

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 U.S. growth and enhanced U.S. 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 U.S. 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 U.S. 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 U.S. net foreign debt) implies an eventual turnaround in the U.S. 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 macro economic coordination 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 cooperation 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 cemetery at Bitburg. Oh yes: at more or less the same time the leaders of the U.S., Britain, West Germany, France, Italy, Canada and Japan held their annual economic summit. Not much happened." (1)