

electronics, etc. Even in these cases, however, one must be careful not to confuse true strategic needs with the arguments of vested interests. Often it may be far less expensive to store vital military supplies or civilian necessities than to protect the existence of domestic industries on an ongoing basis. In most cases, domestic production, including food production, can be brought on line relatively quickly in times of crisis, well before carefully managed stockpiles are depleted. When this is not the case and the domestic industry needs to be kept in production, it is usually less costly to provide a direct subsidy than to put up trade barriers with their resulting multisector distortions.

Another common protectionist argument is the *infant industry* theory. The premise of this theory, and its variants, is that a country could have a comparative advantage in the production of a good if the initial difficulties associated with establishing a new industry could be overcome. The task of establishing a new industry can be much more difficult if the industry is already well established in other countries. As foreign firms already have all the “teething” problems sorted out, their lower-cost exports make it almost impossible for the infant domestic industry to become established. Hence the domestic industry requires temporary protection. The evidence would suggest, however, that infant industries fail to grow up and that protection is seldom temporary. There are a number of reasons for this. One is that infant industry firms must rely on the domestic market initially. If there are considerable economies of scale in the industry, the domestic market may not be large enough to justify an efficient scale of operation. As a result, smaller plants with higher unit costs are built. Removal of trade barriers would leave these firms vulnerable to foreign firms already able to gain the cost advantages associated with economies of scale. In Canada, with its small domestic market, industries established under infant industry policies were victims of this dilemma. Once established behind trade barriers, it is often easier for firms to successfully argue for continued protection than to make the cost adjustments necessary to become internationally competitive.

One variant of the infant industry theory is the *senile industry* argument. The argument is that an industry that has lost its comparative advantage may be able to regain it if it receives temporary protection so that it can re-equip its factories and retrain its workforce. These costs could be recouped if it acquired a greater share of the home market. Whether one can distinguish between a loss of competitiveness due to