

return to productivity growth and thus international competitiveness may be rocky and uncomfortable—but it is essential that Canada get on it. It must, to succeed, be travelled by labour, business, and all levels of government. Canada must also become a truly common market. Finally, it is important to keep in mind that international competitiveness should not be measured only in terms of costs and prices. Other factors such as quality, delivery, and security of supply may be more important in any particular export project. Costs and prices are, however, basic and can be affected directly by a host of governmental policies.

b) *Macro-Economic Policies: Creating the Right Environment*

Promoting the efficient allocation of Canadian resources (including human and financial) and strengthening the international competitiveness of Canadian industry will require that domestic economic policy instruments (fiscal, monetary, investment, regulatory, etc.) reinforce and support the use of trade policy instruments (tariffs, contingency protection, export credits, etc.). Basic to this is the judicious use of macro-economic policies to create an environment within which the private sector can plan and invest with confidence.

*Monetary Policy* directly affects Canada's competitive position, although differently for various sectors of the economy and for competitive relationships with individual trading partners. The basic thrust of Canada's current monetary policy is to bring down inflation. While the pursuit of this policy may result in some short-term dislocation, its long-term effect should enhance Canada's international competitive position. It is by promoting a return to overall price stability that monetary policy has the greatest chance of supporting, in a sustainable way, Canada's trade performance. An inflation rate in Canada significantly higher than that being experienced by our major trading partners, particularly the USA, will manifest itself in the gradual deterioration of our competitive position and in the terms of trade, particularly for fully manufactured products.

The floating Canadian dollar plays a key role in promoting adjustment in our balance of international payments as economic circumstances change. The general level of the dollar reflects underlying economic forces: Canada's saving and investment position relative to other countries, price, cost and interest rate developments here and abroad, and the international pattern of demand and supply for commodities which figure prominently in Canadian trade.

Canada's *exchange rate policy* has been to allow the exchange rate to respond to changes in these underlying forces and there has been no attempt to achieve or maintain a particular external value for the Canadian dollar. Official interventions in the foreign exchange market by the authorities are confined to the promotion of orderly trading conditions. While monetary policy has focussed on the state of the foreign exchange market from time to time, this has been in response to short-term financial pressures originating abroad, has not run counter to fundamental balance of payments pressures, and has been supportive of the government's efforts to reduce inflation. The balance of evidence strongly suggests that an exchange rate which is imposed, either by direct intervention or indirectly through the use of monetary