34th Annual Conference of AAES
University of Queensland
February, 1990

The Political Economy of the Canada-US Free Trade Agreement

by

Fredoun Z. Ahmadi-Esfahani

Department of Agricultural Economics
University of Sydney
NSW 2006

ABSTRACT

The positive theory of protection has focused on the political economy of protection, describing the pattern of protection either as a result of the government's politically motivated concerns over the distribution of income across voters and powerful vested interest groups, or as a means of achieving some exogenously postulated social objectives. Accordingly, a pattern of protection emerges which is at variance with the free trade implications of pure trade theory. In this paper, the Canada-US Free Trade Agreement is used to show that the previous motivations or objectives may just as well give rise to a positive theory of liberalisation that is largely consistent with the pure theory of international trade.

The Political Economy of the Canada-US Free Trade Agreement

When they say country, read aristocracy,
and you will never be far from truth.
John Stuart Mill

The assumption of perfect competition, as incorporated in the dominant theories of international trade, fails to address the issues raised by firms and policymakers. The free trade debate in Canada has provided an excellent opportunity for trade economists to formulate and/or test their alternative hypotheses and for consumers of academic economic research to judge the performance of this research against their actual endeavours.[1]

This paper seeks to suggest a theoretical rationale for the Canada-US Free Trade Agreement (F.T.A.). A political economy framework is utilised to advance the proposition that the various vested interest groups may have been caught in a prisoners' dilemma. It is argued that there is a distinct possibility that each has an incentive to exploit the economic system in its own interest, but more concentrated industries might particularly benefit from a move to a less exploitable, more efficient system that generates a much greater total output to be shared among them all.

The next section reviews the positive approaches to trade theory. Canadian trade policy and the Canada-U.S. Free Trade Agreement are discussed in subsequent sections. A potential positive theory of liberalisation is suggested in the final section prior to the conclusion.

Positive Approaches to Trade Theory

A key conclusion of the pure theory of international trade is that a policy of free trade is optimal for a small country. A central observation of the empirical record,

[1]For a detailed analysis of the debate, see Lipsey (1989) and Ahmadi-Esfahani and Cymbal (1989).

on the contrary, indicates that active protection programs are widely pursued by countries with little or no apparent world market power and that tariffs, quotas and other trade-distorting policies form the heart of such programs.

The nature of the pure theory of international trade is basically normative. It looks at how economic environment should be by making welfare judgments. Generally, this approach assumes that some sort of redistribution occurs, basing its judgments on Pareto efficient criteria. An intriguing question raised by empirical observation is why governments choose to do what they do. This question has given rise to positive approaches to trade theory in order to uncover the actual circumstances that do exist.

In this regard, one line of research has brought into question the empirical relevance of the assumptions underlying the normative case for free trade, including both the small country and the perfect market assumptions as empirically implausible (Markusen 1985, Schmitz and Carter 1987). The focus of this line of research is on the premise that prices do, and ought to, play a fundamental role in the process of allocation, distribution, growth, and development. The need to "get prices right" is now part of the conventional wisdom. This refers to the entire structure of prices for inputs, outputs, and foreign exchange. It implies a greater reliance on decentralised decisions through market mechanism, and therefore the design of policies that place a greater emphasis on the role of the private sector.

As is well known, the conventional treatment of the pricing standard identifies at least three sets of principles that should govern its behavior. One is the principle of nondomination, which requires that the number of buyers and sellers in the market be sufficiently large so as to prevent market dominance by any single group or groups by means of price fixing, setting the terms of its transactions, or the use of collusive devices. A second is the principle of nonseparation, which requires that the market be undifferentiated, thereby preventing the possibility of various forms of market discrimination at both national and international levels, and among different types of producers and consumers. A third requirement is that of open pricing, that production, consumption, and related decisions should be based on a free and open flow of information, as a means of guaranteeing the openness of pricing decisions.

