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Risky Strategy

Attack on Iranian Site Wins Praise but Means Violence May Escalate

U.S. Says Strike Shows It Is In Persian Gulf to Stay; Congress Remains Uneasy

Soviet Role Is Called Unlikely

By TIM CARRINGTON
And GERALD F. SEIB
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—The American strike against an Iranian offshore military platform scored a tactical and political success for the U.S., but it left open the prospect of escalating violence.

The action generally was greeted warmly by America's friends in the Persian Gulf, who are providing an unusual amount of military help. And it was calculated carefully enough to receive widespread support in Congress, where skittish members might have questioned a more provocative or dangerous raid.

But it is likely the Iranians will retaliate, forcing the U.S. into a decision about still-tougher measures. And despite the initial enthusiasm for yesterday's strike, there remains a strong underlying uneasiness in Congress, which could yet curb the administration's high-profile strategy in the gulf.

Just before dawn yesterday, U.S. warships destroyed an oil platform that Iran had converted to a military command center for its operations in the Persian Gulf. The strike, on a platform 75 miles south of the Iranian coast, is being presented here as a moderate, measured military response, but one that demonstrates American willingness to respond with more force to further Iranian provocations.

Questions Answered

The attack ended a wave of questions over the weekend about whether the U.S. would retaliate or turn the other cheek. While the White House sought yesterday to assure the world America isn't seeking a confrontation with Iran, American officials also went out of their way to assure doubting friends and foes that the U.S. is in the gulf to stay.

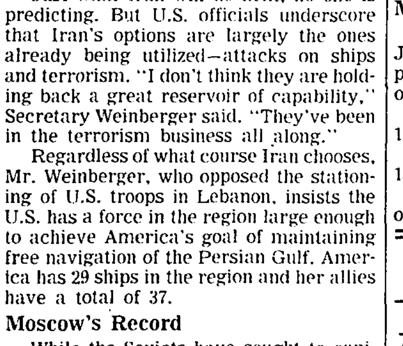
"The cost of not doing this would be to demonstrate clearly to allies and foes that Iran is free to go ahead and attack shipping," Defense Secretary Caspar Weinberger said in an interview with The Wall Street Journal.

And President Reagan, in a meeting with Saudi Arabia's Crown Prince Abdullah, yesterday responded to the crown prince's pleas that America remain in the gulf by saying, "You can count on me."

Indeed, with allied navies also plying the gulf, with Mideast nations from Israel to Saudi Arabia in full support and with the American public still widely inclined to view Ayatollah Khomeini's regime as villains, America seems to have the basic ingredients for keeping the heat on. The cautious American attack drew praise from European allies and Arab friends.

'Carefully Calculated'

Rep. Dante Fascell, Democrat of Florida, the chairman of the House Foreign Affairs Committee, called the U.S. action "carefully calculated from a military and policy standpoint." Saudi Crown Prince Abdullah told President Reagan, "I woke up this morning to very good news, the



news of your attack on an Iranian platform." Britain's Foreign Secretary Sir Geoffrey Howe said, "The U.S. is fully entitled to take military action in exercise of its rights of self-defense in the face of the imminent threats of further attacks."

Just what Iran will do next, no one is predicting. But U.S. officials underscore that Iran's options are largely the ones already being utilized—attacks on ships and terrorism. "I don't think they are holding back a great reservoir of capability," Secretary Weinberger said. "They've been in the terrorism business all along."

Regardless of what course Iran chooses, Mr. Weinberger, who opposed the stationing of U.S. troops in Lebanon, insists the U.S. has a force in the region large enough to achieve America's goal of maintaining free navigation of the Persian Gulf. America has 29 ships in the region and her allies have a total of 37.

Moscow's Record

While the Soviets have sought to capitalize on U.S.-Iranian tensions to shore up Moscow's relations with Iran, hardly anyone believes the Soviets will become militarily involved in a conflict with the U.S. In the past, Moscow has stood aside while the U.S. bombed Libya and while Israel bombed an Iraqi reactor site and shot down scores of Syrian jets over Lebanon. "Their record of coming to the defense of their allies is not good," says an administration official.

The Soviets yesterday denounced the U.S. attack as adventurism designed to distract attention from Irangate. "The confrontation is a fact now," said a Tass com-

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What's News—

Business and Finance

THE STOCK MARKET CRASHED as panic selling swept the Dow Jones industrials down 508.00 points, or 22.6%, to 1738.74. The record decline far exceeded the drop on Oct. 28, 1929, when the average slid 12.8%. Most other market indicators also skidded to record lows, as Big Board volume soared to 604.3 million shares, well above the previous record.

Economists don't expect the market's debacle to usher in a depression, mainly due to safeguards in the banking and financial systems. But many small investors remain worried.
(Stories in Columns 6, 5 and 4)

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Treasury bond prices rallied from an early slide, winding up with huge gains in heavy trading. Some 30-year Treasury issues closed up more than three points. Gold surged to 4½-year highs, though a broad range of other commodity prices declined.
(Stories on Pages 59 and 62)

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The plunge by London stocks could threaten a record $12.2 billion share offering by British Petroleum later this month. Meanwhile in France, the record drop on the Paris bourse could have political repercussions.
(Stories on Page 35)

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Treasury Secretary Baker met with Bonn officials, and both sides agreed to support unspecified changes in the seven-nation accord on exchange rates and economic cooperation. The dollar rebounded in reaction but was still lower for the day.
(Stories on Pages 3 and 52)

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AT&T's profit fell 5.3% in the third quarter, partly because of special charges. But revenue rose slightly, reflecting growth in long-distance business and strong sales of phone switches to telephone companies.
(Story on Page 2)

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GAF Chairman Heyman said he is reconsidering his $2.3 billion proposal to take the company private, citing the rise in interest rates.
(Story on Page 2)

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Ford Motor's negotiations to acquire American Savings & Loan have accelerated, and some participants hope to reach an agreement within two weeks, according to sources.
(Story on Page 4)

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Lotus Development's profit more than doubled in the quarter, helped by surprisingly strong spreadsheet sales. Microsoft's net rose 34%, while its sales growth matched Lotus's.
(Story on Page 4)

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J.P. Morgan posted a 3.6% rise in third-quarter profit, citing lower loan-loss provisions and taxes. Security Pacific's net rose 8.3%, aided by acquisitions and non-interest income.
(Story on Page 7)

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Henley Group said it discussed possibly buying Santa Fe's Southern Pacific railroad and other assets but that those talks have ended.
(Story on Page 5)

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The Supreme Court agreed to rule on the constitutionality of a federal law that allows banking regulators to suspend bank officers indicted for dishonesty or breach of trust.
(Story on Page 10)

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IC Industries plans to buy as much as $1 billion of its common shares and is considering selling its aerospace unit, valued at over $1.5 billion.
(Story on Page 12)

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Markets—

Stocks: Volume 604,330,000 shares. Dow Jones industrials 1738.74, off 508.00; transportation 776.87, off 164.78; utilities 160.98, off 29.16.

Bonds: Shearson Lehman Treasury index 1152.47, up 22.14.

Commodities: Dow Jones futures index 132.59, off 1.29; spot index 128.05, off 0.09.

Dollar: 141.33 yen, off 1.12; 1.7718 marks, off 0.0257.

World-Wide

THE U.S. BOMBARDED an Iranian oil platform in the Persian Gulf.

The strike by Navy warships, ordered by Reagan in retaliation for Friday's attack on a U.S.-flagged Kuwaiti oil tanker by Tehran's forces, destroyed the platform, which had been converted to a military command center in the gulf. The U.S. had broadcast warnings prior to the raid. American forces also destroyed some Iranian radar and communications equipment, according to the Pentagon. The attack was presented by the U.S. as a moderate military response, but one that demonstrated Washington's willingness to respond with force to Iranian provocation. (Story in Column 1)

Iran's president said that the U.S. attack was a "big mistake," and that Tehran would "take decisive retaliatory action." Moscow also faulted the action.

