

RESULT OF THE CONFIGURATION OF MACROECONOMIC POLICIES AND EXCHANGE RATES AMONG THE LARGEST OECD COUNTRIES. THE FOCUS OF ATTENTION IN TERMS OF THE THREAT OF PROTECTIONISM HAS, UNTIL VERY RECENTLY, BEEN ALMOST ENTIRELY ON THE U.S. DEFICIT AND THE DECLINE IN AMERICAN COMPETITIVENESS CONSEQUENT ON THE ENORMOUS RISE IN THE VALUE OF THE DOLLAR. HOWEVER, SINCE THE VERY SUBSTANTIAL REALIGNMENT OF EXCHANGE RATES WHICH BEGAN EARLY IN 1985 POLICY DEBATE HAS BEGUN TO CENTRE ON THE QUESTIONS OF THE SUSTAINABILITY OF THE PRESENT AND PROSPECTIVE PATTERN I.E. THE RISK OF A MAJOR DISCONTINUITY IN WORLD ECONOMIC DEVELOPMENTS (AN EXCHANGE RATE CRISIS; A MAJOR ASSAULT ON THE TRADING SYSTEM; A SHARP WORLDWIDE RECESSION) AND THUS ON THE APPROPRIATE POLICIES OF THE MAJOR COUNTRIES TO ENSURE AN ORDERLY REDUCTION OF THE IMBALANCES OVER THE MEDIUM TERM WHILE MINIMIZING THE ADVERSE EFFECTS ON WORLD GROWTH.

AS YOU WELL KNOW THIS DEBATE REMAINS UNRESOLVED AND IT IS NOT MY PURPOSE TO ENGAGE IT IN THIS PAPER. WHAT IS, HOWEVER, DIRECTLY RELEVANT TO TODAY'S DISCUSSION IS THAT BECAUSE OF THE PERSISTENCE AND SIZE OF THE IMBALANCES AT SOME DATE IN THE FUTURE THE UNITED STATES WILL BE RUNNING A TRADE SURPLUS. AS MARTIN FELDSTEIN HAS EMPHASIZED "THE INEVITABILITY OF THIS TRADE REVERSAL -- DOES NOT DEPEND ON FUTURE POLICY DECISIONS"<sup>(1)</sup> BUT, OF