These normative ideals are supposed to hold at all levels, with the implication that the behavior of prices in the domestic economy should be guided by a set of international prices. The latter proposition, or what is termed "the world price standard", is inherent in the "law of one price", the "law of one interest rate", as well as the criteria used for determining various sets of equilibrium, optimum, or shadow prices in production, trade, and exchange.

Consider some of the methodological and related difficulties posed by this approach.[2] A general issue revolves around the use of a set of world prices as benchmarks for determining appropriate domestic pricing policies and liberalisation strategies. As a general proposition, while the world price standard may be useful in determining practical approximations to a set of "efficiency" or "accounting" prices, and can therefore serve as a guide to policy, there are several reasons why it cannot be used indiscriminately.

World prices are supposed to reflect the opportunity cost of traded inputs and outputs. However, most of these prices are not determined in open and free markets in which the principles of nondomination, nonseparation, and open pricing can be presumed to hold. They are more reflective of the oligopolistic control of world markets by dominant industrial countries and/or transnational corporations.

Another problem is the wide fluctuations experienced in the world market prices of commodities that are internationally traded. Such fluctuations are particularly harmful to the agricultural sector. One of the problems for this sector concerns the time lags that occur between changes in world prices and adjustments in domestic production. In many cases, such production reactions tend to accentuate rather than offset fluctuations in supply and prices. Further, the evidence suggests that the accompanying uncertainties tend to produce depressing effects on agricultural investment and production.

Finally, while many policy makers may view prices as unique market clearing instruments, many economic agents see their value as being politically determined, and therefore normative. Most liberalisation programs are based on the assumption that, given an optimal set of prices, most economic agents will behave rationally, thereby assuring the requisite changes in terms of allocative efficiency and growth. However, the ultimate outcome may be heavily influenced by perceptions that are formed about the government in power, such as its arbitrary or capricious behavior and/or its capacity for political maneuver.

---

[2] The empirical evidence, as well, indicates that the law of one price is counterfactual (see, for example, Ardeni 1989).

A second line of research has focused on the political economy of protection, describing the pattern of protection either as a result of the government's politically motivated concerns over the distribution of income across voters and powerful vested interest groups or as a means of achieving some exogenously postulated social objective (Baldwin 1984, Mayer 1984). In the framework of this paradigm, the government, represented by politicians and bureaucrats, supplies protection. On the one hand, politicians do this in part to maximise their chance of re-election. "These chances are influenced not only by the number of people affected by the policy, but also by the degree to which they are affected, the extent to which politicians can accept credit or avoid blame for outcomes, the extent to which issues can be highlighted or submerged, and so on" (Winters 1987, 299). With regard to the agricultural industry, this point has been best made by a senior non-agricultural bureaucrat in Ottawa who once stated that "the power of the agricultural lobby derives from the fact that in any country with cows in it, politicians learn to love milk" (Wilson 1988, 2). Bureaucrats, on the other hand, also seek to supply protection, but "because they do not reap any personal share of the rents that they create by protectionism, their principal objective seems to be to maximise their own power and influence as represented by their budget" (Winters 1987, 297).

This approach to trade theory may explain how seemingly contradictory policies such as the F.T.A. and the current level of agricultural protection in Canada are congruous. This is through the interaction of demand and supply in the political market-place which achieves short-run equilibrium levels of protection but that occurs within a long-run trend reflecting the nation's tendency toward trade liberalisation or protection. Shocks such as fluctuations in coalition formations occasionally disrupt this long-run trend and constraints such as the public deficit or international relations may impede it. For instance, the F.T.A. has largely left untouched most of Canada's agricultural policy tools including supply management, marketing boards, and farm income supports from the final agreement.

Yet an additional line of research within this latter approach to trade theory, and consistent with the former, will be suggested below. To that end, the F.T.A. will be used to show that the previous motivations or objectives may just as well give rise to a positive theory of liberalisation that is largely consistent with the pure theory of international trade.

