy* is understood to mean a consistent and integrated set of programs designed to influence the distribution of population and economic activity, then the United States has never in fact had such a policy at the national level. However, in a looser sense, federal regional development policies have been present since the early years of the nation. Inspired by such concepts as “manifest destiny”, vast territories were opened during the nineteenth century and developed with major federal subsidies and guidance.

In our increasingly complex and technology-dominated world, only strong partnerships among private enterprise, governments, and the scientific community can guarantee the sort of economic and social progress that current advances in scientific knowledge and their rapid embodiment in increasingly productive technologies have made possible. Moreover, such progress in one region or country need not retard it in another. On the contrary, it can generate a feedback process in which all gain. But if all are to progress together, each country and region must take full advantage of its potential.

The line taken by the Canadian government should be that ACOA and the other regional development agencies are not in the business of subsidizing the output or exports of particular industries, but that they engaged in the development of certain *regions* within Atlantic Canada (or elsewhere), which are either disadvantaged or which have unexploited development potential (natural or human resource frontiers). With regard to private enterprise, ACOA acts essentially like the development banks found elsewhere in the world. It provides technical and capital assistance for starting up new enterprises or expanding existing ones. Its combination of grants and loans amounts to providing concessional loans such as those most development banks provide. Such assistance does not reduce the operating costs of the enterprises involved, and it has only a limited effect on the prices at which the enterprises can sell their products.

Canada must proceed in upcoming trade negotiations from a position of considerably greater strength than the one it now occupies. If Canada is not to emerge from this whole process weaker economically and politically both here and abroad, strong measures must be taken.

Subsidization can damage another country and bring misallocation of world resources in three ways—not one:

1. Subsidies assist exports to another country and thereby damage domestic producers in that country. This form of subsidy is currently controlled by GATT rules and U.S. legislation.

2. Subsidized exports of one country damage exporters of another country by undercutting their prices, as in the case of American wheat exports to Russia and China.

3. Subsidies to domestic enterprises, even if they produce only for the domestic market, damage foreign producers of the same products by destroying their potential for exporting to that market. This case may well be the most important of all, particularly in the United States.

The second and third types of distortion can be just as destructive to free trade and the free market and lead to just as much misallocation of resources as the first, and there is nothing in logical economic analysis that warrants excluding them. I propose, therefore, that they be included as a justification for countervailing duties in the administration of the Canadian legislation. In 1990, Sears Roebuck received from the State of Illinois \$61 million and 786 acres of very desirable land near Chicago. Should Canada therefore impose countervailing duties on all products handled by Sears? Similarly, the Wang Corporation was induced to establish its world headquarters at Lowell, Massachusetts, by a loan of \$5 million at 4 percent and attractive sites for its factory and two office buildings. In this case, Canada might simply impose countervailing duties on Wang products.

The same principle would apply to the several cases of large subsidies from state and municipal governments to American automobile producers. In the case of subsidized American exports, such as wheat, to Third World countries, Canada might simply pick some enterprise—any enterprise—that exports most of its output to Canada and slap a whopping countervailing duty on those products.

But Canada should make *every effort* not to use legislation. Rather, legislation should be a backdrop on the stage of continued efforts to exempt all genuine efforts at regional development in both countries from countervail provisions. Defining “genuine” in this context is, of course, not easy. It is easy enough to detect cases that are not genuine; if subsidies are provided to existing enterprises simply to enable them to lower prices and increase exports, the exports should be subject to countervail. I would contend—although here there may be arguments—that subsidies paid to private enterprise merely to lure them into locating in one place rather than another with no regard for comparative advantage should be subject to countervail. Assistance to those new firms in backward areas that seem likely to stand on their own feet and compete successfully at home and abroad once established should not be subject to countervail. The same principle should apply to assistance for upgrading and improving technology and for employment creation in high unemployment areas (because where unemployment is high, the social opportunity cost is less than the dollar cost to the employer). Incomes policy and social policies such as unemployment insurance and health insurance should be immune. Because disputes may arise in cases where a government wishes to redistribute income in space by distributing economic activity in space, some criterion of future efficiency must be established.

Given the current mood in the United States as well as the American performance at the negotiating table, it seems clear that proceeding along lines of “sweet reason” alone, as suggested above, will not succeed. Progress along these lines will require that considerable Canadian clout—enough to convince Americans to respect our position and to take a long, hard look at their own subsidy programmes—be clearly visible in the background. If that clout can be mustered and made visible, there may be some hope of proceeding toward a genuine Free Trade Agreement without damaging genuine regional development programmes in either country. The alternative that now looms is the mire of an increasingly acrimonious Free Trade Agreement, an agreement that could do serious “material injury” to Canada’s regional development programmes.

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