cial community that the G7 governments could continue to manage successfully the devaluation of the US dollar relative to the yen and D-mark. The fear of a precipitous collapse of the US dollar in turn fueled fears of inflation, a possible increase in US interest rates and an abrupt end to the short business upturn.

The G7 governments had to restore confidence in their ability to manage currency levels and they did so with amazing speed and effectiveness. Mr. Baker immediately recanted on his criticism of Bonn, and appropriate statements were made by all parties as to their continued adherence to the Louvre Accord. The central banks of the G7 countries all immediately moved to provide greater liquidity for the international monetary system. Within days a number of interest rate cuts were announced in Bonn, Tokyo, London and Paris. Although the details are still unclear, there is evidence that these cuts were carefully coordinated and had been arranged by telephone contacts among Finance Ministers. The G7 did not meet; it did not have to meet. The situation was assessed and joint action taken with marginal transaction costs.

While caution must be exercised in drawing conclusions from a crisis situation, one lesson clearly emerges from these events. The international business community expects the G7 governments not only to coordinate their macro-economic policies, but to be seen to be cooperating with each other even if this entails modifications to "national" policy. Governments seeking to ensure acceptable levels of national economic growth and employment have no option but to respond to this expectation. Active intervention in international currency markets in thus seen as a matter of necessity not of volition.

Growing excess capacity

The nature and extent of government intervention in the global market economy is being determined by another problem, just now emerging, of a chronic surplus capacity in many traditional and new industries. There is now considerable evidence that the unprecedented rate in the application of technology to production has produced a quantum leap in productive capacity, and in many product areas global demand is insufficient to absorb production at prices high enough to maintain both employment and profitability. Naturally, there has always been a cyclical problem in maintaining supply/demand equilibrium, but many experts now believe that the problem has become structural.

Governments that want to retain political power have no choice but to respond to problems of large, well organized, well financed and articulate domestic constituencies. Chronic surplus capacity is a political as well as an economic problem. As the latter, it has been experienced over several short business cycles in a number of important "traditional" industries such as shipbuilding, steel, autos, motorcycles, textiles, civilian aircraft, ball bearings, shoes and consumer electronics. Even "new" product lines such as semiconductors, numerically controlled machine tools, personal computers and video cassette recorders are already competing in saturated markets. Excess capacity soon leads to fierce competition on a global basis. It almost invariably results in downward pressure on wages, employment and profits. Both organized labor and the corporations concerned demand that their government take action to protect jobs and profits if it is to retain their political support. As such support is often regarded as critical to retaining political power, governments feel compelled to accommodate such demands.

Manage trade or fail

One way in which governments have reacted to their domestic pressures is to play an enhanced role in the management of international trade. Whatever may be their ideological predisposition in favor of more liberalized trade, governments feel constrained to indulge in protection. The gap between rhetoric and reality on trade matters has become wide. S.A.B. Page in her seminal work on the subject conservatively estimated that managed trade grew from 40.1 percent of world trade in 1974 to 47.8 percent by 1980. The instruments of the new protectionism include cartelization, the negotiation of voluntary export restraint agreements (orderly marketing arrangements), quotas, direct or indirect subsidization of exports, and "administrative" protection using national trade remedy laws.

As the problem of surplus capacity grows, so will the tendency to conclude informal market-sharing agreements negotiated through governments. The advantages of managed trade for both the private sector and governments have been well documented. First and foremost, market-sharing enhances profits. For example, a recent study concluded for the IMF estimates that in the first four years of US restraints on foreign auto imports, an additional US$12.25 billion was reaped by US auto corporations. Moreover, export restraint agreements tend to favor the larger and well established exporting firms rather than small exporters and newcomers. As for governments, the conclusion of export restraints allows them to demonstrate to specific pressure groups that they are protecting domestic industries and jobs. The considerable costs to the consumer of the new protectionism are largely invisible, and thus politically palatable. Also, because most arrangements such as voluntary export restraint agreements are "non-agreements" in a legal sense, they can usually be concluded by the executive branch of government in secrecy and without legislative review or public scrutiny. Political benefits are thus maximized and risks minimized. To expect governments to resist the practical political efficacies of this new protectionism in favor of a theoretical commitment to giving freer play to market forces appears, in light of recent global developments, to be quite unrealistic.

East-West trade issues

Yet another development pressing the governments of the AMECs toward an even more active role in managing the world economy is the growing interface between the market and "command" (state managed) economies. Recent years have seen a significant growth in East-West commerce, principally in two forms of commercial activity, namely, joint ventures and countertrade, both of which tend to involve a major input by governments. For their part, the governments of the command economies will want to ensure that this commerce can be legitimized in terms of official ideology, that the element of class dominance can be regulated, that joint ventures and countertrade conform to overall state economic plans, and that economic benefits be maximized at minimal political cost.

On the other side, the governments of the AMECs also have grave political concerns about the nature and extent of East-West commerce. The most pressing concern relates to technological transfers. The Coordinating Committee for Multilateral Export Controls (COCOM, a group of NATO countries) continues to seek to exclude the export by them of technologies of potential strategic value to COMECON states.