Canadian Trade Policy

Canadian trade policy has been defined and conducted over the years in the context of a relatively small national economy functioning as part of a wider global system. Like other sovereign states faced with unequal trading partners and confronted with the reality of the link between domestic economic policy, the financial and trade system, and trade performance, Canada has sought consistently over the years to ensure improved and secure access to foreign markets while using tariff and non-tariff measures to protect Canadian sectors subject to particular pressures. In pursuing these objectives, Canada has generally supported the maintenance of international rules and procedures which, among other things, have offered some protection against the introduction of arbitrary unilateral trade measures by larger trading partners that could seriously damage Canadian interests.

Historically speaking, in the immediate post-Confederation period, abrogation of the reciprocity agreement and imposition of high U.S. tariffs on many Canadian exports forced Canada to search for new trade and other economic development policies. Sir John A. Macdonald's National Policy was the framework finally decided upon late in 1878. It provided for tariff-supported industrial development in central Canada and the encouragement of agricultural and resource development throughout the country by a state-supported transportation network, immigration, and cheap land in the West (Easterbrook and Aitken 1958).

While very high tariffs and other protectionist devices remained in place from the time the National Policy was introduced until just before World War II, several policy initiatives to liberalise Canadian trade policy and practices were undertaken during this period. These attempts at liberalisation were generally frustrated and in 1911 led to the defeat of the government when a bilateral free trade arrangement with the United States had been worked out. However, Canada did unilaterally implement preferential tariff rates in favour of the United Kingdom and the rest of the Empire as early as 1902. These imperial preferences gradually evolved into the Commonwealth Preference System as Canadian measures were reciprocated by other countries within the British Empire, including the Great Britain itself, after the Ottawa Economic Conference of 1932. Shortly thereafter, faced with continuing economic deterioration and in response to initiatives of the new Roosevelt Administration, Canada entered into non-discriminatory bilateral trade arrangements with the United States. The Canada-US trade arrangements of 1935 and 1938 halted the escalating protectionism between the two countries and began the process of trade liberalisation that was generalised and accentuated after World War II under what became the GATT system.

During and immediately after the war, Canada participated actively in the discussions of international trade policy that led to the establishment of the multilateral international economic institutions, including the GATT (Stone 1984). At least three factors might be said to have influenced Canadian policy at this time.

(i) The United States wished to bring about the multilateral adoption of the principles of non-discrimination, reciprocity, and liberalisation which were embodied in its Reciprocal Trade Agreement Act of 1934. As the principal partner of the United States in a highly asymmetric relationship, Canada had little choice but to follow the American lead.

(ii) Prevailing economic thinking, based originally on the doctrines of classical economists, Smith and Ricardo, and given more contemporary expressions by Heckscher, Ohlin and Haberler, was that an open trade system with minimum intervention in markets would maximise the benefits of allocative efficiency and increase welfare for all.

(iii) As a smaller economic and political power, Canada felt that a body of accepted international law would constraint the capacity of its larger economic partners to implement unilaterally trade policies and measures that would damage Canada's trade and other economic interests. Indeed, Canada regarded the establishment of the GATT as an effective means of gaining more assured access to the large U.S. market.

Overall, support for the multilateral trade and payments system has remained the fundamental approach to, and cornerstone of, Canadian policy ever since.

Trade liberalisation has also been pursued bilaterally over the years by Canada. Bilateral agreements between Canada and the United States include arrangements regarding agricultural machinery in the 1920's, the Defense Development and Defense/Production Sharing Arrangements in the 1940's, and the 1965 Canada-U.S. Automotive Agreement. Canada has complemented its other trading arrangements with bilateral agreements in these areas to improve its productive efficiency and export capability (Department of External Affairs 1983). In 1983, Canada proposed a further bilateral initiative to liberalise trade which resulted in a comprehensive agreement with the United States aimed at the formation of a comprehensive treaty the main objective of which was to remove gradually almost all tariff and non-tariff barriers between the two countries. Having been debated extensively in a federal election, this agreement was eventually ratified by the Canadian government in January 1989, although as suggested by Watson, "for Canadians free trade with the United States is an issue that likely will not go away forever" (1987, 347).

