there has been no net job creation in Europe as a whole since 1970. The recovery after the 1982 recession made little impression on the European unemployment rate: it appears to be stuck in the 11 to 12 per cent range. By contrast, the US unemployment rate dropped from a recession high of nearly 11 per cent to its present level of around 7 per cent.

European unemployment is variously attributed to rigidity of labour markets and deficiency of demand, but there is little agreement on what portion of this unemployment would yield to an easing of macroeconomic policy, without re-igniting inflation. There is a growing risk, moreover, that as unemployment persists, the demand-deficient portion becomes resistant to the easing of policy, both through a process of inadequate investment over a prolonged period, and an erosion of workers' skills and work habits.

These imbalances that I have described have separate identities but they are clearly interrelated. Moreover, in combination they pose a signal danger: they provide a uniquely fertile breeding ground for protectionist pressures. In all countries the temptation is present to resist the consequences of the imbalances by resorting to protectionist devices.

The so-called new-protectionism has been on the increase for at least 15 years but appears to have accelerated since the recession of the early 1980s. The increasing use of non-tariff barriers (NTBs) is particularly noteworthy. According to the OECD, by the end of 1983 the product groups subject to NTBs accounted for 30 per cent of total consumption of manufactures in OECD countries, up from 20 per cent in 1980. An especially pernicious aspect of the border measures is that they create a constituency for their maintenance or even extension in both the importing and exporting countries. There is nothing in the history or analytics of managed trade which suggests it would be self-correcting.

Neo-protectionism also takes another insidious form, more difficult to measure: a proliferation of domestic policies (subsidies, regulation, tax expenditures, transfers) that have the effect, if not always the express intent, of managing the flow of trade but are considered domestic terrain and largely immune to the rules and procedures of the GATT.

The well-spring of neo-protectionism in the industrialized world has been the unwillingness or incapacity to adjust to the on-going structural changes and shocks of the 1970s – exacerbated by exchange rate turbulence and the deep recession of the 1980s. GATT – the unfinished leg of the postwar multilateral tripod – was not designed to deal with the blurring boundaries of domestic industrial policy and trade policy nor with the massive diversion of trade flows impelled by prolonged exchange rate misalignment.

Finally, apart from its harmful effects on industrial countries, rising protectionism is incompatible with the sustainability, let alone the resolution, of the global debt problem. Continued access to OECD markets is a necessary, though not sufficient, condition for the debtor countries to earn the foreign exchange necessary for managing existing debt, for building the confidence in the international community on which future financial flows will depend, and for growth.

Thus the economic background to the "events" of 1985 (the Bonn Summit, the G-5 [the United