MR. KRESL: Thank you, Mr. Chairman. I think you've organized this very intelligently, because the four of us have different specialties, from the way I read it, so there's not going to be an enormous amount of duplication.

I'll do a couple of background comments and then focus on an issue or two.

It has long been argued that Canada and the United States share the world's longest undefended cliché. That cliché characterized the relationship as being one of hands across the border, NATO neighbors, and a shared North American consciousness. And overwhelmingly, this is true.

We see that, while the relationship is not free of conflict and of difference of opinion, the two nations have managed to establish institutions and mechanisms in both the public and private sectors that facilitate resolution of contested issues that leave each party generally satisfied with the outcomes.

The potential for nations that share seven common water borders to come to blows is enormous.

For example, the establishment of the International Joint Commission before the First World

War to manage an array issues from sea lampreys in the Great Lakes to water diversion schemes such as the Garrison and so forth has been such a remarkable success that it is studied by other nations, for example, those of the European states that share the Rhine and the Danube river systems.

There are cross-border meetings with state governors, provincial premiers, special task forces, and a seemingly endless array of private sector linkages, ranging from business to education to crime specialists.

In general, trade fits into this pattern, although, as I suggest, there are some problem areas.

You're looking at the trade deficit. And I would just note, parenthetically, that the trade deficit of 230 billion in 1998, of that, only 8 percent was registered with Canada, so I don't we'll do much with our trade deficit through policies designed to affect trade with Canada.

When we go beyond the trade balance over to the current account, we see that in recent years the current account has occasionally been in surplus for the United States.

It turns out here, of course, that, as Professor Feinberg will tell us, investment is the key to a Canada-U.S. trading relationship.

While Canada has only 7 percent of the European Union, United States companies have made direct investments in Canada that are about 25 percent of the total of FDI in the European Union. These investments are powerful determinants of trade flows.

And I won't say any more about this except to note that, difficult though this may be, we must begin to think of an integrated North American economy confronting Europe, Asia, and other areas. Whatever makes the United States firms more competitive ultimately resounds to the benefit of the U.S. economy.

As a final note for this background area, I would say it must be observed there is a fundamental imbalance in the trading relationship here.

While each nation is the other's largest single trading partner, Canada accounts for 20 to 25 percent of U.S. total trade. However, in excess of 80 percent of Canada's trade is with the United States. The U.S. is Canada's only significant trading partner.

In spite of a recurring desire to diversify its trading relations, Canada's dependence on the U.S. has only increased.

This being the case, U.S. policy makers might think it would be useful to use this dependency to coerce Canada to be more accommodating to U.S. economic interests.

Any student of the Canada-U.S. relationship knows this would do little more than fuel the passions and political action of the substantial constituencies within Canada that have always been opposed to the strategy of promoting the liberalization of the trade and investment relationship.

So avoiding conflict with Canada is of benefit to both Canada and the United States.

Now, turning to the issues. While the history of Canada-U.S. trade relationship has been very contentious at times, in general it is very harmonious.

There are, however, two exceptions. One is the trade in primary goods, and the second is the opening of the Canadian market to imports of cultural goods from the United States.

We have a specialist in agriculture trade from North Dakota next to me, so I won't say much about his specialty except that the border is divided into three areas. There's the Atlantic, the industrial heartland, so to speak, and then, the Plains Prairies and the Pacific.

And we note that, in the industrial area, it's all intra-firm, intra-industry trade, very harmonious, very few trade issues at all.

But when we look to extremes, there's a lot of primary goods trade. And the issues between Canada and the U.S. are almost invariably those issues: potatoes, hogs, cod, salmon, cedar shakes and shingles, hydroelectric, and so forth. They're primary industries issues.

And I think we see that these are industries or firms on both sides of the border that are producing nondifferentiated products for the same markets in North America or elsewhere.

And some of these industries like agriculture are subsidized one way or another by virtually every state. And other products are produced under differing regimes of marketing, financial incentives and treatment of replenishment of nonrenewable resources and so forth.

Firms are always looking to what the other trading nation is doing. If quality of product and characteristic doesn't stand out, it's got to be price.

So even though there may be issues such as the extent to which you adopt technology or your marketing strategy which may affect trade, we tend to think that it's cheating on the other side. And although there are legitimate issues here, this always comes up as a trading problem.

So I think we will probably always have conflict as an inherent feature of primary goods trade, unfortunately. I don't know that it's going to be resolved between Canada-U.S. or between the European Union and the U.S.

Now, the trade in culture goods has been the other intractable aspect of Canada-U.S. trade and indeed world trade.

We argue that culture goods are goods to be traded as any other commodity.

And Richard Fowler, when he was Federal Trade Commissioner said, Television is just a toaster with a picture.

Other societies would say that television is the most important cultural transmitter of values that we have, medium for doing that and that it does warrant special treatment.

So France and Canada are on the other side of this issue. They argue that a nation's cultural industries being curtailed in their viability leads to subtle but inexorable diminution of the ability of a people to define itself and to understand itself.

Now, we don't have to be softhearted about this. I think in economic theory we can justify treating cultural goods differently.

And I think the economists would recognize Richard Musgrave's theory of public finance and the three functions of Government with allocation of resources, we have private, social, and merit goods.

And going over to the cultural side, immediately, with private goods, there are no externalities, I don't care what CD you buy or what film you watch.

Opera is sort of a merit good. Somebody has to subsidize it. But I would argue we could also have a social good here, that is, we consume national culture together, I care that my citizens know about our practices and so forth.

A Canadian goes to a court and says, I plead the Fifth, they say, We don't have the Fifth. Or he says, Well, I wasn't Mirandized. We say, Well, we don't have that.

So you should know something about your society and not be inundated with messages about the other.

The point of this is to say that there is a legitimate reason for government involvement in culture, and I would make that point.

With Canada and the United States, I would say the issue is the inappropriate use of policy by Canadian governments.

In the Trudeau years, they intervened on the demand side, cable priorities, Bill C58 on taxes, and a number of things that denied Canadians access to American materials.

Mulroney focused on the supply side, supporting the production of more Canadian goods.

Under Trudeau, we protested vigorously, and we were correct in doing so.

With Mulroney, there was no protest whatsoever.

They came back recently with the Sports Illustrated and the split edition magazines being beamed electronically across the border and Country Music Television. Those were demand side interventions, and I think we were legitimate in reacting to that.

I would simply suggest to you that, in contrast with trade in primary goods, where I think there's an inherent bias for conflict, culture goods trade can be harmonious if each country will accept the argument that a nation has a legitimate right to ensure the vitality of certain sectors of its culture goods industries, and two, agree that certain intervention, that on supply, is acceptable, but that other intervention on demand is not.

I have seven items of conclusions which you can read in my written testimony. My time is -- I've got ten seconds. Oh. My God, now I've got 20 seconds.

(General laughter.)

MR. KRESL: Well, anyway, there are seven listed at the back of the presentation. Thank you.

MR. ANGELL: Professor Kresl, thank you very much.

Professor Susan Feinberg, our second presenter.