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.