None the less there are signs, very recent ones, that we may now be moving toward synchronization. The last half of 1985 has seen some highly interesting developments pointing to a possible breakthrough in international economic cooperation. I want to talk about this tonight. First, however, to put these developments in perspective, let me sketch the economic background.

The world economy is now in its third year of recovery from the 1981-82 recession. But it is a recovery characterized profoundly by assymetry and imbalance. The pace and nature of the upturn differed markedly among the major "blocs" of the OECD - North America, Europe, and Japan. This divergence, apparent in 1983, was even more marked at the peak of the recovery, in 1984, when the U.S. grew at nearly three times the pace of Europe and a full percentage point more than Japan. The present and projected convergence in growth rates is largely due to a slowing in U.S. growth rather than a compensatory acceleration in the other two blocs.

The divergent growth pattern -- especially marked across the Atlantic -- was itself both the consequence and the cause of the serious imbalances in the OECD economy.

The most visible manifestation of divergent recovery has been the dramatic imbalance in current account positions within the OECD, as exemplified by unprecedented current account deficits in the U.S. and growing surpluses in Japan, Germany, and some other European countries. Differential growth rates accounted for perhaps a third of the U.S. current account deficit. The other major factor (in addition to the loss of dynamic LDC markets) was the stunning appreciation of the dollar. The U.S. locomotive had an extra engine.

The exchange rate misalignment itself was a function of capital rather than trade flows (an indication of how the trend to global integration of capital markets has turned the external "adjustment process" upside down). These capital flows, in turn, were at least in part attributable to another fundamental imbalance in the OECD economy - the stark contrast in fiscal policy between the U.S. on the one hand and Europe and Japan on the other. While the cumulative swing to fiscal ease between 1982 and 1985 in the U.S. amounted to nearly 4% of GNP, and was the primary force pulling the world economy out of the deep recession of the early 1980's, the comparable change in the direction of fiscal restriction was 2 1/2% in Japan and over 3% in Germany.