

inefficiently produced goods that have been given up. Over the long run, lowering trade barriers will allow countries to reap benefits from trade.

Protectionism and Political Economy

One of the longest-ranging debates in economics and politics centers around the degree to which a nation's economy should be protected from the rigors of international competition. This is in spite of the theoretical evidence suggesting that countries gain from trade. Further, few of those who are identified with protectionist sentiments would advocate an autarkic trade policy (i.e., that Canada should produce its own bananas rather than importing them). The case for protection is, however, often made for existing industries that find themselves noncompetitive internationally.

The reasons for this are simple. All of the gains that are expected to arise from trade in the models discussed above are based on the premise that resources can move easily (and costlessly) from declining, less competitive to expanding, more competitive industries. Neo-classical trade models are "timeless" and all adjustments are long run.

Of course, resources do not move easily. Labor employed in textiles one day does not quickly and costlessly switch to making computers the next day. When foreign competition leads to the downsizing or closure of domestic firms, layoffs occur. People become unemployed. Skills applicable to one industry may not be useful in the expanding sector. Even if those let go from declining industries can find work in other sectors, it may require a move to a new location halfway across the country. Moving one's household is not costless. Further, if the declining industry is a locally or regionally important industry, its downturn will mean that the value of the assets—such as housing—of those now unemployed will fall, making it even more difficult to get established somewhere new. Workers may find themselves faced with a costly retraining period.

The owners of existing businesses will also find the value of their productive assets threatened by foreign competition. Support industries, and in some cases whole communities, may be threatened by an industry's decline. Hence, foreign competition creates a coalition of *vested interests* in the status quo. These vested interests are often difficult for politicians to ignore. Trade theorists argue that as there are considerable