The Canada-US Free Trade Agreement: A Strategic Canadian Trade Policy

Given the importance of international economic transactions to the Canadian economy, the F.T.A. will significantly influence the economic performance of the country as a whole and of its regions in terms of income growth, investment, employment, productivity, and competitiveness of various economic sectors. The agreement will also affect the structure and operation of many Canadian institutions, including federal, federal-provincial, and public sector-private sector arrangements with respect to trade, as well as quasi-judicial organisations such as the Canadian Import Tribunal. Perhaps less directly, the agreement will affect Canada's political processes, ranging from the degree of national autonomy over economic policy decisions to the quality and form of the relationship between labour, business, and government in trade policy matters. The increasingly important relationship between the transnational corporations and the government at the sectoral level will be particularly affected.

An analysis of the F.T.A. and its impact on the Canadian economy is beyond the scope of this paper but it has been done elsewhere (see, for example, Wonnacott 1987, Smith and Stone 1987, Harris and Cox 1983, Wonnacott and Wonnacott 1967). As noted previously, the primary objective of this paper is to show that the more concentrated Canadian industries may have been caught in a prisoners' dilemma and may have had no better choice than to push for the agreement. Accordingly, a brief overview of the corporate economy will be provided below.

The extent to which huge corporations and immense concentrations of capital dominate the Canadian economy is clearly set forth in Statistics Canada data reported in Table 1 adopted from Kierans (1988a). The table provides a good indicator of the structure of the Canadian economy in 1984.

The 3,316 corporations in the $25 million plus bracket or less than 1 percent of the corporate population dominated the corporate economy. Their assets amounted to 81.1 percent of total assets, their income reached 61 percent of total income and their profit before tax amounted to 68.3 percent. In 1983, the structure was quite similar. Analysing the returns of 397,965 corporations in the non-financial sector in that year, Statistics Canada found that 1,776 corporations with assets of $25 million and over sold $362 billion of goods and services out of the total of $658 billion (Kierans 1988b). Not only did this 0.4 percent of the corporate population controlled 55 percent of total volume but they also earned $22.6 billion profit or 68 percent of total profit of $33 billion in the entire non-financial sector. The economic power of the multinational corporations can also be documented. In 1983, 30 percent of all goods and services produced in the Canadian non-financial corporate sector were produced by foreign enterprises. Furthermore, 736 foreign-controlled firms sold $164 billion of goods and services or 25 percent of the $658 billion output of the non-financial corporate sector of 391,212 firms in 1983. The 736 largest foreign firms earned $12 billion or 38 percent of total corporate profits in 1983, while the 1,040 largest Canadian firms earned $7 billion or 22 percent.

As noted by Young (1985), however, it appears that Canadian economy has become less dominated by foreign interests. Rising domestic ownership in the oil industry has been apparent. There have been other significant buyouts, such as the purchase of International Paper's subsidiary by Canadian Pacific Enterprises, and the Kidd Creek Mines takeover. Young (1985) provides data that indicate that overall foreign control of non-financial firms amounted to 36 percent of total capital in 1970, and 26 percent in 1981. He further suggests that in all major industrial sectors, the proportion of assets controlled abroad has declined since 1970. Young (1985) also suggests that of plant closings in Ontario affecting more than 50 employees in 1984, 40 percent involved US subsidiaries. This movement varied with the size of each firm's exit costs in the form of sunk capital but foreign direct investment turned heavily negative in 1981-82.

A contrasting trend is the multinationalisation of Canadian industry. In 1970, Canadian direct investment in the United States amounted to 15 percent of U.S. investment in Canada, but this proportion doubled by 1979. Since 1975, Canadian direct investment in the United States has increased five-fold (Young 1985). Some Canadian multinationals needed a secure domestic base from which to mount their international operations, but the most competitive favoured a comprehensive trade policy which minimized barriers to the efficient, continental organisation of their operations. Apparently, North America has now become their base.

