

Eye on Washington by Nicholas F. Benton

Phelan: Will next crash be 'granddaddy'?

Who could ever forget the stunned look on the face of John Phelan, the chairman of the New York Stock Exchange, that was televised all over the world last Oct. 19 when the stock market crashed over 500 points.

Phelan has apparently recovered, but made it clear May 25 when he spoke on Capitol Hill to the Congressional Clearing House on the Future that he's convinced the monster is lurking in the darkness waiting to attack again. Phelan gave a grim prognosis for the economy, even while insisting he is optimistic.

He stated at least a dozen times that the economy is headed into a very sharp "adjustment period" within the next year, and that the only unanswered question is what form it will take. He gains his "optimism," he said, by looking at the second half of the 1990s. By the year 2000, things should be looking pretty good. What he ignores in that view, however, is that if the "adjustment" is too severe, it may be fatal.

Phelan got much more serious about the coming crash when he took his first question, from this reporter.

I cited the statistics to show that the economy was following the same pattern as that of the post-1929 crash period, noting all the recent bad news on the federal budget and trade deficit fronts. In particular, I said, the fact that federal revenues for April were only a surplus of \$13 billion, one-third the total of a year earlier, and the \$30 billion needed to bail out the Federal Savings and Loan Insurance Corpo-

ration were sure signs that the federal deficit was out of control.

I also noted that the trade bill is full of protectionist booby-traps, which will have the same negative impact on world trade as the infamous Smoot-Hawley bill of 1930. Finally, I noted that interest rates on bonds are starting to rise.

Phelan didn't take issue with any of these points. Instead, he said, "Well, I said we are closer to going into a valley than onto another peak. Just how deep that valley will be is only a matter of opinion. I don't believe, personally, it will be that bad. But I could be wrong. I prefer to look over the valley ahead to the next peak, and to the growth we'll have by the end of the next decade.

"But there's not a time when I see Mayor Koch of New York, when he doesn't show me that chart of how the market behavior in 1929-30 and now are identical in the post-crash months. Perhaps he's right in the point he's trying to make, that we're heading into another depression. He's trying to trim the sails in his city to prepare for the storm," Phelan admitted.

He then rattled off the usual litany of new policies which should, he conjectured, avert the worst effects of the coming "adjustment." However, he cautioned that there is a recession coming, and "the only questions are these: How severe will it be, when will it come, and when will it end." Views, he said, "vary as much as from saying it will only be a rolling adjustment to those who say it is going to be the granddaddy of all time. I am somewhere in the middle between those two extremes in my own expectations."

He warned that the new danger on the horizon, which was not a factor in the 1930s, is the emergence of the Japanese and the European Community as major competitors on the world market. He said this will force the U.S.

economy to adjust for quality, rather than quantity, but added that since the Japanese still appear to be interested in building in the United States, themselves, "it does not serve their interests to do anything to us that would be deliberately discomfoting."

Having made the first point of his message—that a recession is coming—Phelan focused on his second point. That is, the way to get out of it will be a "new social agenda" to deal with, primarily, bringing the federal budget deficit under control.

Phelan was short on specifics, and spoke only in apocalyptic terms. "People don't like change. But they're going to have to be prepared for it, because I can tell you that we are not going back," he said.

Yeutter: Trade bill allows 'wiggle room'

U.S. Special Trade Representative Clayton Yeutter, in exclusive remarks to this reporter May 24, the day the President vetoed the Omnibus Trade Bill, said that even though there are protectionist provisions in the bill, they will not worsen the U.S. trade deficit position, at least during Reagan's tenure.

He said, "There is enough wiggle room" in some of the retaliatory provisions of the bill to allow the President "a lot of discretion on how to apply the laws." On the other hand, he warned, the next President may choose to apply those provisions differently, in a way that could be disastrous to world trade.

Reagan has said that if only the provision requiring advanced notice of plant closings, and certain restrictions on Alaskan oil sales and transport, are removed, he will sign the bill.