FIRInternational

Venice summit is signal to run from the dollar

by William Engdahl

President Reagan, inadvertently or intentionally, indicated the principal result of the just-concluded Venice Summit meeting, in what was later represented as a verbal slip before a June 11 press conference. In response to a reporter's query on the future of the dollar, the President told a stunned world, "It could be within reason there would be some lowering of its value in relation to other currencies. . . ." White House press spokesman Marlin Fitzwater told the press corps immediately after these remarks, "What the President wants is stability of the dollar. In other words, no change."

However, the fact that the United States asked its trading partners to continue printing money to pay for America's \$150 billion annual foreign borrowing requirement, and its partners declined, virtually guarantees the end of the dollar's role as principal world reserve currency. The absence of the privileges associated with that role, i.e., persuading other nations to invest their reserves in the debt-paper of the U.S. Treasury, could well bankrupt the Treasury itself.

The London Financial Times declared in an editorial June 11, "Mrs. Thatcher made the right comment on the Venice summit by coming home early. . . . There appears to have been no productive meeting of minds among the canals." They conclude that "time is growing short, because intervention on the scale set recently courts a monetary inflation of the late 1970s. The question which Venice leaves on the agenda is whether effective political leadership can be reestablished in time to face the real problems. . . ."

The situation in the wake of the meeting was characterized by one informed West German observer as "not a summit, but a crater." Since January, when the U.S. administration escalated the forced bailout of its bankrupt financial

policy through "talking the dollar down," the industrial world's largest central banks, led by Japan and West Germany, have been forced to intervene to try to stabilize the dollar at a cost of what has been estimated anywhere from \$70 billion to some \$150 billion. "The central banks did a staggering intervention since January and the dollar still dropped 11% against the yen and mark," one London trader admitted.

Debt in Venice

Venice was supposed to agree on how Washington might continue borrowing \$150 billion a year, to meet its \$170 billion annual trade deficit and \$180 billion (but potentially much larger) budget deficit, without raising interest rates, and triggering overt depression prior to the 1988 elections. The dependency of the United States on Japanese credit is analogous to the dependency of the bankrupt British Empire in 1929-31 on a bailout from the United States.

In 1986 Japanese investors propped up the Reagan deficit, the indicator of the failure of the "Reagan recovery," by buying an estimated \$60 billion, almost 40% of the total deficit. When a falling dollar began to scare away further Japanese investment in the early weeks of this year, New York financial houses were forced to begin raising interest rates on treasury bonds to lure the Japanese back in for the May 6-9 U.S. Treasury sale. The underlying instability of the global economy, which has been aggravated by Washington's "dollar collapse policy," was such in the days before Venice that everyone expected the summit to reach a solemn agreement among the world's most powerful heads of state to stabilize the dollar and at least address the underlying

38 International EIR June 19, 1987

economic instabilities.

"It's simply unbelievable that the markets haven't reacted more negatively," a well-placed European banker confided to this writer the day after the Venice Economic Summit. "Nothing serious was dealt with on the Third World debt problem; West Germany refused to give anything, and Japan's pre-summit concessions won't fundamentally affect the dollar. Now you have this signal from Reagan which tells us that Washington is ready to talk the dollar down again. All expectations were on something coming out of Venice to stabilize the dollar."

The \$1 trillion debt crisis of the developing sector nations, notably Ibero-America, was one of the principal items of global instability which was expected to have been a focus of Venice. In addition, some form of joint action to deal with the collapsing dollar was considered essential.

According to a Danish Radio report from Venice, when French President Mitterrand held a meeting with Reagan on May 9, the French President asked for the issue of a reorganization of the developing countries' staggering debt burden to be discussed. Reportedly, Reagan replied by demanding instead that the industrial leaders agree to collapse the multibillion-dollar farm economies of Europe and the United States by agreeing to the Trilateral Commission "free market" agenda of the May 13 OECD ministers meeting.

The meeting got heated. Mitterrand refused to destroy his 1988 election prospects by agreeing to any further cuts in agriculture support. Reagan refused to discuss the vital debt issue, despite the manifest crisis of U.S. banks and the collapse of debtor economies across Africa, Ibero-America and the Pacific Basin. (See Africa Report, page 14.) The result was a final communiqué which said nothing of substance on the urgent debt crisis or the agriculture issue.

Some financial circles in Western Europe and Japan speculate that the failure at Venice and the "bolt out-of-the-blue" appointment of second-rate Wall Street economist, Alan Greenspan, to replace Paul Volcker at the head of the world's most critical central bank, is part of a "package." The view is that the Reagan administration is attempting to defy the laws of the universe in order to push desperately past the 1988 elections without a catastrophic financial collapse.

There is a major problem. "The second the international speculative markets get a hint that Alan Greenspan wants to lower interest rates to save the 1988 election," a leading Danish banker stressed, "that will kill the dollar completely." And the minute he tries to raise interest rates to keep investment in the dollar from Japan and other creditors, this will kill the domestic U.S. economy. Leading London financial insiders say it is impossible to keep the U.S. financial bubble from bursting at this stage for more than a few weeks or months. Most expect the dollar to come under major speculative attack by September or October, as Greenspan assumes office. "The problem is made more unstable now with Greenspan," a Swiss banking source stressed. "Now the Federal Reserve is composed of a collection of mediocrities in the midst of the greatest crises facing the world economy. People here in London are in disbelief."

At this point, the slightest shock could trigger a major financial panic of uncontrollable scale. Never before have international financial investment flows been at such a precarious uncertainty. Some London observers expect Japanese restraint against dollar speculation to erode now that Venice has passed. Once any slight shift away from Japanese support of the dollar or U.S. government treasury debt begins to appear in today's hypersensitive international markets, this could trigger the long-feared dollar crash.

New Yalta deal in Gulf?

Though denied some 24 hours later, the declaration of White House Chief of Staff Howard Baker on June 7 in Venice that "Soviet policy" toward the Persian Gulf has represented a "positive" and "historical shift" revealed more on American-Soviet cooperation in the Gulf crisis than dozens of other statements. Baker declared the following day that he had been misquoted and wanted actually to say that the Soviets had been "unhelpful."

Baker's initial statement, which was not denied by President Reagan, was taken as a trial balloon to the other partners of the Venice summit which gathered the following day, and a signal to Moscow. The same day, First Deputy Foreign Minister Yuli Vorontsov was telling the New York Times that Moscow was committed not to escalate tension in the Gulf region, and would not increase its military presence. Two days later, on June 9, two additional Soviet warships entered the Gulf, bringing to seven the Soviet taskforce.

The June 9 final resolution of the Venice summit did not speak of further Western military build-up in the Gulf region, focusing instead on efforts at the U.N. Security Council by the five permanent members, who have been meeting continuously in secret for the past four months, at the initiative of the United States and Soviet Union.

More revealing was perhaps the resolution on terrorism: It took most of last year's resolution, but deleted, at the initiative of the U.S. delegation, the sentence calling for an "arms embargo against all States sponsoring terrorism." An assistant to Shultz commented that this was to avoid a painful reminder of the Irangate affair.

EIR June 19, 1987 International 39