Kingdom, the US, the Federal Republic of Germany, France and Japan ] meeting of September 22, the Baker initiative in Seoul) was characterized by a complex matrix of interrelated problems. What are the implications for policy?

First, and most fundamental, is the fact that the prolongation and exaggeration of imbalance has ruled out a unilateral US solution to the growing systemic strains. The standard prescription of summiteers and others — a substantial and sustained reduction in the US fiscal deficit — would both lower interest rates and the dollar but would also, for a time, reduce (already slowing) US growth, since the induced lower interest rates would stimulate activity and the lower dollar [would] increase net exports only with a lag. The net result of this unilateral policy would be to lower activity in the rest of the world because the impact of lower US growth and enhanced US competitiveness would outweigh the (lagged) stimulative effects of lower interest rates and improved terms of trade.

The consequences of lowered world growth on the heavily indebted countries would be very serious indeed and hardly needs spelling out here.

Further, although the main focus of US trade policy prior to the Bonn Summit had been the launch of a new GATT round as a bulwark against the rising protectionist tide, it was increasingly clear that a new round in and of itself could prove inadequate unless US export prospects were enhanced by improved competitiveness and by growing, rather than shrinking markets abroad, a development which was rather improbable with unchanged policies in the other major economic blocs. Moreover, enhanced American competitiveness (and the need to service expanding US net foreign debt) implies an eventual turnaround in the US trade account which could provoke serious protectionist response in a sluggishly growing Europe and "import-resistant" Japan, thus again threatening the breakdown of the trading system and the renewed eruption of a global debt crisis.

The logic of linkage is thus both clear and relentless. It starts with macroeconomic co-ordination as the necessary foundation to preservation of the international trading and monetary system. But the lessons of recent years show that it is not enough. In both the domestic and international sphere, trade policy and structural adjustment — micro and supply-side — are as important as monetary, fiscal and exchange rate policies — macro and demand-side — to the effective functioning of the world economy. The required scope for effective co-operation is thus very broad indeed.

In 1985 Act One in the long-running drama entitled "Coping with Global Interdependence" took place in the Palais Schaumberg, Bonn. The critical reviews were not kind. One, headlined "The Little Summit that Wasn't," captures their flavour:

"From May 2 to May 4, some 3 000 newspaper and television reporters revived old friendships in Bonn, and a day later President Reagan laid a wreath at the West German military cemetary at Bitburg. Oh yes: at more or less the same time the leaders of the US, Britain, West Germany, France, Italy, Canada and Japan held their annual economic summit. Not much happened." (*Business Week,* May 20, 1985)

That assessment is not only unkind but also misleading. If (with the benefit of hindsight) the critics