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Reagan alarms markets, sending aides scrambling to calm currency dealers

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VENICE

U.S. President Ronald Reagan startled financial markets yesterday when he said there could be "some lowering" of the U.S. dollar, but White House aides quickly scrambled to assert that the U.S. position remains unchanged in favor of a stable dollar.

The dollar fell against most major currencies in foreign and U.S. trading immediately after Mr. Reagan's remarks, but rebounded somewhat after his aides sought to reassure currency markets with a clarifying statement.

At a news conference the day after the economic summit ended, Mr. Reagan was asked if he thinks U.S. interest rates should remain low to help fight inflation, or should be forced higher by the Federal Reserve Board to help support the declining dollar.

He responded: "Well, frankly, most of us believe that the dollar should remain stable. It could be within reason that there could still be some lowering of the value in relation to other currencies."

That was the zinger.

Treasury Secretary James Baker and other U.S. financial leaders had taken great pains in recent months to state that the dollar had fallen enough, after plunging almost 50 per cent against other major currencies since mid-1985.

In fact, the summit's final communiqué included a declaration that "further substantial shifts in exchange rates would be counter-productive."

Minutes after Mr. Reagan's news conference, his aides told reporters that the President wasn't trying to "talk down" the dollar.

A senior official, who spoke on condition that he not be identified, said Mr. Reagan went to his hotel suite after the news conference, turned on the television and saw a reporter talking about the President driving down the dollar.

According to this official, Mr. Reagan promptly telephoned White House press secretary Marlin Fitzwater and ordered him to set the record straight. Mr. Fitzwater quickly relayed word to the media.

"There was no intention to drive the dollar down further," he said. "He wants stability in the dollar. Period."

Asked what the President meant when he mentioned "some lowering" of the dollar, Mr. Fitzwater replied: "He was referring to other forces."

By then, the dollar was already declining on foreign exchange markets, where speculators are extremely sensitive to any possibility of a shift in Government policy.

The dollar was trading at 1.7920 West German marks within minutes of the remark, down from 1.7965 two hours earlier, and slid to 142.55 Japanese yen from 142.75. At the close of trading, after Mr. Fitzwater's explanation, the dollar had rebounded to 1.7954 marks but had dropped further to 142.50 yen.

The dollar is particularly sensitive to remarks by U.S. officials, partly because the Reagan Administration, until recently, had used such tactics to seek a deliberate lowering of the dollar.

U.S. officials did so in the hope that a weaker dollar would improve the record $166-billion (U.S.) annual trade deficit by making imports more expensive and U.S. goods more competitive abroad.

However, the lower dollar began rekindling inflation in the United States and created havoc in the export-driven economies of Japan and West Germany.

At a Feb. 22 meeting in Paris, the United States joined the other major Western industrial nations in agreeing to support the dollar at current levels — and to stop trying to "talk it down further."

Since then, the Federal Reserve Board and other central banks have spent millions in foreign exchange markets, a process known as intervention, in an attempt to prop up the dollar and keep it from sliding further.

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