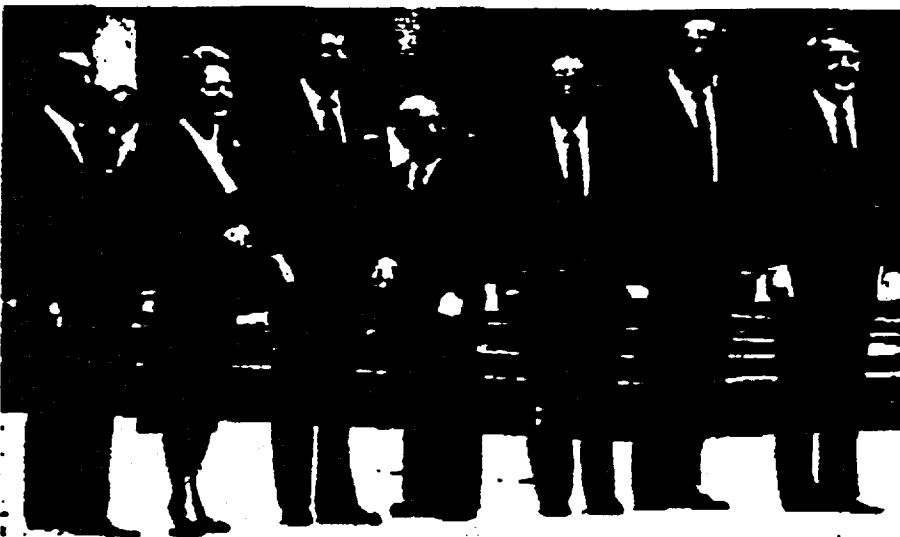


WORLD BUSINESS

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Deathly in Venice



The leaders of the seven biggest industrial countries, pausing between photo-opportunities, have produced yet another "accord" on exchange rates and macroeconomic policy. Their Venice agreement contains just enough substance to avoid being written off as a flop, but not enough to have any effect on their economic policies—altogether, a masterly piece of drafting. After weeks of coaching on what not to

expect, the world's financial markets were not unduly surprised or disappointed by this, and officials therefore congratulated themselves for making matters no worse. The trouble is that the world's economic problems loom just as large as they did before the meeting.

The economic backdrop to this thirteenth annual summit was a lot drabber than the scenic one. Forecasters (at the IMF,

for example) have been revising their projections of world growth steadily downwards since last year. American interest rates are rising. Protectionist feelings are running high in Washington. Mr P. Volcker, perhaps the only economic anchor America has had in its recent sea of troubles, has resigned as chairman of the Federal Reserve. The dollar has fallen a long way, yet still looks fragile. World recession cannot be ruled out.

By now the summitters—and especially the three that matter, President Reagan, Mr Yasuhiro Nakasone of Japan, and Helmut Kohl of West Germany—must be tired of hearing how easy it would be to attack these difficulties. The near-unanimous view in the markets (echoed in private by officials) is that America needs to curb budget deficit while Japan and West Germany increase theirs. That, according to everybody's economic model, would bring trade flows back towards balance and would let the dollar stay roughly where it is without the need for higher interest rates in America. Given the political will, the summit might have taken several large steps in that direction. Instead, it took a tiny one.

Every year, the G7 countries (the three plus France, Britain, Italy and Canada) will provide each other with medium-term projections for their economies. These will probably include growth of output, monetary growth, budget and current-account deficits, and exchange rates. The G7 will check that these are consistent with performance then starts to deviate from the projections, the finance ministers will discuss what to do about it. There is

Luring sailors to Venice

At Lepanto in 1571, the Venetian fleet helped to defeat the Ottoman Empire in a victory that blocked the spread of Islam in Europe. Venice's twelfth-century Arsenal, Europe's first mass-production industrial complex, was the shipyard that made the Lepanto victory possible. Now the Aga Khan, spiritual leader to 12m Muslims, wants to buy it, together with a friend, Mr Gianni Agnelli.

The Arsenal's present owner, the Italian Navy, has agreed to turn it over to the civil authorities next year. Some in Venice, where space is scarce, want low-rent housing built inside its fortress-like walls. About 80 acres are on Venice proper;



covered docking areas over the water bring the total up to 114 acres.

The Aga Khan and Mr Agnelli want to convert the Arsenal into Europe's largest marina; although tourism is the city's main industry, Venice still lacks a proper one. The Aga Khan is already the city's king of tourism. In early 1985, he acquired the CIGA hotel chain which gave him, in Venice alone, the Gritti, Danieli, Europa, Excelsior and Des Bains hotels, packed recently with summitters.

It is 25 years since the Aga Khan's first Italian tourist venture on a bit of the Sardinian coast that he named the "Costa Smeralda". Three years ago, he promised to invest a further 1 trillion lire (\$770m) if expansion were allowed. It was, and the Aga Khan will soon have 504 hotel rooms on the island.