

The numbers are not much different, but the difference is crucial. In Table 3, Boeing is assumed to have some underlying advantage--maybe a better technology--so that even if Airbus enters, Boeing will still find it profitable to produce. Airbus, however, cannot produce profitably if Boeing enters.

In the absence of a subsidy, the outcome in Table 3 will be in the upper right corner. Boeing produces and Airbus does not. Now suppose that, as in the previous case, the European government provides a subsidy of 25, which is sufficient to induce Airbus to produce. The new table of payoffs is illustrated as Table 4.

Table 4: Effects of a Subsidy to Airbus.

	Airbus	Produce	Don't Produce
Boeing			
Produce	5	5	0
Don't Produce	0	125	0

The result is that both firms produce: the outcome is in the upper left. In this case, Airbus, which receives a subsidy of 25, earns profits of only 5. That is, we have reversed the result above, in which a subsidy raised profits by more than the amount of the subsidy. The reason for the difference in outcome is that this time the subsidy has failed to act as a deterrent to Boeing. Initially, the two cases look very similar. Yet in one case a subsidy looks like a very good idea, while in the other it looks like a terrible idea. *It seems to be a general property of strategic trade policies that their effectiveness depends on an exact reading of the situation.* This has led some economists to ask whether we are ever likely to have enough information to use the theory effectively.

The information requirement is complicated by the fact that we cannot consider industries in isolation. If one industry is subsidized, it will draw resources from other industries and lead to increases in their costs. Thus, even a policy that succeeds in giving Canadian firms a strategic advantage in one industry will tend to cause strategic disadvantage elsewhere. To ask whether the policy is justified, the Canadian government needs to weigh these offsetting effects. Even if the government has a precise understanding of one industry, this is not enough. It needs an equally precise understanding of those industries with which that industry competes for resources.