



Still life in Venice

MRS THATCHER made the right comment on the Venice summit by coming home early. Her morning phone-in appearance on British television may well have made more difference to the destiny of nations than any final amendments to the wording of the summit communiqué. This was in essence the document which has been leaked over the past 10 days by officials engaged in the preparatory work; only the question of free navigation of the Gulf was added to the agenda, and here the US partners carefully limited themselves to oratory. There appears to have been no productive meeting of minds among the canals.

It would be naive to pretend that this outcome is particularly disappointing; nothing, after all, was expected. Three of the leaders present were political lame ducks, and another facing an election; strong political decisions were not possible, even if they had been agreed.

Meanwhile the Louvre accord shows at least that sufficiently determined central banks can hold exchange rates relatively stable by means of open-ended intervention. For the time being it seems that this substitute for a strategy will have to do.

In a sense the summit came too early. The rest of the world is still waiting to see whether Mr Nakasone can win parliamentary approval for his quite ambitious plans to stimulate the Japanese economy, and whether the West Germans will become less intransigent if their economy does not revive according to the official timetable.

Debt crisis

Today's figures for the Japanese economy, which grew by only 2½ per cent in the last fiscal year, against an initial official forecast of 4 per cent, will do nothing for the credibility of official optimism, and it is not only to be seen in the surplus countries. No one in the US Administration seems willing yet to acknowledge openly the possibility that the US economy may now be drifting into recession despite the enormous scale of government borrowing, because of the burden of private debt.

This would be far more serious, both domestically and internationally, than any shortfall in the surplus countries. They have known remedies to hand, if they are once con-

vinced that they need to use them. The US is potentially faced with a deep dilemma, since any further fiscal stimulus is unthinkable, while the dollar is dependent on its life support system.

These topics could form the agenda for a genuine crisis summit if the worst comes to the worst; meanwhile it is quite understandable if the leaders keep their fingers crossed. What is unfortunate is that they did not take the opportunity of meeting in which major strategy was to be left unchanged to address some other important and hardly marginal problems.

The most obvious is the continuing debt crisis. President Alfonsin's address to the industrial leaders, calling for a genuine debt reconstruction, seems to have gone unheard. Meanwhile the Baker plan for constructive lending appears to be permanently stalled, and the commercial banks are under pressure to make substantial write-offs. Some official initiative might have been hoped for on the anniversary of the Marshall Plan, but it seems that self-interest is no longer as enlightened as it was 40 years ago.

Trade might also have been discussed; President Reagan's gesture in softening some recent US sanctions against Japan should have created the right atmosphere. This, however, would certainly have risked disharmony. Three of the seven leaders present are committed to agricultural protection, which reaches its most absurd extreme in Japan and this issue will certainly elude crucial in the current trade round. However, trade negotiations are notoriously slow so that this issue too could safely be left in the pending file.

This Micawberish approach could still succeed. There are now signs of buoyant private spending in West Germany and Japan, after a rather protected adjustment lag; and trade volumes are now responding strongly to the realignment of exchange rates.

However, time is growing short, because intervention on the scale set recently courts a rerun of the monetary inflation of the late 1970s. The question which Venice leaves on the agenda is whether effective political leadership can be re-established in the US and Japan in time to face the real problems which can already be heard stirring just off-stage.