Another relevant trend is the growing concentration of ownership of Canadian business (see Table 1). Young (1985) suggests that in the view of some, including certain bankers, the Canadian economy is dominated by less than a dozen major conglomerates. Conglomerates may tend towards free trade because the losses from adjustment can be balanced within the same firm against greater gains from the expansion of other subsidiaries. Since adaptation between sectors occurs within firms, there is less pressure for protection arising from isolated companies threatened with terminal losses.

These trends also may have increased business interest in trade liberalization. This together with the fact that U.S. protectionism against surging imports from Canada had excessively grown heightened the traditional approval of big Canadian firms for continentalism.

Since 1982, however, the U.S. recovery has been accommodated by lower taxes, heavy defence spending, and high real interest rates. This has driven up the U.S. dollar and has produced a large trade deficit. As the dollar's strength hindered exports and made imports cheaper, the Canadian dollar held its value well relative to other currencies, but the rising premium on the U.S. dollar dramatically hiked Canada's dependence on U.S. markets. In 1975, the United States took 65.2 percent of Canadian exports; in 1983, 72.9 percent; in 1984, 75.6 percent. These figures must testify to a growing commitment by established shippers and to new entrants too. Sliding Canadian dollar allowed exporters to hurdle U.S. tariffs. Many Canadian companies became effortlessly competitive. Selling into a 25 percent exchange-rate premium was an easy and profitable game, even for inexperienced players.

The flood of imports wounded U.S. producers, however, and their anger hit the political system. The most dynamic sectors aimed to open up foreign markets, especially Japan's. More sought to defend their domestic market by reviving up the engines of protection. As a result, a new compulsion was added in Canada to the classical economic arguments. The potential gains from free trade were still invoked, but more prominent were the potential losses from market closure, which swelled with each new shipment. Canadian exporters wanted secure market because of their increased exposure to U.S. policy. The free trade argument shifted from offensive grounds of efficiency and adaptation to defensive grounds of securing the status quo.

This was reinforced by the prospect that Canadian firms might gain from continental free trade by displacing their European and Pacific-Rim competitors, who would still be subject to U.S. tariff and non-tariff barriers. Once under the American wing, Canadian firms would support protection. At this point, some welfare arguments for freer trade get pretty tarnished. That is, the continental agreement could potentially become the path to greater protection and either inefficiency or higher economic rents for companies insulated from world competition. In sum, North American free trade necessarily means managed trade and what is commonly termed "fair" trade.

A Potential Positive Theory of Liberalisation

The previous discussion would seem to indicate the presence of scale economies and imperfections in the Canadian economy. These conditions may give rise to a policy of export subsidisation (Helpman and Krugman 1986) to shift profits. As noted previously, they can also give rise to a policy of trade liberalisation as an alternative avenue for profit shifting. It would therefore appear that, in a world with scale economies and imperfect markets, Canada might be able to shift profits from foreign firms to domestic firms either by export subsidisation or by trade liberalisation. Thus, the F.T.A. may become a major component of a strategic game for Canada.

In this regard, it is important to not that pressed by cheap imports, and despite high interest rates, US industry is massively restructuring towards the high-tech sectors. It is as yet unclear whether the United States will re-emerge, leaner and meaner, as the world's predominant economic power, or whether its relative position will continue to decline. Whatever the eventual outcome, its industrial base, partly driven by defense expenditures, is shifting towards the new infrastructures of informatics, electronics and specialised services.

