put further pressure on the labour market and on import regimes at the same time as it creates new opportunities for new markets and for offsetting labour-cost disadvantages in traditional labour-intensive industries. As in the past, periods of major challenge to the status quo in the international trading order will also offer opportunities to move further ahead with action on trade policy.

Financial markets have in the past few years experienced unusual volatility and there are serious questions about the adequacy of present arrangements (and institutions) to cope with the situation. The debt load facing many developing countries, and some in Eastern Europe as well, is such that some problem countries may be forced into rapid adjustment policies which could create serious social unrest at home and severely reduce imports from industrial countries. Although Canada trades less with these countries than do most other industrialized countries, we cannot be shielded from the overall effect of an international liquidity squeeze and the consequential pressure on the trading system as a whole.

Against this background of slow international market growth, financial instability, and increased international competitiveness, it will be crucial that Canada also control and reduce the rate of growth of costs and prices in the economy in the 1980s and promote productivity growth. We will need to be alert to defend Canadian interests, and to sustain and improve access in a period of increasing protectionism. To neglect to do so would ultimately result in reduced output and employment growth, as Canadian exports are priced out of foreign markets and foreign products displace Canadian goods at home. At an aggregate level, the government remains committed to a medium-term strategy of monetary and fiscal restraint designed to reduce demand pressures in the form of wage and price increases.

Demand management policies can reduce price and cost pressures in the economy. However, these demand-oriented measures need ultimately to be supported by improvements in the supply performance of the economy, in particular by gains in terms of factor productivity. The 1970s were characterized by a sharp slowing in the rate of productivity growth which exacerbated the inflationary pressures of sharp commodity price increases, most notably oil price increases. A recovery of productivity growth during the 1980s would serve to assist in reducing inflationary pressures and to improve Canada's international competitiveness. As well, a strong productivity performance could make the economy less vulnerable to the inflationary effects of external price shocks of the type experienced in the 1970s.

While there is no simple explanation of the cause of either Canada's or the world's present economic situation, it is generally accepted that weakness in investment has been a key element which, in turn, reflected a lack of predictability and confidence about the future, especially in respect of inflation, and interest rates. Developments in international economic relations and financial markets added to the uncertainties. In this situation, short-term investments are preferred by investors. Yet, it is the longer term, more costly and more risky ventures which normally yield the greatest return in productivity growth and international competitiveness. It is these investments which ensure that adjustment in an economy results in the expansion of efficient industries and allows for the contraction of those which are adversely affected by technological change, shifts in demand or changes in comparative advan-