infrastructure. Is this reflected in their profits? Are teachers' salaries a measure of their true worth? Thus, services are at least as prone on the average as manufactures to yield uncompensated spillover effects.[13] Is industrial policy suggesting subsidizing doctors?

Despite the criticism, the technological spillover argument is probably the best case one can make intellectually for an active industrial policy.

2.3 A Debate on Other Arguments for Industrial Policy

Proponents of the industrial policy have also played variations of the above mentioned themes. It is suggested that government should encourage the growth of: a) industries with high value added per worker; b) industries that have a "linkage" role with regard to other industries; c) industries that have future growth potential; and d) industries that have been targeted by foreign governments. Let us explore these arguments briefly.[14]

- **Picking High Value Added Industries**

In an economy, the value added varies considerably across industries.[15] It also appears that workers in a number of industries earn *rents*. One study found that in 1984 the compensation for an average U.S. steel worker was 63% and for an auto worker 53% above the average U.S. manufacturing worker. The study estimated that workers in the U.S. transport equipment sector earn a premium of 27% above the industrywide average, and workers of fabricated metal a premium of 26%.[16] This has led many commentators and policy analysts to

[13] Jagdish N. Bhagwati, "Rough Trade", *New Republic*, May 31, 1993: 35-40.

[14] For a critical assessment of industrial policy, see Paul R. Krugman, "Targeted Industrial Policies: Theory and Evidence", in Dominick Salvatore, ed., *The New Protectionist Threat to World Welfare*, New York: North-Holland, 1987: 266-96.

[15] The value added by an industry is the difference between the value of its output and the value of the inputs it buys from other industries. The sum of value added in all industries is a country's national income. The value added to GDP in Canada in 1992, for example, was $14.6 billion (or 2.9%) by agriculture, forestry and fishing; $20.5 billion (or 4.1%) by mining; $84.7 billion (or 16.9%) by manufacturing; $30 billion (or 6%) by construction; $34 billion (or 6.8%) by the public services; and $318 billion (or 63.4%) by the transportation, trade, finance and other services. Source: Statistics Canada, Catalogue 15-001, various issues.

[16] These estimates used the 1984 Current Population Survey and have been adjusted for differences in human capital and demographic factors such as sex, age, race, marital status and education; see A. Krueger and Lawrence H. Summers, "Efficiency Wages and the Interindustry Wage Structure", *Economica*, (56) 1988: 259-93. In 16 other countries, steel and auto workers earn a premium above the average manufacturing worker in their own countries. However, the premium is much greater in the U.S.. See Jaime de Melo and David Tarr, *A General Equilibrium Analysis of US Foreign Trade Policy*, Cambridge: MIT Press, 1992.