Given this fact of life, it is our view that the prudent response to our current interest rate dilemma — in the short run — is to keep our interest rates as low as possible without causing a run on the dollar, and to offset the high cost of credit in key sectors of the economy by lowering other production costs.

In the medium term, we believe Canada can lower interest rates if we implement trade, investment and tax policies which combine to put upward pressure on our dollar.

A strong and more broadly based merchandise trade performance is essential. But it is also essential that we encourage an inflow of direct investment capital to lessen our dependence on foreign debt. It is for this reason that we committed ourselves to two major policy changes which will start the process of restoring our international reputation as a first-class place to invest.

First, we intend to end the retroactivity and excessive discrimination in the National Energy Program.

Second, we will change both the mandate and the name of the Foreign Investment Review Agency.

The new agency — Investment Canada — will continue to review major investment proposals of national economic significance. But it will also take on a more positive role — to facilitate job-creating investment, and to work with a revived and expanded Trade Commissioner Service to identify new ideas, new technologies and new export and investment opportunities for Canada.

These policy initiatives reflect our belief that the real solution to our weak dollar/high interest rate dilemma is for Canadians to become first class world traders and for Canada to once again become a first class place to invest.

Next, the recapitalization of Canadian industry. It is in this context that the size of the federal deficit becomes a matter of major concern.

We simply cannot finance both massive public sector deficits and the recapitalization of the Canadian private sector. Clearly, there can be no drastic reduction in the deficit until interest rates are lower and the country gets back to work. Massive cuts now would guarantee a recession. However, we believe there are steps which can and should be taken regardless of the level of the deficit.

First, we will have to lower the overhead costs of government caused by excessive duplication, waste and mismanagement. To begin this process, the Prime Minister has already created a task force of senior ministers, to be chaired by the Deputy Prime Minister.

The second area of savings comes in government programs themselves. We must improve the budgetary process so it challenges the effectiveness of on-going programs. "Sunset laws", program evaluation — these and other techniques must be employed to end program duplication and overlap.

In the energy sector, we plan to move to a tax-based incentives system and away from petroleum incentive program grants. Off-oil [oil substitution] programs will also be brought together in one fund.

Cultural and Public Information Bureau, Department of External Affairs, Ottawa, Canada