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Venice summit blew opportunity on economy

History has it that Nero fiddled while Rome burned.

Last week at the Venice summit, the leaders of the West's seven major industrial nations, including Prime Minister Brian Mulroney, tinkered while the world economy remained in trouble.

But, then, these annual summits diverged from their original purpose a number of years ago. Today, the Western world's most important leaders meet not to solve serious global economic concerns but to take advantage of splendid photo opportunities and to make well-publicized statements on current political issues (like AIDS, arms negotiations, South African apartheid and Persian Gulf shipping).

The problem is that there is a dire need for the world's nations to start restructuring the international economic order and, thereby, grapple with the growing monetary and trade imbalances that could produce a major financial collapse.

Instead of talking about symptoms (like agricultural trade subsidies) and tinkering with the present economic system, what the summit leaders should have addressed in Venice is the underlying monetary causes and the need for a new Bretton Woods-type reform.

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In July 1944, delegates from 44 allied countries met at a conference in the New Hampshire resort town of Bretton Woods to establish a system for governing the postwar global economy. Important international economic organizations, like the International Monetary Fund (IMF) and the World Bank, were created at Bretton Woods along with a set of rules that governed the world economy for a quarter of a century.

The most important of these rules was the establishment of fixed rates of exchange among currencies and the mechanism that permitted these values to be altered. The Bretton Woods rules provided a stable monetary foundation for the phenomenal growth in postwar global trade.

This system, however, relied upon the United States to take on the primary responsibility for ordering the world economy. The U.S. dollar, due to its fixed convertibility rate into gold, became the international reserve currency.

During the 1960s, the U.S. ran into serious balance-of-payments difficulties as a result of increased industrial competition from Europe and Japan and of military spending on the Viet Nam war, which made it increasingly difficult for the U.S. to perform its leadership role. So, in the early 1970s, the U.S. brought the fixed foreign exchange rate system to an end and ushered in the present system of floating exchange rates.

At the same time as the Bretton Woods monetary system was unravelling, however, new communications technologies were developed that made possible the shifting — at lightning-fast speed — of billions of dollars in private financial transactions on a global scale. Both of these developments led to the growing prominence in international finance of the unregulated Eurodollar market and the private, trans-national commercial banks.

It was through this expanded private and unregulated international economic system that the petrodollar surpluses of the OPEC oil-producing countries were recycled to newly industrializing countries, like Mexico, Brazil and Argentina, after the oil price shocks of the 1970s.

Unfortunately, this unprecedented level of private, commercial loans to developing countries, in combination with the severe recession in the industrialized nations in the early 1980s and the dramatic drop in primary commodity prices that followed, has resulted in the well-known Third World debt crisis.

An even more significant result of the increased privatization and deregulation of international finance is what American management expert Peter Drucker has identified as the loosening of the financial or "symbol" economy of capital movements from the "real" economy of trade in goods and services.

Money has become a dominant commodity itself, rather than merely a symbol by which to measure the sale of goods and services. Moreover, this change in the function of money has created a tremendous speculative force that Professor Susan Strange of the London School of Economics has called "casino capitalism."

Capital movements have now become the driving force of the world economy. Foreign exchange transactions today amount to approximately $35 trillion per year. In contrast, world trade in goods and services is estimated to be only $3 trillion per annum.

International capital movements increasingly dominate trade in the determination of exchange rates and the value of currencies. This distorts the underlying competitive positions of industries and produces external imbalances that generate domestic demands for trade restrictions and increased protectionism.

As Deborah Coyne, a University of Toronto law professor, concludes in a soon-to-be-published paper: "Our international efforts should not only be directed at multilaterally reducing trade protectionism but should be equally directed at reversing the trend to capital liberalization and returning to the public international management of foreign exchange rates."

Canada should be working at getting the world's leaders to negotiate a present-day equivalent to what was produced at the Bretton Woods conference in 1944. From the Canadian perspective, the opportune time and place to make this happen is the Toronto economic summit in 1988.