software industry to other industries in Canada. The logic of industrial policy would require the government to give money to the software industry. So let us think about the amount of an appropriate subsidy. Do authorities know the magnitude of the spillover to the PC industry? The wholesale industry? The banking industry? How many subsidy rates are we going to need? Or should the subsidy be a convenient 10%, 40%, 80%? Should the subsidy be a proportion of company profits? Sales? Or of salaries paid out to employees? Nobody knows the answers. We may, in fact, be wiser if we simply assume that the market- determined volume of business and prices in Canada's software industry are not much out of line with what is likely acceptable and socially optimal. With so little information to go on, why guess with industrial or strategic trade policies?

Strategic trade policy is a sophisticated mercantalist argument for protection. In theory, the government is led to subsidize large domestic corporations in pursuit of snatching rents from our trading partners. It promotes the subsidy game. The country that has the deepest pockets will subsidize its large corporations so long as countries with shallower pockets do not stop subsidizing their companies and abandon the market. One consequence of this subsidy war is that the targeted markets are more likely to be closed to small and medium size economies such as Canada. Moreover, if countries such as Canada pursue aggressive strategic trade and industrial policies, there is a distinct possibility of triggering reactions from our major trading partners—most of whom have deeper pockets than we do. This is a key limitation on the use of strategic trade and industrial policies in Canada.

Policy makers in Canada confront complex and growing problems of economic change in general and apparent loss of competitiveness in particular. The strategic trade and industrial policy school holds that the correct reaction is to adopt better, more coordinated interventionist policies. Policy makers may become attracted to this package at first blush. Yet for a trade dependent country such as Canada, ease of access to the markets of our trading partners is essential. The adoption of strategic trade policy by Canada would not go too far without inviting retaliation and the loss of access to vital markets. Consequently, we should continue to focus on international rule-making aimed at limiting predatory, beggar-thy-neighbour practices. The work can be tedious and frustrating. But such rule-making has served Canada well in the past, and is more likely to bring more permanent, optimal solutions than embarking on the essentially unchartable water of strategic trade policy.