In Canada, established US strength could preclude effective competition, so that Canada might become a mere captive market. Conversely, where Canadian firms are most competitive on a North American basis - in steel, mass transit equipment, forest products, and petrochemicals - production is shifting worldwide to newly industrialising countries. The result could be that Canada would specialise in products where the United States is becoming uncompetitive on a word basis. At the core of the analysis is, therefore, the proposition that the concentrated industries may have been caught in a prisoners' dilemma and may benefit from the FTA, given the circumstances outlined earlier. Highlighting this dilemma, Table 2 provides some useful insights.

The most important insight is that, under the conditions listed above, free trade has been chosen jointly by rational players of the game, that is, Canada and the United States. The two countries have preferred this outcome (+ for both) because, at least theoretically, the F.T.A. makes it hard for either to cheat. Had Canada decided to support its exporters by subsidisation, Canadian firms might have been given first-mover advantage over U.S. firms (- for the United States, + for Canada). Exactly the opposite would have occurred if the U.S. government had decided to subsidise its exporters (+ for the United States, - for Canada).

Rational self-interest may also lead both countries to choose export subsidisation. The outcome (- for both) is attained whether strategic motives are aggressive or defensive. However, since both Canada and the United States are currently committed to the F.T.A., each would prefer the jointly free trade outcome (+ for both) to subsidy war outcome (- for both). In the absence of the agreement or in the event that one or the other decides to cheat, the inevitable outcome will be a devotion to trade policy war.

The F.T.A. is clearly indicative of the fact that as global industries become more concentrated, even if national markets do not, strategic government leverage over firms decisions may increase. Bargaining and monitoring costs become low because of the small number of players involved. Bilateral trade initiatives, as opposed to multilateral ones through GATT forums, may appear to other governments to be more promising. Thus, the F.T.A. may alternatively be considered as a bargaining ploy to be used by the United States in its disputes with the EC and Japan.

With regard to the welfare effects of trade in a world with economies of scale and imperfect competition, Helpman and Krugman (1986) identify four basic sources of additional gains over and above those from comparative advantage. They all can be applied to the F.T.A. noting that multinational firms buy a disproportionate share of outputs from their sister enterprises. Intrafirm trade may coincide with the dictates of a competitive model, but the custom of buying and selling within the corporate family is often inspired by broader corporate goals, such as internalising dynamic economies of scale and smoothing out production runs.

The sources of additional gains include own *production effects,* that is, trade will produce gains exceeding those that occurs in a constant-returns world, *concentration of larger scale production* in a single country which suggests that prices of increasing-returns goods may fall, *rationalisation* meaning that imperfect competitive industries will lead to a reduction in the number of firms and an increase in output per firm, and *diversity* of products internationally. As suggested by Helpman and Krugman, however, "the imperfections of markets simultaneously creates the risk that a national economy will not only fail to take advantage [of] potential gains from trade but may actually lose" (1986, 263).

Conclusion

The overriding implication of the previous analysis is that the government's politically motivated concerns over the distribution of income across powerful vested interest groups in a world with economies of scale and imperfect competition may give rise to a positive theory of liberalisation that is largely consistent with the pure theory of international trade. The Canada-US Free Trade Agreement may be the final product of such a process. The Canadian political system appears to have operated in favour of concentrated groups and against dispersed ones. The policy that has emerged may, therefore, be very costly to the consumers and harmful to the healthy growth of new and dynamic industries, and as such may damage the national economy. Further research into this area is certainly warranted.

References

Ahmadi-Esfahani, F. and W. Cymbal. 1989. *Agriculture in the Great Free Trade Debate: A Survey of Perceptions, Positions and Revealed Preferences.* Rural Economy Bulletin No. 28, Edmonton: Department of Rural Economy, University of Alberta.

Ardeni, P.G. 1989. "Does the Law of One Price Really Hold for Commodity Prices?" *American Journal of Agricultural Economics* 71(3):661-669.

Baldwin, R.E. 1984. "Trade Policies in Developed Countries" in R.W. Jones and P.B. Kenen (eds.). *Handbook of International Economics, Vol I,* Amsterdam: North-Holland.

