Venice Was a Bust; Here's What to Do

By Roger Altman

True to expectations, there was no progress at the Venice economic summit conference. Despite an intellectual consensus on the grave dangers of standing still, and even on the solutions, nothing happened.

This means the government-to-government negotiating process has broken down — at the worst possible time. The untenable imbalances on trade, payments and debt are finally beginning to take their toll. World growth is slowing ominously, and there is talk of a global recession. The steps that would avert it cannot wait two years until a new American President is installed and ready to lead. There is no alternative but to switch international economic negotiations onto an entirely new track.

At other crucial moments in modern history, enlightened leaders have turned to special envoys to break such stalemates. Franklin D. Roosevelt used Harry Hopkins and Averell Harriman on supersensitive war-planning matters, Richard M. Nixon had Henry A. Kissinger on China and President Reagan turned to Alan Greenspan on Social Security.

In the same spirit, and with the same sense of urgency, Washington, Tokyo and Bonn should now call in new negotiators.

True, the two summit meetings preceding the one in Venice were also do-nothing affairs. There, to excuse inaction, the leaders pointed to continued growth. But that doesn't wash anymore. America and Japan have slowed to a crawl, the West German economy actually contracted last quarter and the third world is sliding into economic chaos.

This disappearing growth and the extreme trends in international debt suggest that we are headed for real trouble. America continues to run annual balance of payments deficits approximating $150 billion, raising our external debt to $240 billion, the world's largest. Total debt of the five largest developing nations also is growing unchecked and stands at $320 billion. Worse, credit flows to these debtors are beginning to weaken. Foreign capital is pulling back from financing our budget deficits just as American banks and others are cutting off new credit to the developing world.

The United States and other chronic borrowers are careening toward the type of debt-driven adjustment that hit Mexico. Like any other debtors, we and the developing world must service our external debt. But, with less foreign credit, it must increasingly be serviced from earnings, not new borrowing.

In international trade terms, earnings mean trade surpluses. But the only route to surpluses is to decrease consumption and imports and step up investment and exports. Diminished consumption is another term for the bitter experience of lowering our standard of living. We would not be the only injured parties. The economies that have been living off exports, including Japan's and West Germany's, would drop as their foreign markets dry up. Taken together, this would mean global recession.

The time for study has passed. Here are five elements of a solution.

First, Washington has no choice but to move on its budget deficits, thereby slowing its debt accumulation, lowering real interest rates and spurring investment.

Second, West Germany and particularly Japan must undertake larger domestic-stimulus programs to promote imports. This would prod growth in the United States, the rest of Europe and Latin America.

Third, Japan, sitting on the world's biggest capital surpluses, must become financier to the developing world. It should pour capital into the World Bank and other multinational development agencies and sharply increase government-to-government aid. West Germany should make proportionate commitments.

Fourth, Washington and Tokyo should lead a new and tougher fight against protectionism. Self-defeating moves like semiconductor dumping and the Gephardt trade amendment would be stopped.

Fifth, Washington, Bonn and Tokyo should commit themselves to a more stable international monetary regime. The recent coordination on currency reference zones would be institutionalized.

The new negotiators would not need huge staffs and elaborate conferences. Harry Hopkins often negotiated alone with Churchill and Stalin, and the Greenspan group negotiated a Social Security package in two weeks. They would, however, need full backing of their heads of state and legislatures.

To provide it, President Reagan and the Congressional leadership should join together to select the American representative and a small bipartisan group to advise him. Tokyo and Bonn would do the same. Our man should be Paul A. Volcker — our only real economic leader.

These envoys should be given a finite timetable — two months, say — and promised a fast legislative track on any agreement. It is a tall order. But when the stakes are colossal and the solutions understood, there is a basis for a historic breakthrough. □

Roger Altman, Assistant Secretary of the Treasury from 1977 to 1980, is managing director of Shearson Lehman Brothers.

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