Canadian government, it not clear how long Canadian corporations would remain successful in deterring foreign competition. In profitable markets, there is always a possibility of new entry. As long as Canadian corporations depend on government subsidy, most of the benefits would be passed on to foreign consumers rather than to securing excess returns for our producers. When Canadian taxpayers have to give money to corporations on an ongoing basis, as Avinash Dixit has asked: where's the rent?[45]

Second, how do we know by just observing a few foreign firms in a high technology market that they are raking in huge monopoly rents? Generally, in any project where substantial amounts have to be sunk into R&D, and only one or a few firms succeed and go on to the production stage, we should expect to see the successful firms enjoying large monopoly profits. The sunk costs of the entrenched firms may constitute an entry barrier to the industry, but prior to that there usually is free entry to the whole process. Without the prospect of monopoly profit, firms would not have undertaken the R&D investment. The observed profits are most likely a normal rate of return in a risky commercial venture. Consequently, the rent-shifting argument must not be employed uncritically to such industries.

Third, if a government announces a policy of export promotion in an emerging industry, that industry will come to anticipate the policy and firms will enter it. In the final analysis, there will be a number of successful domestic firms, but in the background there will also be more losers. The group as a whole will get zero rent—that is, the resources used up in the whole process would have been just as valuable engaged in the best alternative elsewhere in the economy. If the policy is pushed too far, it will actually harm the domestic interest. Special interests would argue differently. Some firms want to collect subsidies from the government. Labour might share in the benefits of protection in these industries. In all such cases, the rest of society would pay the cost.

Fourth, it is not enough to quantify future monopoly rents. The role for policy should be limited to situations where our firms are unable to capture these rents on their own. The strategic trade policy proponents argue that the government is able to make irreversible commitments that give our firms a strategic advantage against foreign ones and that the firms would be unable to replicate such strategic moves by themselves. This is an empirical question. The answers will vary from one industry to another.

Fifth, having empirically made a case for profit-shifting is not enough. We must also ask whether trade policy is the best way to achieve that aim. For example, rent is better captured from a foreign monopolist selling in our market by imposing a price ceiling or a profit reparation tax. Promotion of entry is better pursued by means of domestic subsidies.

[45] Avinash K. Dixit, in Paul R. Krugman, ed., *op. cit.*, 1986.