Eye on Washington by Nicholas F. Benton

'They tell me it's just a correction'

On the Saturday before the Great Crash of Oct. 19 knocked 508 points off the stock market, President Reagan stepped out of his helicopter on the south lawn of the White House, returning from his first post-operative visit with Nancy at the Bethesda Naval Hospital.

The market had plunged over 100 points the day before—a temporary single-day record. While the rest of the White House press corps asked the President how Nancy's operation went, this reporter shouted over the loud whir of the helicopter, "What do you think of the stock market, Mr. President?"

Reagan cupped his ear to hear the question, asking me to repeat it. When he finally heard it, his answer was so brief, it virtually assured that the market would cave in to all-out panic on Monday. Making his first on-the-record comment on the subject, he said only, "Well, they tell me it's just a correction."

Over the next four days, the scene was repeated at least twice a day: Every time Reagan left or returned from visiting Nancy at Bethesda, he would emerge onto the south lawn to shout over the din of the helicopter his latest comment on the market.

After that first time, however, his remarks weren't so glib. As the bottom fell out Monday, he repeated a litany of "strong economic indicators" he had been handed to rehearse that morning.

By Tuesday, a lectern had been set up by the walkway between the portable helipad and the White House so he could read lengthier statements.

Still, the casual image of making an offhand remark while on his way to or from seeing Nancy was in keeping with how Reagan's advisers told him he should handle the crisis.

The President's role was supposed to be to convince the world that Santa Claus really exists, even though his beard just fell off.

But Reagan's performance was far eclipsed by that of James Miller, head of the White House's Office of Management and Budget, who strutted into the White House press briefing room the morning after Bloody Monday and announced that the Gramm-Rudman automatic sequester had begun that day to slash the Fiscal Year 1988 budget, and that the federal budget deficit was being conquered.

Miller's nervously boisterous behavior proved that the administration simply wasn't prepared to cope with reality.

When this reporter asked Miller how he expected to meet the FY88 deficit reduction figures now that a trillion dollars had been wiped out in one day, blowing the nation's revenue base to smithereens, Miller categorically refused to answer the question.

Much to the amazement of the press corps, Miller said he simply wouldn't comment on the stock market—as if it were totally unrelated to the deficit reduction issue he was there to talk about.

The "keep the White House out of it" tactic, pretending that the market place (with just a tad of help from the Federal Reserve and central banker friends in Japan and West Germany) can solve the market crisis on its own, is just what Herbert Hoover insisted on in 1929.

Back then, it looked for awhile as if Hoover's tactic worked. A month after the crash, the situation had "normalized," and that perception continued through most of 1930. It wasn't until over 1,300 banks failed in 1931 that it finally became clear that none of the underlying problems which caused the 1929 crash in the first place had been corrected, and that the crash had been, in reality, a harbinger of much worse to come.

Cap: 'Destruction was complete'

Lost in the frenzy of the 508-point market collapse Oct. 19 was the major news that the United States had blown away an important Iranian military target in the Persian Gulf the same day. Four U.S. destroyers fired over 1,000 rounds in an hour to pulverize and sink an abandoned oil platform in international waters that the Iranians used for radar monitoring and launching rocket-firing speedboats and mine-laying missions.

The decisive, although limited, action had been long awaited, and, as predicted, restored the confidence of U.S. allies in the region while muting those in Congress who had been calling for invoking the War Powers Act.

Defense Secretary Caspar Weinberger walked into the American Stockholders Conference the day after the action, and opened his speech by reporting, "The operation of yesterday was carried out with ease, was done with the aid of computers, and resulted in total destruction."

With a twinkle in his eye, he then added, "Of course, I'm not speaking of the Gulf, but of the stock market."

Overall, however, there was little in what Weinberger had to report that was frivolous. He warned that the Gramm-Rudman deficit reduction sequester, if permitted to go into full effect Nov. 20, will cut 10.5% across the board in the defense budget for every category except military personnel. Such "savage cuts," he said, "will send a terrible signal to friends and foes alike."