

SUMMARY

Dr. Ostry, in a speech to the International Monetary and Trade Conference, in Philadelphia, December 8, made the following points:

- Our world is increasingly interdependent. Countries are linked through trade and especially financial flows. Powerful economic forces, emanating from macro-economic policy, capital flows, exchange rates and trade, are also inter-related.
- Economic policy, and the domestic and international institutions in which policy is made, have adapted to these changed circumstances but they have not kept pace with the "clock of rapidly accelerating economic interdependence".
- The result has been serious imbalances in the world economy. Divergent growth rates among industrialized countries, different rates of employment generation, dramatic imbalances in current account positions, exchange rate misalignment, fiscal imbalances, are manifestations of the problems countries have had in coping with economic interdependence.
- In combination, these imbalances provide a uniquely fertile breeding ground for protectionism. In turn, rising protectionism exacerbates the global debt problem as debtor countries find they are unable to earn the necessary foreign exchange from exports to pay-off debts.
- Macro-economic co-ordination (monetary, fiscal, and exchange rate policies) is the necessary foundation to preserve the international trading and monetary system. But trade policy and structural adjustment are equally important.
- The Bonn Summit can be described as the last act of a play that started in 1980. The decision on policy convergence, in which each country set its own strategy, had been the recipe for coping with global interdependence.
- A new act started on September 22, 1985 with G-5 Finance Ministers and Bank Governors meeting in New York. What was the change? The G-5 stressed the link between misaligned exchange rates and protectionist pressures. What was missing, however, was a recipe for macro-economic co-ordination. That is, a modification of national policies in recognition of international economic interdependence.
- The future will have to conclude the play. There have been some hopeful signs. Perhaps, fear of mutual peril will be the forcing mechanism.

Full text follows.