Department of External Affairs. 1983. *Canadian Trade Policy for the 1980s.* Ottawa: Minister of Supply and Services, Canada.

Easterbrook, W.T. and H.G.J. Aitken. 1958. *Canadian Economic History.* Toronto: Macmillan.

Harris, R.G. and D. Cox. 1983. *Trade, Industrial Policy, and Canadian Manufacturing.* Toronto: Ontario Economic Council.

Helpman, E. and P.R. Krugman. 1986. *Market Structure and Foreign Trade.* Cambridge, Mass.: The MIT Press.

Kierans, E. 1988a. "Giving in to Corporate Giants". *Policy Options Politiques* (May):12-15.

________. 1988b. "A Cruel Joke". *Policy Options Politiques* (January):21-23.

Lipsey, R.G. 1989. "Unsettled Issues in the Great Free Trade Debate". *Canadian Journal of Economics* 22(1):1-21.

Markusen, J.K. 1985. "Canadian Gains from Trade in the Presence of Scale Economies and Imperfect Competition" in J. Whalley (ed.). *Canada-United States Free Trade,* Toronto: University of Toronto Press.

Mayer, W. 1984. "Endogenous Tariff Formation". *American Economic Review* 74(December):970-985.

Schmitz, A. and C. Carter. 1987. "A Sectoral Perspective: Agriculture" in R.M. Stern and J. Whalley (eds.), Perspectives on a US-Canadian Free Trade Agreement. Washington, D.C.: The Brookings Institute.

Smith, M. and F. Stone (eds.). 1987. *Assessing the Canada-US Free Trade Agreement.* Toronto: Institute for Research and Public Policy.

Stone, F. 1984. *Canada, the GATT, and the International Trade System.* Montreal: Institute for Research on Public Policy.

Watson, W.G. 1987. "Canada-US Free Trade: Why Now?" Canadian Public Policy 13(3):337-349.

Wilson, B. 1988. "The Farm Lobby in Canada" in *Farm Interest Groups and Canadian Agricultural Policy*. Occasional Paper 88.04, Saskatoon: University of Saskatchewan Centre for the Study of Co-operatives.

Winters, L.A. 1987. "The Political Economy of the Agricultural Policy of Industrial Countries". *European Review of Agricultural Economics* 14:285-304.

Wonnacott, P. 1987. *The United States and Canada: The Quest for Free Trade*. Policy Analyses in International Economies 16, Washington, D.C.: Institute for International Economics.

Wonnacott, R.J. and P. Wonnacott. 1967. *Free Trade between the U.S. and Canada: The Potential Economic Effects*. Cambridge, Mass.: Harvard University Press.

Young, R.A. 1985. "Last, Worst Deal". *Policy Options Politiques* (July):4-9.

Table 1. The Corporate Economy, Canada, 1984

By Asset Size	Under $1M	Percentage	$1M - $24,999,999	Percentage	$25M & over	Percentage	Total
Number of corporations	475,442	89.0	55,934	10.4	3,316	0.6	534,692
Assets[a]	95,017	6.8	169,615	12.1	1,140,648[b]	81.1	1,405,280[b]
Income[a]	149,907	18.1	172,573	20.9	503,900	61.0	826,380
Profit before tax[a]	7,444	13.1	10,585	18.6	38,888	68.3	56,917

[a] All these figures are in millions of dollars.

[b] The assets of 5,474 deposit accepting institutions (trust companies, mortgage loan companies and banks) are included in these totals. They amounted to $429,632 million in 1984.

Source: Statistics Canada data compiled in Kierans (1988a)

Table 2. Gains and Losses from the Canada-US Free Trade Agreement as a Prisoners' Dilemma[a]

	Canadian Trade Policy	
US Trade Policy	Free Trade	Export Subsidisation
Free Trade	+ for both	- for the United States + for Canada
Export Subsidisation	+ for the United States - for Canada	- for both

[a] Positive and negative signs indicate, respectively, gains and losses from free trade or export subsidisation.