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NAKASONE SELECTED Noboru Takeshita to succeed him as Japan's premier.

The choice by Nakasone came after the former finance minister and his two rivals were deadlocked over who should be named president of the ruling Liberal Democratic Party. Because the conservative party controls the parliament, the winner of the top party post also becomes prime minister. Although Japan's policies won't change radically under Takeshita, 63, his lack of foreign-policy experience could worsen Japan's international relations. (Story on Page 3)

The ruling party is expected to confirm Takeshita as party leader Oct. 31, when Nakasone steps down after five years as prime minister.

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Indian troops captured a Tamil separatist stronghold in the town center of Jaffna after penetrating Sri Lankan rebel defenses, officials in New Delhi and Colombo said. Casualty figures weren't reported. In eastern Sri Lanka, at least 40 Tamil refugees were killed when a guerrilla land mine exploded near Batticaloa, police said.

Prime Minister Gandhi said in a speech in New York that India's peacekeeping forces would remain in Sri Lanka for security purposes, but "only as long as they are welcome." New Delhi sent the troops to the island nation to enforce a July 29 truce.

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The Supreme Court failed to resolve a dispute over the Reagan administration's interpretation of federal immigration law. The court's 3-3 vote, which sends the case back to a lower court, could limit the government's power to deny visas to foreigners invited to speak in this country who are tied to communist groups. (Story on Page 10)

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Mississippi Sen. John Stennis said he will retire next year, leaving a vacancy that will affect the leadership of both houses in Congress. The announcement by the 86-year-old Democrat, chairman of the Appropriations panel, came after he underwent surgery for what was described as a routine prostate procedure. (Story on Back Page)

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Jury selection began in Washington in Deaver's perjury trial as the Supreme Court rejected the former Reagan aide's bid to allow attorneys to question prospective jurors in private. Deaver is charged with lying to a federal grand jury and a House panel investigating his lobbying activities.

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The Philippines vice president dismissed U.S. threats to withhold aid to Manila's government if President Aquino is overthrown, saying Washington would deal "with whoever is on the saddle." Laurel also said that Aquino wouldn't last her full term in office, which ends June 30, 1992, unless she defuses dissent within the military.

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Bernhard Goetz was sentenced to six months in jail and five months of probation on his conviction for illegal gun possession in the December 1984 shooting of four youths on a New York City subway. Goetz, who was acquitted in June of attempted murder charges, also was fined $5,000.

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Two Indonesian commuter trains collided head-on in the southern outskirts of Jakarta, and authorities said as many as 100 people were killed and about 300 others injured. The cause of the accident wasn't known, but investigators were examining a possible communications breakdown between two rail stations near the crash site.

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The Supreme Soviet convened a two-day session to review the first two years of Gorbachev's current five-year economic plan. The 1,500-member nominal parliament, meeting in the Kremlin, heard criticism of the country's failure to meet targets in light manufacturing and machine building.

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Belgium's King Baudouin accepted the resignation of Prime Minister Martens and his center-right coalition, which offered to quit last week after failing to resolve a French-Flemish language dispute.

Market Fallout

The bears ran wild on Wall Street in the stock market's worst one-day plunge ever. The reaction by market professionals and traders was one of disbelief. Stories include:

- **Trading on index futures at the Chicago Merc led a shaky market into a full-fledged panic, page 22.**
- **The lucrative boom in takeover stocks dried up, page 23.**
- **How some market bears got out of stocks before the plunge, page 22.**
- **Markets in Europe and Asia were battered. The Tokyo exchange was deluged with sell orders today, page 50.**
- **Wary investors are looking for a safe haven in Treasury bills and cash equivalents, page 41.**
- **Mutual funds struggled to keep up with redemptions, page 41.**

The Market Debacle Rouses Worst Fears Of Little Investors

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Many Are Beginning to Talk In Terms of Doomsday; Big Investors Are Braver

A WALL STREET JOURNAL *News Roundup*

The little investor doesn't know where to turn, although bigger ones are putting up a brave front.

"I'm scared," says Julie Ianotti, an executive secretary in Houston. "My stock is my nest egg, for a house or something. Should I sell? Tell me, should I sell?"

When Ms. Ianotti's mother suggested the price drop could portend a new depression, the young Ms. Ianotti at first scoffed at the idea. "I said, 'Yeah, sure, Mom. It'll go back up.' " But as the Dow Jones Industrial Average was taking a record plunge yesterday, Ms. Ianotti says she began giving more thought to her mother's stories about subsisting on water and sugar in the Depression.

Although small investors like Ms. Ianotti were starting to talk in doomsday terms, many fatter cats seemed more smug.

Looking for Good Buys

Leo Fields of Dallas, for one, says he is drawing up a list of two dozen stocks he wants to buy, having sold a number of holdings a few weeks ago. A member of the Zale family that sold its stake in the jewelry chain last year, Mr. Fields invests in the stock market for himself and his children. He says he believes the current free fall is a correction rather than a crash. "It's difficult for me to see a 1929 revisited," he says, adding that he expects another big rally by next year.

While the stock-quotation tape was running more than an hour behind transactions yesterday, he wasn't sure what he had paid for Eli Lilly & Co. and other pharmaceutical stocks ordered hours earlier. His computer wasn't much help because his screen doesn't show market drops of more than 99 points.

Some large investors had good reason to be sanguine, having liquidated most of their holdings in recent weeks. Investor Marvin Davis said as recently as Oct. 12 that he had got entirely out of the market by summer's end. His son John Davis now says, "Our theory has been for the last eight months to a year that the market was incredibly overpriced. There's going to be a wonderful opportunity once the market has found a new lower level."

Bailing Out

Among other large investors said to have left the market in recent months are the Pritzker family of Chicago and Lawrence Tisch of New York.

Irving "Swifty" Lazar, the 80-year-old literary agent, says he was fortunate enough to get a tip from his friend Sir James Goldsmith six months ago to sell everything.

"I sold about 80% of what I had in the market, on his advice," Mr. Lazar says. He adds that he isn't too worried about the broader effects of the market decline, although he vividly recalls the closing of his family's bank in Brooklyn, N.Y., as a result of the crash of 1929.

Among smaller players, even those seldom drawn in were watching the quote boards yesterday. Investors crowded the sidewalk outside a Fidelity Investments office on the corner of Park Avenue and 51st Street in New York, watching the stock postings in horrified fascination.

Out of Order

For more than an hour during lunchtime, the information board inside Fidelity's walk-in investment center showed the Dow Jones Industrial Average off 148.50 as of 12:10 p.m. Normally, figures are updated almost continuously. But the information board, like the stock market itself, was out of order. That didn't stop investors

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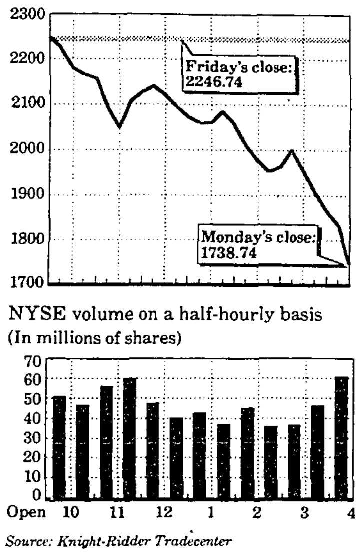
The Crash of '87

Stocks Plunge 508 Amid Panicky Selling

The Big Crash

DJIA at 15 minute intervals



Source: Knight-Ridder Tradecenter

Percentage Decline Is Far Steeper Than '29; Bond Prices Surge

NEW YORK — The stock market crashed yesterday.

