

creases persisted in the face of falling productivity and stagnant output. Overcapacity in traditional industries became evident around the world. New technologies and a flow of competitive goods from developing countries compounded the adjustment problems of industrial countries.

Viewed at the time as a surprisingly successful recycling of petro-dollars, massive lending by commercial banks to the upper tier of Third World countries, at largely negative real interest rates, came back to haunt us as a formidable debt and liquidity problem. The prolonged global recession, arresting growth and trade, has deepened the sense of crisis.

More fundamentally, I believe, our present distress had its origins in a loss of attention to the discipline and responsibility which were so much a part of Bretton Woods. Impelled by the great prosperity of the postwar years, nations sought more than their domestic economies and the international economy could deliver. The revolution of rising expectations had inflamed much of the world.

Money — as it has been so eloquently described — is more than an economic artifact. It is an idea, a central feature of civilization. The soundness of money depends, in a liberal society, on the predictability of its value, its stability, not only for today, but for the distant future.

The inflations which gathered momentum in the Sixties, and exploded everywhere in the Seventies, gave evidence of a diminishing appreciation of this fact. Even more seriously, divergent rates of inflation among countries demonstrated a weakening commitment to the international co-ordination of policies upon which the stability of the international economy, and of money itself, depends. In retrospect, one can see the forces which led to the collapse of the fixed exchange rate system, and particularly to the loss of international leadership by the reserve currency country, the United States. One can retrace the path of fatal departure from the cohesion and international leadership which had been manifested at Bretton Woods.

Many have quarrelled with the stringent policies which nations have felt compelled to adopt to arrest the disease of inflation. Interest rates, in both nominal and real terms, reached destructive levels and still remain disruptively high. I have been among those who believed that the mix of policies in the United States, particularly the size of the US deficit, contributed to this phenomenon and remains a contributor today.

I do not believe there is serious quarrel within the US Administration with this concern. But the level which interest rates reached also demonstrated how deeply embedded inflationary expectations had become. Clearly, the world would not have suffered so wrenching and destructive a recession if all nations had recognized earlier the cost of inflation, and the cost of its cure.

But enough of the past. What is our present condition, and where do we go from here?

*(Translation)*

It is apparent that in every industrial country a profound process of structural change is under way,