total consumption of manufactures in OECD countries, up from 20 percent 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 wellspring of neo-protectionism in the industrialized world has been the unwillingness or incapacity to adjust to the ongoing structural changes and shocks of the 1970's -- exacerbated by exchange rate turbulence and the deep recession of the 1980's. 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 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 <u>has ruled out a unilateral U.S. solution</u> to the growing systemic strains. The standard prescription of summiteers and others -- a substantial and sustained reduction in the U.S. fiscal deficit -- would both lower interest rates and the dollar but would also, for a time, reduce (already slowing) U.S. growth, since the induced lower interest rates would stimulate activity and the lower dollar increase net