The Dow Jones Industrial Average plummeted an astonishing 508 points, or 22.6%, to 1738.74. The drop far exceeded the 12.8% decline on the notorious day of Oct. 28, 1929, which is generally considered the start of the Great Depression.

Panic-driven trading on the New York Stock Exchange reached 604.3 million shares, nearly double the prior record volume of 338.5 million shares set last Friday, when the Dow plunged a then-record 108.35 points.

Commodities prices also skidded, except for precious metals and especially

This article was prepared by Wall Street Journal staff reporters Tim Metz, Alan Murray, Thomas E. Ricks and Beatrice E. Garcia.

gold, which surged $10.10 an ounce to $481.70, a 4½-year high. The bond market, a refuge for much of the capital being wrenched out of the stock market, recovered from steep early losses to end the day sharply higher.

Final Slide

The industrial average tumbled 130 points in the final 30 minutes of the session. The decline yesterday and last week totaled 743.47 points, or 30%. By way of comparison, the total drop on Oct. 28 and Oct. 29, 1929, was 68.90 points, or 23.1%.

With yesterday's drop, the average has given up all its 1987 gains and now shows an 8.3% loss for the year. From its Aug. 25 high of 2722.42, it has lost 36.1%.

Virtually every other measure of market health and investor sentiment also set new lows yesterday. Standard & Poor's 500-stock index fell 57.86 to 224.84; the New York Stock Exchange index, 30.51 to 128.62; the National Association of Securities Dealers Nasdaq composite index of over-the-counter stocks, 46.12 to 360.21; and the American Stock Exchange index, 41.05 to 282.50—all record declines.

It was "the worst market I've ever seen," said John J. Phelan, the Big Board chairman, and "as close to financial meltdown as I'd ever want to see."

From the beginning yesterday, the market was clearly in for a tough day. Futures contracts on the S&P 500 index plunged to steep discounts from the value of the index itself, triggering sophisticated traders' sales of large baskets of blue-chip stocks. But selling by others quickly became so chaotic that this so-called program selling was sharply curtailed.

Order Imbalances

How chaotic? Because of order imbalances, 11 of the 30 stocks in the Dow Jones Industrial Average didn't open for about an hour after trading began. By late afternoon, the Big Board's transactions tape—capable of handling 900 trades a minute—was running two hours and 15 minutes late. When the dust finally settled, the ratio of Big Board stocks declining in price was an unprecedented 40 to 1 over gainers; a 3-to-1 ratio is considered a rout.

Mr. Phelan said that at least five factors contributed to the record decline: the fact that the market had gone five years without a large correction; inflation fears, whether justified or not; rising interest rates; the conflict with Iran; and the volatility caused by "derivative instruments" such as stock-index options and futures.

He declined to blame the decline on program trading alone or on reports that Securities and Exchange Commission Chairman David Ruder had said he might consider a trading halt under certain circumstances. Mr. Phelan noted that only the president and the exchange itself have the right to order a trading shutdown, but he added that if the SEC asked for one, the Big Board would give it serious consideration.

In the past, Mr. Phelan has publicly expressed his concern that options and futures trading on stock-market indexes could add to volatility and contribute to a cycle in which selling caused further selling. He said yesterday that such a "waterfall" effect seemed to have occurred over the past week.

Stunned Disbelief

The reaction around Wall Street, from traders, money managers and securities analysts, was mostly of stunned disbelief. "We're in the midst of a crash," said Jon Groveman, the head equity trader at Ladenburg Thalmann & Co. in New York. Added Edward Macheski, a partner with Macheski/Pappas Asset Management in Wilton, Conn.: "We are frozen. We don't want to sell what we have, and we don't want to spend the cash that we have."

In Japan and Europe, stock markets dropped precipitously overnight in a reaction to last Friday's plunge in New York, and they are expected to react further to yesterday's crash; indeed, stocks were falling as trading began in Tokyo Tuesday morning.

There was some selling by foreign investors as the U.S. market opened, but not enough to suggest that they were bailing out completely. That, coupled with the dollar's firm tone in New York trading yesterday, suggested to some observers that foreigners might not rush to liquidate their U.S. financial assets.

As stock prices collapsed, the U.S. gov-

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A Repeat of '29? Depression in '87 Is Not Expected

Banking System Safeguards And Federal Mechanisms Are Viewed as Adequate

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

Can it happen again?

On Oct. 28, 1929, the stock market fell 12.8%, ushering in the Great Depression. While the market plunged 22.6% yesterday, economists generally don't expect another depression.

"I don't think the economy looks like it did in 1929," says George Stigler, the winner of the 1982 Nobel Memorial Prize in Economics and a University of Chicago economics professor. "The most violent and urgent of factors in the great crash was the collapse of the banking system. That can't happen anymore because of the Federal Deposit Insurance Corp." and additional safeguards.

Mr. Stigler, like other economists, stresses that today's financial system and economic policy mechanisms provide considerably more protection against the type of cascading economic collapse that crippled the nation during the Depression, which lasted from 1929 to 1933. During that period, the value of the nation's output contracted by more than 50%, and unemployment rates rose to nearly 25%.

Safety Nets

The fundamental difference between today and 1929, Mr. Stigler says, is that "you won't get the pyramiding effect" that cracked the financial system in 1929. Today, deposit insurance covers bank accounts of up to $100,000. Moreover, banking and securities laws passed in the 1930s have sharply reduced financial risk by building walls between commercial banks and brokers and by limiting how much an investor can borrow to buy stocks.

As a result, the nation has created a banking system that is much safer than the securities markets, which are subject to greater risk and to speculative excesses, says Barry Bosworth, an economist at the Brookings Institution.

Today, under the Federal Reserve Board's margin rules, buyers can borrow only 50% of the value of the shares they buy. In 1929, they could borrow up to 78%. "By 1929, a full 40% of all investors were margin buyers, many of whom pyramided their paper profits, accumulating hundreds of thousands of dollars in profit on comparatively minuscule investments," the Securities and Exchange Commission noted in its 50th anniversary publication in 1984. Today, less than 10% of all securities customers are said to use margin debt. Although the market's decline is indeed forcing investors to sell shares to meet margin calls today, the financial system's safety margin is much greater because the margin rules are tighter.

"The difference between today and 1929 is that, clearly, there are an enormous number of safety nets in place today," says David Ruder, the chairman of the SEC. He notes that "1929 was a long series of declines. This isn't, so far."

Uncharted Territory

Of course, the sharpness of yesterday's decline is taking the stock markets—and the nation itself—into uncharted territory. Nobody knows how the sudden loss of wealth—about $500 billion yesterday alone, Mr. Bosworth estimates—will change the nation's confidence and buying habits. Nobody knows whether yesterday's plunge is the end of a correction in the greatest bull market in history or just part of a downward spiral.

The Federal Reserve Board holds some of the answers to these questions. In 1929, there was "gross mismanagement by the Federal Reserve," Mr. Stigler notes. As the nation slipped into depression, the Fed slowed money-supply growth, thus choking off credit at exactly the time when the

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TWO SECTIONS

Tax Panel Aide Intends to Keep Post Until He Joins Firm Lobbying on Bill

By JEFFREY H. BIRNBAUM
And BROOKS JACKSON
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – One of Congress's most influential tax experts is continuing to work on a major tax bill after announcing that he will soon join a law firm that has some partners lobbying on the bill for clients.

David Brockway, the staff director of the Joint Committee on Taxation, acknowledged in an interview yesterday that the arrangement places him in a difficult position. But he said the chairmen of the tax-writing committees have asked him to stay on in the important post. He has held the position for most of five years.

