

The fiscal imbalance and consequent high real interest rate was, obviously, one major cause of the dollar's rise. Yet, at a deeper level, there is a more ominous disequilibrium. The gap between U.S. savings and U.S. demand (including the massive budgetary deficit) has been filled by drawing on savings from abroad. A mirror image of this basic savings/investment gap exists in Japan. There, net savings are not fully absorbed by domestic demand but exported as capital flows, mainly to the U.S., matched by a huge and growing flood of manufactured exports. The Japanese structural savings surplus is the root cause of the enormous and growing Japanese current account surplus.

Finally - to complete the catalogue of imbalance - the recovery has produced dramatically different results in employment as between Europe, on the one hand, and the U.S. and Japan on the other. The European unemployment problem goes back fifteen years and is most vividly revealed by a startling statistic: 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 percent range. By contrast, the U.S. unemployment rate dropped from a recession high of nearly 11 percent to its present level of around 7 percent.

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 macro economic policy, without reigniting 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 resort to protectionist devices.

The so-called new protectionism has been on the increase for at least fifteen years but appears to have accelerated since the recession of the early 1980's. The increasing use of non-tariff barriers is particularly noteworthy. According to the OECD, by the end of 1983 the product groups subject to NTBs accounted for 30 percent of