

AN 1854 TREATY AND THE LESSONS FOR NAFTA

by Livio Di Matteo

With the ongoing NAFTA negotiations and the possibility that the United States is going to leave NAFTA and usher in a new protectionist era for North American trade, it may be instructive to visit the past for some guidance.

Canada's first free trade agreement with the US was actually not the 1988 FTA but the 1854 Elgin-Marcy Reciprocity Treaty, which brought in a period of free trade between the British North American colonies and the US that lasted until 1866. If you think the current negotiations are protracted, it apparently took eight years to negotiate the 1854 treaty between Britain on behalf of her North American possessions and the US.

Free trade was allowed in a rather large list of natural resource and agricultural products, with manufactured goods excluded from the agreement, so the British North American colonies got a

pretty good deal. They were able to export grain, animals, fresh smoked and salted meats, butter and cheese, timber and lumber, among other things, duty-free into the US—as were the Americans into Canada—but the smaller-scale Canadian manufacturers did not have to compete with larger and presumably more efficient American manufacturers.

In some sense, the agreement was odd in that both economies were quite natural resource-intensive at the time, but the average Canadian tariff on US imports was about 2.5 percent while the average US tariff on imports was 21 percent. So again, it appears Canadians did quite well with the ratification of the treaty.

Of course, the question is what was in it for the Americans?

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It seems that then—like today—the role of specific lobbying interests was important in US politics and a driver of the US deal was east coast fishing interests. The Americans obtained some fishing rights off the Maritime provinces. And despite the retention of tariffs on manufacturing, there was a promise by the Province of Canada's finance minister that tariffs on manufactured products would not be raised. Of course, the Cayley-Galt tariff in 1857 reneged and raised Canadian tariff rates, which worsened the political relationship. Things got even worse with the US Civil War and the suspicion of British

motives in its relationship with the Union and the Confederacy.

In terms of the impact of the Reciprocity Treaty, given that there was a lot of smuggling of things such as butter, eggs, and animals from Canada into US, much of the increase in trade would probably have been the conversion of illicit to legal trade. As well, in the 1850s and early 1860s, the settlement of the US Midwest and the demands of the Civil War meant a booming US market would have existed, whether or not there had been a Reciprocity Treaty. It's difficult to say how much of a positive boost to the British North

American economy the actual treaty was, but its termination by the US in 1866 meant that other arrangements were sought. Its end was a factor in encouraging the British North American colonies to federate to create a larger internal market—with mixed results, if issues such as the transport of beer across provincial boundaries today is any indication.

So, what about some lessons for today? One is struck by how some trade issues have always been present between Canada and the US.

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Like today, timber, lumber, and dairy were commodities of interest in trade negotiations in the nineteenth century. And any successful renegotiation of NAFTA requires finding US economic interests whose needs are more closely aligned with ours and enlisting them in our lobbying efforts—we need the 21st century equivalent of 19th century US fishing interests.

However, more to the point—is the termination of NAFTA by the US a credible threat? Yes, it is possible. The US has exercised its right to abrogate trade treaties before, including the end of Reciprocity in 1866.

If NAFTA dies, now as then, life

will go on and there will still be trade with the US. But Canada will not generate as much wealth and activity as we're accustomed to. In the end, greater access to markets and more trade means more economic growth and opportunity. If one looks at Canada's economic performance after 1866, even with the common market created by Confederation, it was relatively slow growth until the 1890s and the start of the Prairie settlement boom.

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Then, as now, the US was a large, rich, and convenient market to access, and less trade inevitably can hurt us more than them. 

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