Mr. Brockway and his future employer, Dewey Ballantine Bushby Palmer & Wood, have taken elaborate steps to insulate the 43-year-old tax expert from conflicts of interest since he agreed to take the job early this month. Mr. Brockway has removed himself from all matters involving Dewey clients, and has asked the congressional tax staff not to bring any such matters before him. Dewey lawyers have pledged not to contact Mr. Brockway on any matters before the Congress.

But even with these provisions, not all tax-writers are satisfied that conflicts have been avoided. "People around here have a lot of confidence in Dave. I know I do," said Rep. Bill Frenzel (R., Minn.), a senior member of the tax-writing House Ways and Means Committee. But, he added, "It is a mistake to do it that way. I'd feel better if he disassociated here. Everybody would feel better if he moved on. It certainly causes eyebrows to raise. If people aren't talking about it now, they will be soon."

Both the Ways and Means Committee and the Senate Finance Committee are in the midst of proposing separate, intricate tax-increase bills that are being heavily lobbied by law firms, including Dewey Ballantine. Floor action on both measures is expected within the next few weeks.

As staff director of the Joint Tax Committee, Mr. Brockway heads the staff of nonpartisan professionals who serve as Congress's tax brain, playing an integral role in the drafting of all tax legislation.

The client list of New York-based Dewey Ballantine reads like a who's who of American business, and its Washington lobbying arm is one of the best known in the tax-writing community. Its partners in Washington include former top aides to the Ways and Means Committee and former officials of the Treasury Department.

According to a recent filing, the firm's clients include: Health Insurance Association of America, Mutual Life Insurance Co. of New York, Pfizer Inc., Squibb Corp., Tribune Broadcasting Co., American Stock Exchange Inc., Bear Stearns & Co., Beneficial Corp., Chase Manhattan Corp., Chrysler Corp., Digital Equipment Corp., Federal National Mortgage Corp., General Electric Pension Trust, Integrated Resources Inc., Marriott Corp., Salomon Inc. and the U.S. Coalition for Fair Lumber Imports.

Inevitable Effects

Whether directly or indirectly, the tax legislation will have an impact on many if not all of these companies. Mr. Brockway has pledged to steer clear of items specifically affecting Dewey Ballantine clients. But, he conceded, "Virtually anything you do in the tax law is bound to have some effect on (the firm's) clients."

Mr. Brockway is one of the most respected aides on Capitol Hill and was instrumental in crafting the major tax overhaul enacted last year. Partly because of his status, both Ways and Means Chairman Dan Rostenkowski (D., Ill.) and Finance Committee Chairman Lloyd Bentsen (D., Texas) asked him to stay on through work on the deficit-reduction bill, which includes both the tax bill and various budget-cutting measures.

"It's a problem of finding a person to replace him," Sen. Bentsen said in an interview yesterday defending the decision. "While we're waiting (for the work on the tax bill to conclude) this will be the arrangement."

Early in October, shortly before both panels began to draft tax-increase measures, Mr. Brockway informed the chairmen that he intended to join Dewey Ballantine. Mr. Brockway said he told them he was willing to do whatever they wanted, including step down, but that he would fulfill his commitment to them if they wished.

The chairmen decided they would get a letter from Mr. Brockway saying he would remove himself from Dewey's clients' affairs and that Dewey would tell them and Mr. Brockway's chief deputy the names of the firm's clients.

The Senate chairman said: "He's an honest man. He'll have to lean over backwards to make sure he complies with (the letter). He'll be watched over very carefully."

No New Clients

Rep. Rostenkowski couldn't be reached for comment yesterday evening but a senior aide said: "The chairman is satisfied with that letter. Both chairmen did as much as practical to try to avoid any appearance of conflict. We did everything we could short of asking Dave to leave immediately."

"A clean break (at the end of a session) is much more desirable," said John Salmon, a partner at Dewey Ballantine and a former top aide at Ways and Means. But he added: "We have done everything we humanly could to avoid conflict." This included refusing to take on new lobbying clients as soon as Mr. Brockway agreed to join the firm.

Mr. Brockway said he made his announcement as soon as he decided to take the job in order to avoid accusations that he had kept it secret and helped Dewey Ballantine clients on the sly. Now, he said, "everyone is on notice" and he has "a defined sphere of conflicts" to avoid. He added that he doesn't intend to lobby for clients of the firm when he joins it, which will be no later than January.

But the chairmen's need for an experienced hand at the helm of the committee created a thorny problem, he said. "I was in a box I had no way out of," he said. "This is not my desire to be in this situation."

Zellars Is Asked to Head S&L Asset Disposal Agency

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—John Zellars, chairman and president of Georgia Federal Bank, has been asked to serve as chairman of the Federal Asset Disposition Association, a government official confirmed.

The current chairman, Roslyn Payne, has been under fire from some members of Congress for her performance and her $250,000 salary. The Associated Press reported that Mr. Zellars was invited to serve without a salary.

Mr. Zellars is currently one of 11 members of the board of the government agency that sells assets from bankrupt savings institutions taken over by the Federal Savings and Loan Insurance Corp.

The government official wouldn't discuss the situation further. Neither Ms. Payne nor Mr. Zellars could be reached for comment.

The Market Debacle Rouses Worst Fears Of Little Investors

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from exclaiming aloud over their misfortune.

"I feel terrible," says Hossur Srikantan, a communications manager for Union Bank of Switzerland. Mr. Srikantan says he put $100,000 into the market about 10 days ago, the proceeds of a thrift-plan settlement from his previous employer. "I've lost 25% of it," he says.

Even more downcast are Mel and Haryce Lomasky, owners of a photo reproduction business, who say they had three-quarters of their assets in the stock market. "We've lost more than $200,000," says Mrs. Lomasky. "We're going to get margin calls." The couple say they made a decision to hold fast when the market started its big slide last week. "We're just praying a lot, but I see it's not working," Mrs. Lomasky says.

Richard Hollander, a computer-systems programmer for the New York City government, says, "I feel like it should go up, so I've been holding. I'm stubborn. Stubborn and stupid, apparently."

Tom Annear, an advertising marketer, says he can't believe his eyes, as he walks up and glances at the board. He says that he pulled 80% of his money out of stocks on Friday and was "real glad" about that, but that he still has some energy and medical stocks. "There's just too much turmoil for this little guy here," he says.

A young, well-dressed woman, who says she owns stocks but doesn't handle her own portfolio, says simply, "The sky is falling."

Meanwhile, some investors who have avoided the stock market or left it recently were congratulating themselves on their good sense or good luck.

Arnie Smith, unloading fish from a truck at the corner, laughs as he surveys the intense, suit-and-tie-clad crowd. "I own some stocks in my IRA," he says. "But what can you do? If you told people four years ago that the Dow would get to 2,700, they wouldn't have believed you. You go to Atlantic City, you shoot the craps."

National Attitude

The New York attitude is reflected around the nation. Robert Anderson, the national sales manager for Amphenol Corp. in Marlboro, Mass., says "I'm semi-depressed, but I'm not going to bail out." He calculates he lost some $10,000 by mid-afternoon before the final results were in. "I told my broker I'd hang in for a while more. Overall, I've got less than 10% of my net worth in stocks. If I lose everything, it isn't a catastrophe," he says.

However, Mr. Anderson is disillusioned by the market. "They've got computers that key on other computer indicators. It doesn't seem as if we have a lot of human intervention from these million-dollar-a-year portfolio managers."

