

## Eye on Washington by Nicholas F. Benton

### Swiss banker warns of economic doom

Rainer E. Gut, chairman of the board of *Crédit Suisse*, one of the three giants of Swiss banking, made sure that his audience at the National Press Club here June 17 understood the purpose of his speech: to shatter illusions about the state of the world economy that the myth-makers of the "Reagan economic recovery" have been spreading around town.

He warned of "dark harbingers of the nasty surprises that may be in store for us during a period of rising inflation and interest rates." He cautioned that "we may awake to the sight of our financial system in ruins."

Asked by the moderator whether he had anything good to say about the world monetary system, Gut replied: "No, frankly. It is very difficult to be optimistic. There is very little optimism warranted."

Gut told this reporter that he sees the world economy heading in the same direction as his *Crédit Suisse* colleague, Hans Georg Rudloff, who shocked the financial world earlier this year when he said, "We stand at the verge of the worst crash in history."

"I differ from Rudloff only in that I think the crash could be averted, if the right steps are taken, boldly enough and soon enough," Gut told me.

He called the Venice summit a failure, because it "did not manage to give any convincing signals to the markets" that firm measures will be taken to ease the global "climate of uncertainty."

The leaders there demonstrated "a

stubborn refusal" to come to grips with real problems, which, he said, "is all the more puzzling as the signs of a further slowdown in growth are, so to speak, increasing every day."

He predicted that "protectionist measures are likely to remain strong," leading to "worldwide confrontation and the erection of trade barriers."

Thus, he said, the day is over for "excesses such as the euphoric mood on major stock exchanges and the highly speculative use of new financial markets. . . . The international financial system has become considerably more vulnerable."

Because of the U.S. trade deficit, the dollar will continue its fall after a few months, and the bubble will burst, "sooner rather than later, on the volatile Japanese equity market, given the negative impact of the massive yen appreciation on the economy."

Competition, he said, will become "so strong that only banks which are able to offer all the important banking services on a truly international and global basis will probably survive. Institutions with a narrow focus on the domestic market, or which engage in only one of the main areas of business, are likely to have difficult times ahead of them."

"The hour of truth and trial will come," Gut said, "once interest rates start to rise again over a wide spectrum. . . . The naive belief that the five-year-old boom on the equity markets will go on forever is a dangerous assumption, a figment of the imagination."

The catastrophic consequences of collapse are magnified, he said, by "the fact that the markets are increasingly detaching themselves from the real economy and are starting to lead a life of their own. . . . The trend toward replacing part of the traditional lending business by transactions in the form of marketable securities increases the

volatility of the financial markets. . . . Since 1980, total international capital-raising has more than tripled, from \$125 billion to \$380 billion, [leading to] 24-hour trading in financial assets. . . . The volume of trading in U.S. Treasury paper outside the U.S. is already estimated at over \$10 billion a day, and trading volume in the Euromarkets rose 15-fold to about \$3.5 trillion."

A consequence of this, he pointed out, is that "a number of industrial companies have suffered substantial losses in foreign exchange . . . and there is a very real danger that the asset allocation of manufacturing and trading companies will be seriously impaired as a result."

### Giuliani challenges public on drugs

Rudolph Giuliani, the man who, as the corruption-busting U.S. Attorney for the Southern District of New York, is rapidly developing a reputation as the Elliot Ness of the 1980s, told the National Press Club here June 16 that he does not expect to get the job as new director of the FBI, but will not rule out running for U.S. Senate, or governor from New York.

Giuliani gave up a post as assistant attorney general in charge of the Criminal Division, the number-three slot at the Justice Department, in order to go to New York and prosecute an astonishing number of Wall Street corruption and drug cases since 1983.

Law enforcement, Giuliani said, "can only hold the line against crime. It cannot defeat it. In a democracy, values are taught through private institutions, not dictated by government." He said that stopping drugs is a matter of changing values. "If we were a totalitarian society, we could expect the government to solve the problem," he said.