Eye on Washington by Nicholas F. Benton

Reagan confronted by ghost of Smoot-Hawley

Ever since the bottom dropped out of the stock market last October, "experts" have sought to soothe the national psyche by reminding us that it was not the crash of 1929 which brought on the Great Depression of the 1930s, but it was the viciously protectionist Smoot-Hawley bill, passed in June 1930, which really set off the collapse.

Getting official Washington to respond seriously to the reality of the impending economic collapse requires a relentless effort to demonstrate that, because the workings of the minds of the nation's financial elites have not changed in the last 60 years, we are walking down the very same path to disaster that we followed in 1929-30.

So when this reporter got an opportunity to put a question to President Reagan directly, during his surprise press conference in the White House briefing room May 17, I equated the current trade bill on the President's desk with the infamous Smoot-Hawley.

"Some people are saying, Mr. President," I began, "that if your veto of the trade bill were to be overridden by Congress, the effect would be similar to Smoot-Hawley."

The obligatory question that I followed with was secondary, although a matter of genuine concern to many people, even in the administration, who have told me they are "baffled" by the reasons the President has given for opposing the bill. I asked, "So why is it that the administration is saying it is only the plant-closings provision that is wrong with the trade bill, that otherwise you would support it?"

My question gave the President a chance, if he wanted it, to delineate all the pitfalls of the trade bill, and, in fact, disassociate himself from the idea that only the plant-closings provision stood in the way of his supporting the bill. Instead, he gave a lengthy answer explaining the reasons why it was the plant-closings provision which was the "main" problem with the bill.

With answers like Reagan's, indeed, we are well on our way down the path to a Great Depression.

Baker rattled by charges of failure

A similar exchange, only more extended, occurred the day before with Treasury Secretary James Baker III.

On this occasion, Baker, Federal Reserve Chairman Alan Greenspan, and others were releasing a report of the "Working Group on Financial Markets" appointed by Reagan to figure out how to prevent another market crash. The report, like that of the so-called Brady Commission before it, contained no remedies of substance, blaming the crash not on fundamental economic factors, but only on technical market factors.

Greenspan's was the most absurd remark at the press briefing, saying that the 508-point drop in the market last Oct. 19 was "due only to the development of extraordinary technological capabilities over the last 10 years," that created "new communications systems so advanced and sophisticated that they handle a pace much more rapid than before."

I challenged Baker, saying, "Last fall we were told that two things had to happen to avoid the October crash from becoming a repeat of 1929. First was that the federal deficit had to be reduced. Well, now Chairman Greenspan says that the FSLIC [Federal Savings and Loan Insurance Corp.] borrowing authority is unsufficient and FDIC [Federal Deposit Insurance Corp.] head William Seidman says that there is $60 billion deposited in insolvent savings and loan institutions that needs to be covered."

An agitated Baker interrupted, saying, "Whoa, wait on a minute. That situation is under control. We had a very orderly budget deficit negotiation last fall."

I then held up a copy of the administration's Fiscal Year 1989 budget document, produced by Baker in February, and said, "I remember it well, and right here it says that 20% of your entire $45 billion budget reduction was supposed to come from reduced outlays for the FDIC and FSLIC, but now they need massive additional funds."

Baker retorted, "What does that document say? I don't understand."

I answered, "It's right here in black and white. It's your document. It calls for reducing their outlays from $41 to $32 billion."

I went on, "You also said that it was the Smoot-Hawley protectionist trade bill that really caused the last Depression, and now, at almost exactly the same time lapse as after the 1929 crash, there is another protectionist trade bill that Congress is mustering the momentum to pass over the President's veto."

Baker snapped back, "What makes you so sure the Congress will override it?"

I said, "You say there's nothing wrong in it but the plant-closings provision."

Baker retorted, "That's not true. I said on TV Sunday there was more to it than that."

Indeed, he may have. Whatever he said, however, was a view either not shared by or with the President, whose answer to me the next day further ensured his Herbert Hoover legacy.