In Dallas, Don Emig, a 28-year-old area sales manager for Julius Schepps Co., a liquor, beer and wine wholesaler, is only affected indirectly through his company's profit-sharing plan and thus isn't worried at this point. "I'm not losing any sleep over it," he says. "In my everyday life I can't do anything to affect it when I wake up in the morning." He also can't imagine the current plunge having any long-term economic impact. "The government isn't going to stand by and let that happen," he says.

A Principal's Loss

A number of small investors conclude that it is too late now to bail out. "I'm scared to death, but what the hell, I'm going to leave it there," says Jerry Nasello, a salesman at Global Imports Inc., an Atlanta BMW dealership, who says he is "about 90%" invested in the stock market. "If I was going to do anything, I would have done it by now."

Robert C. McCollum, an elementary-school principal in Galena Park, Texas, says, "I'm staying in, but I'm getting more frightened by the minute. For someone on my kind of salary to lose $10,000 or $15,000 in a few days, you know it hurts."

Mr. McCollum says that about eight days ago, he considered taking his "sweet" profit in Compaq Computer shares, which had tripled in value since he bought them—but he decided against selling. Then, over the weekend, he considered unloading stocks—but again decided to stay in. "I thought that reason would take over and it would stabilize," he says. "That was my gamble."

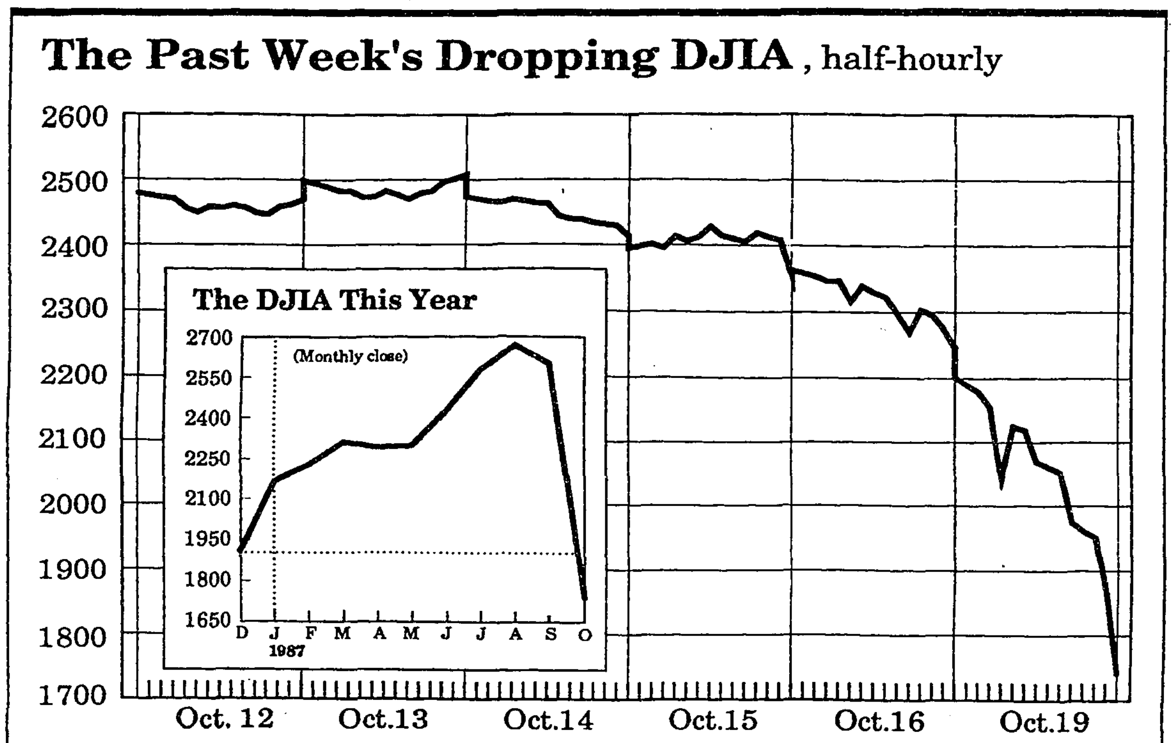
Now, he says, "I'd jump out of the window, but it is a first-story window and I'd only skin my knee."

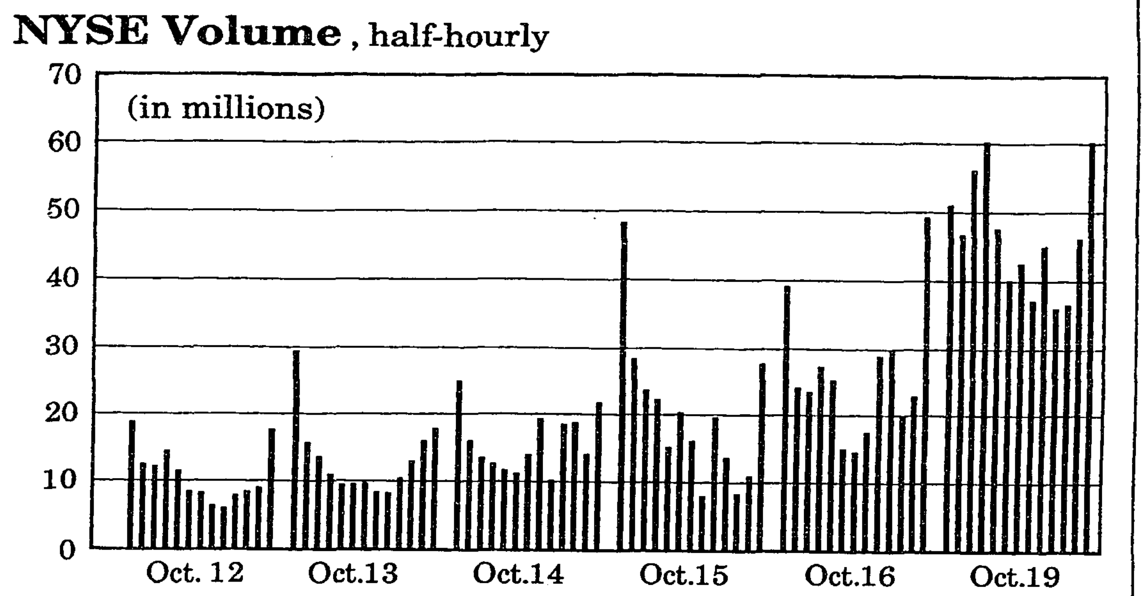
SmithKline Opens China Plant

PHILADELPHIA – SmithKline Beckman Corp. said it opened an $8.5 million pharmaceutical plant in Tianjin, China.

The plant, a joint venture between SmithKline, the Tianjin Medical Co. and Hebei Chemical Plant in Tianjin, will produce several SmithKline drugs, including Tagamet, an ulcer treatment, and Contac, a cold and allergy treatment. The company didn't indicate the plant's expected revenue.

The plant will employ 200 people, SmithKline said.





Market Falls 508.00 Points in Panic Selling; Percentage Decline Greater Than in 1929

ABREAST OF THE MARKET

Continued From First Page

ernment stood by, powerless.

President Reagan cautioned against panic "because all the economic indicators are solid," and he attributed the plunge to profit taking. "Everyone is a little puzzled," he said. "There is nothing wrong with the economy."

But as the market continued falling, government officials made a round of upbeat comments but concluded that there was little they could do other than try to stay calm in the face of Wall Street's panic. A statement from the White House acknowledged that President Reagan was concerned, and it said he had directed members of his administration to consult with the chairmen of the Federal Reserve Board, the SEC, the Big Board, and the Chicago commodities and futures exchanges, as well as other leaders of the investment community.

