

producers, consumers, and the economy as a whole. The weakness in this respect of multilateral negotiations, at least as practiced thus far, has been to permit participants to protect many less efficient sectors indefinitely. A free trade area, assuming that it would not allow significant exemptions among nonagricultural products, offers from the outset the prospect of shifting resources from virtually all of the less to the more efficient sectors. The inefficient industries would either be forced to modernize or their resources would be transferred to activities in which they could be used competitively. In either case, adjustment assistance of various kinds would, of course, have to be made available to both management and labor.

A second important consideration is the degree of certainty on the part of producers that the new market situation, with its greater growth opportunities as well as competitive threats, would be here to stay. Without such assurance, the investments required to increase efficiency would not be made, or at least not made extensively enough. On this question, too, a free trade area appears to be superior in terms of its psychological and economic effects, for it would offer comprehensive treaty commitments considered firmer than the limited "bindings to zero" reached by the multilateral approach as hitherto practiced.¹⁰

The third criterion of an effective approach—one now recognized as of greatly enhanced importance—is the ability to deal with nontariff barriers. Here, the free trade area appears to have several advantages. By abolishing tariffs, it automatically eliminates tariff-related problems; e.g., the methods of valuing and classifying imports for the purpose of setting duties, etc. For other nontariff barriers, such as border taxation, official procurement policies, indirect governmental aids to production and exports, etc., the institutional mechanisms of a formally organized free trade area seem to offer better means for formulating and implementing the necessary accommodations than the intermittent and ad hoc procedures hitherto characteristic of the multilateral approach. A clearer understanding of this difference would be gained by evaluating the performance to date of the EFTA with respect to nontariff barriers.

CONSIDERATIONS RELATED TO THE EEC AND THE UNITED KINGDOM

The United States cannot decide upon its method of approaching free trade or, indeed, whether this would be a desirable objective without considering the probable reactions of its principal trading partners. Its largest trading partner is Canada, whose approach would probably continue to be similar to that of the United States. The major uncertainty would be the reaction of the EEC and the United Kingdom.

Prior to the question of the comparative willingness—or reluctance—of the EEC and the United Kingdom to participate in either of the two approaches to free trade is the basic issue of whether either or both of them are now, or will be in the next few years, disposed to contemplate eventual free trade with the United States. Indications are that strong resistance may be expected, particularly among Euro-

¹⁰ Canadians, whose main concern in any free trade situation is assured access to the U.S. market, often stress these advantages of a formal free trade arrangement over free entry as bound by the conventional GATT agreement.