Merrill Lynch Statement

In an unprecedented statement to Merrill Lynch & Co.'s staff, which was released to the public shortly after the close, Chairman William O. Schreyer and President Daniel P. Tully expressed their "confidence in the financial markets and in the underlying value of financial assets in this climate." The executives added that "now is the time when it is critical that reason and objectivity prevail. America's economic system is the strongest in the world, with great inherent ability to correct itself, and it remains fundamentally sound."

But the optimistic statements rang hollow as sell orders poured in on Wall Street. "After the 1929 crash, the universal phrase was 'The economy is fundamentally sound,' " said a skeptical John Kenneth Galbraith, the Harvard economist. "Expect to hear that out of Washington over the next few days."

Early in the day, SEC Chairman Ruder suggested that he might call for a temporary suspension of trading if the market fell too rapidly. But that idea was immediately blasted by other administration officials and private analysts.

"It seems to me that's a crazy thing for the chairman of the SEC to ever talk about," one White House official said. And Sanford Grossman, a financial economist at Princeton University, called Mr. Ruder's idea "the most frightening idea I've heard in a while. Shutting the market down for a half-hour is a sure way to cause a panic."

Later, the SEC issued an unusual statement saying it "is not discussing closing the nation's securities market."

Margin Requirements

Also rejected was the idea of asking the Fed to ease or suspend margin requirements, which govern the amount of debt that an investor can use to buy stock. Easing margin requirements would reduce the need for investors to sell stock as a way to raise the cash to meet those requirements. That, in turn, would slow down stock sales triggered by such calls.

In a luncheon address, Fed Vice Chairman Manuel Johnson made it clear he saw no reason for the Fed to push interest rates higher. He said "we are satisfied" with the developments on inflation since the Fed raised the discount rate—its rate on loans to member banks—last month to 6% from 5½%.

And on Capitol Hill, legislators likewise felt powerless to act. "I don't know what kind of legislative reaction you can have to a stock-market decline," said House Majority Leader Thomas Foley.

Yesterday's thunderous collapse smashed whatever life was thought still to be in the bull market of the previous five years. Stock prices more than tripled from 776.91 on Aug. 11, 1982, to the record high of 2722.42 on Aug. 25—less than two months ago. The upward drive had been largely fueled by declining inflation and interest rates. It ended as interest rates were climbing again, raising investor jitters about prospects for renewed inflation and a recession that might come sooner rather than later.

Interest-Rate Rise

These concerns became increasingly widespread about a month ago as bond yields approached and then surpassed 10%—the first double-digit rate in two years. Stock prices began falling in earnest this month; over the past two weeks, the Dow Jones Industrial Average registered the sharpest weekly point-drops on record, setting the stage for yesterday's crash.

When will the crash end? When either the selling slows from its current torrent or when buying picks up sharply. At the same time, a complete drought of purchase orders would also halt the price declines simply because there wouldn't be any transactions.

There were indeed buyers yesterday,and they seemed to have enough cash to take on all sellers. Having big sums of money to invest—a condition that market professionals term liquidity—was as much a driving force in the market crash as it had been during much of the five-year bull market that preceded it.

Robert Farrell, the chief market analyst at Merrill Lynch, said his firm's third-quarter survey of a cross section of U.S. equity-investment institutions, taken in the middle of September, showed an extraordinary polarity on investment strategy. Some 44% were holding more than 15% of their assets in cash or cash equivalents, and a hefty 39% held less than 10% in cash.

The implications of that split are that the number of institutions holding back investment funds—presumably in the belief that prices would go lower and bargains could be found—was about offset by those that had already put about all their available assets into the market.

"The buying in this market is coming from that [the 44%] group with high liquidity," Mr. Farrell said. He said these buyers are the so-called value players, who search for bargains and avoid stocks whose prices have risen to levels that seem high relative to the market as a whole.

Mr. Farrell believes that much of the selling came from the 39% group with relatively small amounts of cash. "From the indications I get, a large number of institutions—especially the truly long-term investors—are on the sidelines."

Prominent Casualties

Among the most prominent casualties yesterday was International Business Machines Corp. stock, which nosedived 31¾ a share to close at 103¼. By one of the ways investors hunt for buying opportunities, that new price amounts to just 13.9 times IBM's per-share earnings over the past four quarters; IBM's price-earnings ratio was 18 on Friday and 24 at the market's high point two months ago.

Days with Greatest Percentage Loss: DJ Industrials

RANK	DATE	CLOSE	NET CHANGE	PCT. CHANGE
1	10/19/1987	1738.74	-508.00	-22.61
2	10/28/1929	260.64	-38.33	-12.82
3	10/29/1929	230.07	-30.57	-11.73
4	11/06/1929	232.13	-25.55	-9.92
5	12/18/1899	58.27	-5.57	-8.72
31	5/28/1962	576.93	-34.95	-5.71
75	9/11/1986	1792.89	-86.61	-4.61

Investors will be sifting for similar situations among other Dow industrial stocks, all of which fell yesterday: USX Corp., formerly U.S. Steel, collapsed 12½ a share to end at 21½; Eastman Kodak Co., down 27¼ to 62⅞; General Motors Corp., off 6 to 60; Philip Morris Inc., off 14⅝ to 88⅛; Du Pont Co., off 18 to 80½; Merck & Co., off 24 to 160; Goodyear Tire & Rubber Co., off 17 to 42½; International Paper Co., off 12½ to 33⅞; Procter & Gamble Co., off 22⅞ to 61⅜; Westinghouse Electric Corp., off 20¼ to 40¼; and Exxon Corp., off 10¼ to 33½.

Technology issues also were bludgeoned. Apple Computer Inc. plunged 11¾ to 36½; Digital Equipment Corp. dropped 42¼ to 130; and Texas Instruments Inc. fell 18¼ to 49. Among financial stocks hit hard were Chase Manhattan Corp., which fell 8¾ to 28, and BankAmerica Corp., which dropped 3⅛ to 8.

Throughout the day, prices on institutional trading desks were falling faster and further than those flashing on electronic quote services, said a big bank's equity-investment manager, who asked not to be identified. Institutional investors with their own trading desks, such as this big bank, deal directly with one another on big blocks of stock rather than rely on their electronic quotation equipment and place orders on the exchange floor. In effect, they trade among themselves, then simply log their trades with the appropriate Big Board specialists, who enter them officially into the trading flow.

Such were the downward momentum and panic yesterday that these "upstairs" trades on Wall Street were taking place "mostly at prices well below those on the Quotron screen at the time," the bank's equity-investment manager said late yesterday morning.

While the huge delay in reporting transactions on the Big Board tape doubtless made traders edgy, it didn't actually interefere with most trading, since big institutions rely on their frequent contacts with major trading desks for price information. And electronic quotation equipment available to brokers and individual investors get information directly out of the Big Board's computer database, and hence are current.

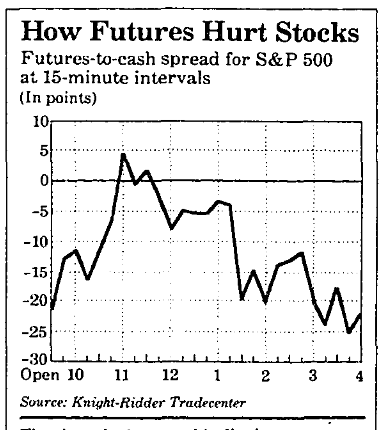
Baker Away

In dealing with the market's collapse, the administration was handicapped because its principal economic policy maker, Treasury Secretary James Baker, was away on an official trip to Sweden. Last week, Mr. Baker decided not to cancel the weeklong trip, which had been arranged months ago, for fear of making the administration appear to be in a panic.

But he wound up holding a surprise meeting on the dollar and interest rates with top German officials before reaching Sweden. And he spent much of yesterday on the phone in consultation with White House Chief of Staff Howard Baker and with senior Treasury officials. Ultimately, he decided to cut short his trip, and he will return to Washington today.

Although Washington took no action yesterday, some analysts and officials said the market collapse could ultimately spark more securities regulation. "It's tough to predict what shape it will take, but you will see a lot of response from the regulatory agencies," said Gregg Jarrell, the SEC's chief economist until last year. "You want to do some serious move—unprecedented moves—to show you're in charge."

Rep. Charles Schumer, a New York Democrat, said the market's collapse might lead Congress to increase the regulation of credit and trading limits for stock-index futures. And Roger Ibbotson, a Yale professor of finance and the co-author of a history of the stock market, predicted that the crash would result in closer regulation of corporate debt, especially junk bonds and leveraged buyouts.



Source: Knight-Ridder Tradecenter

The chart depicts graphically the relationship of futures contracts on the Standard & Poor's 500 stock index to the index's cash value. It shows, in points, the value by which the futures contract is above or below the stock market.

Arbitragers watch this relationship, called the spread, when they engage in program trading. These traders know that when the futures contracts mature, the prices in both markets must be equal, producing a reading of zero in the chart. When the chart shows a reading greater than zero, futures contracts are more expensive than the cash market, and arbitragers can seek to profit from the difference by selling futures contracts and buying stocks.

Conversely, a reading of less than zero—as was the case for most of Monday—means that the stock market is more expensive than the futures market. In this case, arbitragers would seek profits by selling stocks and buying futures.

Big Investors Say They Knew Better Than to Overstay

* * *

Trump and Others Who Sold Have Small Expectations Of Any Turnaround Soon

By RANDALL SMITH
Staff Reporter of THE WALL STREET JOURNAL

They told you so!

Some investors predicted the end of the bull market before the past week's collapse, or sold off big positions within the past few months. They include real-estate tycoon Donald Trump, corporate raider Asher Edelman, and private investor Jim Rogers.

In interviews yesterday, few of these investors were forecasting a quick turnaround.

"I sold all my stock over the last month," said Mr. Trump. "The timing was no different than the Grand Hyatt—what do you think of it?" The Grand Hyatt was a successful hotel project Mr. Trump undertook in Manhattan in the late 1970s at the tail end of New York City's fiscal crisis.

One market source says Mr. Trump made about $175 million during the stock market's move up, partly by playing such takeover targets as Allegis Corp. and Holiday Corp., but has sold most of his $500 million portfolio.

"I think the market is going to go down further," he said, because "there are just too many things wrong with the country."

Referring to the current U.S. trade deficit, Mr. Trump explained, "The U.S. cannot afford to lose $200 billion a year while Japan and Saudi Arabia are making tremendous profits and the U.S. is paying totally for their defense."

Mr. Trump said it's more difficult for the U.S. to close the trade deficit because it doesn't have free trade with Japan.

Predicted a Collapse

Mr. Rogers, formerly co-manager of the Quantum Fund and now a private investor, noted that earlier this year he predicted the stock market would have "one big move up, and then in 1987 or 1988 the worst collapse since 1937, caused by major problems with the dollar and, therefore, the bond market." In 1937, the stock market went down 50% in six months.

Now, Mr. Rogers says, "it seems to be happening. I will say I didn't expect it to happen in two months." His advice to investors: Stay out of all U.S. markets, stay out of equity markets world-wide, and keep money liquid—such as in Treasury bills or foreign-currency government paper.

Normally, he said, investors should try to buy during panics. But he hasn't been buying lately, he says, "because sometimes all the rules go out the window. We've had such massive speculation on Wall Street and in other parts of the world that the rules are going to be different."

Mr. Rogers believes there will be a financial collapse without a broader economic collapse "unless the politicians foul it up by trying to stop it, such as by putting on exchange controls—then it will be 1929 all over again." Letting the dollar slide, he says, will be good for much of the U.S. economy.

'Massively Too High'

Roland Franklin, an aide to Sir James Goldsmith, a European corporate raider who has made several forays into the U.S. market in the past few years, said Sir James has viewed the market as "massively too high."

Mr. Franklin added: "We have thought the massive trade deficit can't be set aside and thought that it does not get solved by the depreciation of the dollar. No matter how far you push down the dollar, you won't increase exports." He said the U.S. seems to be repeating a similar mistake made by England in the years 1950 to 1979.

He believes interest rates are likely to increase and economic activity to decline until the trade gap narrows. "But this is all going to take time, and until it happens, I don't see a good market."

Mr. Edelman said he has viewed U.S. market value as being "all askew" for the past three to six months," but has used the current market weakness to add to a position in one company, which he declined to name, that he considers undervalued.

The U.S. takeover specialist blamed the collapse of stocks rumored to be takeover targets partly on "anti-shareholder tax legislation" pending in Congress.

Another U.S. corporate raider who hasn't been conspicuously bearish, Irwin Jacobs, said yesterday, "Obviously this whole thing is just preposterous. I don't know what has changed in the world to have a situation such as this." He said he is adding to his positions where it seems prudent, and selling others.

In one stock in which he has an interest, Mr. Jacobs said he bought a few large blocks by bidding "two to three points under the market," and getting some sellers. The lower stock prices, he says, "give us an opportunity to look more seriously at owning companies."

Chicago's 'Shadow Markets' Led Free Fall In a Plunge That Began Right at Opening

By SCOTT MCMURRAY
And ROBERT L. ROSE
Staff Reporters of THE WALL STREET JOURNAL

CHICAGO—The panic began here.

An eerie quiet settled over the teeming stock-index futures pit at the Chicago Mercantile Exchange early yesterday as traders watched the beginning of the worst washout in stock-market history.

With trading delayed in many major New York Stock Exchange issues because of order imbalances, Chicago's controversial "shadow markets"—the highly leveraged, liquid futures on the Standard & Poor's 500 stock index—were, for just a few minutes, the leading indicator for the Western world's equity markets.

And the stock-index markets were leading the way down—fast. In a nightmarish fulfillment of some traders' and academicians' worst fears, the five-year-old index futures for the first time plunged into a panicky, unlimited free fall, fostering a sense of crisis throughout U.S. capital markets.

The day posed an unprecedented test for the nation's financial futures markets. Many traders long have wondered how index futures and options would function if stocks were in a free fall, and yesterday these new markets clearly hit their limits. First, stock-index futures speeded stock-price declines, nearly quintupling previous record one-day drops. Then, as buyers fled the market in alarm, trading nearly dried up, temporarily preventing the markets from functioning as a hedging mechanism—their principal reason for existence.

The situation was "unique in the history of the futures markets," said Thomas Russo, a New York futures and securities lawyer. "This is a day we will long remember."

Within seconds of the open, S&P 500-stock index futures prices sank 18 points—surpassing the nerve-racking record declines scored in an entire day on Friday. Salomon Brothers Inc. began unloading contracts at an unheard-of rate of 1,000 at a time, dumping more than $600 million in stock-index futures in the first hour of trading alone, one pit trader estimated. Salomon officials couldn't be reached for comment on the estimate.

With no limits on futures prices and regulators in disagreement over the advisability of a trading halt, there was nothing to stop the 80-point free fall in the S&P 500 that ensued.

"Everybody's awe-struck," said John Gustafson, a futures analyst with Discount Corp. of New York Futures, who stood just a few feet off the S&P pit. In the offices of the city's three major futures and options exchanges, officials began preparing to make more than a record $2 billion in intraday margin calls. Up the street at the Chicago Board Options Exchange, a market maker wept softly in the men's room.

Gradually, of course, the focus of attention shifted yesterday from the futures markets to the Big Board as activity in major issues there gathered momentum. By midday, the plunge in the Dow Jones Industrial Average nearly matched the tumble in futures, focusing attention again on the stock market itself.

But by the close, the futures markets were signaling the possibility of further carnage today. S&P 500 futures for December settlement dropped nearly 30%, or 80.75 points, outstripping the 23% drop in the Dow Jones Industrial Average. The futures also closed at more than a 20-point discount to the index itself, a bearish signal. Unless that relationship changes radically when trading begins today, arbitrage traders are likely to buy the relatively cheap futures and sell the stocks in the index, further depressing the stock market.

"This is just what many people had feared," said Merton Miller, a professor of finance at the University of Chicago. Like a ride on a frighteningly efficient financial roller coaster, the breakneck pace of futures trading can foster panic and eliminate time for buyers to assess the situation and enter the market.

"It's somewhat analogous to a bank run," Mr. Miller added. "Everybody thinks, 'If only I can get first in the queue, I'll be all right.' Once it starts, it builds on you.' "

Traders applauded the futures markets for sustaining yesterday's wild price moves and staying open throughout the day, despite trading delays in stocks and options. Officials of Chicago's big exchanges said late yesterday that all their members had met margin calls so far.

Index futures are contracts for future delivery of cash based on the value of such broad market indicators as the S&P 500 stock index. Traders use them to hedge against risk on their stock portfolios, as well as to speculate on the future direction of the stock market as a whole.

Nevertheless, the wild action raised anew some longstanding issues. Analysts, traders and academicians have long fretted about the price-battering potential of portfolio insurers, big institutional investors who use a hedging technique that requires them to keep selling futures the more the stock market falls. Portfolio insurers did indeed help touch off yesterday's steep declines, but their initial wave of selling soon expanded to an avalanche that encompassed all kinds of traders, from arbitragers to mutual funds.

Also, many traders wished for even a brief respite from yesterday's frenzied selling. Unlike other futures markets, stock-index futures trade without price limits. In the past, such limits have tended to halt price moves, at least temporarily, and slow major trends. In a silver-market crisis in 1979, for instance, price limits slowed extreme volatility and stretched major market trends over a period of months.

In other instances, regulators have temporarily halted futures trading to permit government officials and traders to adjust to sudden changes in the market outlook. When President Jimmy Carter stopped $2 billion in grain shipments to the Soviet Union in 1980, for instance, the Commodity Futures Trading Commission suspended grain futures trading for two days while the government indemnified grain exporters and made other price-propping moves.

But in stock-index futures, regulators are sharply divided over whether trading halts should be imposed. Securities and Exchange Commission Chairman David Ruder has advocated trading halts as a response to chaotic trading. But the current acting chairman of the CFTC, Kalo A. Hineman, has said he opposes such moves.

Yesterday, as institutions and investors scrambled to lay off at least some of their risk in futures, trading in the index markets virtually dried up at several points, threatening a liquidity crisis on the Merc's trading floor. At mid-morning, the S&P prices were moving up two points, then back down, in less than a minute, as sellers scrambled to fill orders at any price they could get.

On the Chicago Board Options Exchange, which offers trading in an option on the S&P 100 stock index, a rotational system for opening trading kept the market orderly. "Operationally, we're doing great," said CBOE President Charles Henry. But delays of as much as 45 minutes in filling orders were common. "Bache, Merrill and Shearson have orders like this," a CBOE floor official told CBOE executives, holding up his two hands with a six-inch gap in between.

The liquidity squeeze also posed an extraordinary threat to the clearinghouses on the major exchanges, which guarantee futures trades. Although the Chicago Merc has raised various stock-index margin requirements recently, yesterday's 20-point move in S&P 500 futures at the open alone would have effectively wiped out, on paper, the minimum $10,000-per-contract margin deposit the exchange demands of speculators.

The Merc demanded additional margin deposits of $1.6 billion from its 92 clearing members yesterday, exchange officials said. A Chicago Merc official said total margin deposits against positions in S&P 500 futures are about $2 billion. Exchange officials also denied rumors that any Merc clearing members were in financial trouble as a result of yesterday's washout. The Merc had a special order-matching session scheduled for midnight last night.

An official of Board of Trade Clearing Corp., which clears trades for the Chicago Board of Trade, said the exchange had issued three intraday margins calls totaling about $400 million yesterday. Late yesterday, the Board of Trade raised initial margins for speculators in its Major Market Index futures.

Separately, Options Clearing Corp., the Chicago organization that clears options trades for U.S. securities exchanges, said it had made intraday margin calls totaling $180 million early yesterday to about two-thirds of its 190 member firms.

Nevertheless, the sell-off sparked a fire sale on exchange seats as traders scrambled to cover their losses. The price of an index- and option-trading membership on the Chicago Merc tumbled 19% to $118,000 yesterday, with seven seats changing hands and eight more offered for lease. Five full Chicago Board of Trade memberships were sold, with the price tumbling to $375,000 from the previous sale at $530,000 last Oct. 6, then recovering late in the day to $400,000.

And the streets of Chicago were uncharacteristically quiet after the market closed. On LaSalle Street in the heart of the city's financial district, a lighted brokerage sign that usually radiates the Dow Jones Industrial Average blinked incomprehensibly when the drop passed the two-digit mark, then simply flashed zero.

W. Howard Stovall, manager of the Chicago Board of Trade Treasury-bond desk for Goldenberg Hehmeyer & Co., acknowledged that he doesn't know if the plunge is over yet. But "if it's not over now," he added, "boy, is it going to be ugly when it is."

A Repeat of 1929? Depression Is Called Unlikely This Time

Continued From First Page

country needed more liquidity. The Fed steadfastly resisted pleas from President Hoover for faster monetary growth. "That's not happening today," Mr. Stigler says, "though I don't put aside the prospect of error at the present time, either."

Recently, the Fed has been resisting pressure from abroad and from the financial markets to increase interest rates. In general, the Fed has far greater flexibility than it had in 1929 to use monetary policy to influence the economy. However, an event as sudden and shocking as yesterday's decline can reduce the Fed's margin of error, particularly at a time when the U.S. is highly dependent on attracting foreign capital to finance its budget and trade deficits.

"One of the reasons the banking system collapsed between 1929 and 1933 was Federal Reserve policy," notes Benjamin Friedman, a Harvard economics professor. He says it is crucial for the Fed to do what it can to help keep the economy out of recession. "If there's a recession, a lot of business borrowers will be in trouble," Mr. Friedman warns. Heavy corporate borrowing has driven up corporate interest payments and made many corporations more vulnerable to a downturn in sales, he explains.

In many respects, the stock market plunge has come at a strange time. The economy is enjoying the longest peacetime expansion in U.S. history, and—before the market collapse, at least—most business economists expected the recovery to continue into 1989. Inflation is moderate, unemployment is down, the budget deficit is shrinking and the dollar has been relatively stable after a rapid decline early in the year.

Given these conditions, the stock market seems out of step with the real economy, Mr. Stigler suggests. He concedes that the stock market can be a leading indicator of the economy, but he stresses that it has given "hundreds of false signals" over the years. Moreover, the extreme volatility of today's market, he says, indicates that it "is dominated by panic. Panic is a good predictor of what's going to happen in the next half hour, not the next half year."

Most economic indicators point to continued growth rather than to recession, Mr. Stigler says, noting that corporate profits and employment look good. While the budget and trade deficits are worrisome for the long run, their relevance for the short run "are greatly exaggerated," he believes. If investors are so worried about the deficit, he asks, "What explains the last five years" when the market soared as the deficit swelled?

Much depends on whether the stock market fall continues and how it echoes through the economy. "A very interesting thing to watch is whether this decline will be limited to stocks or [whether it] will spread to other assets" such as housing and land, commodities and other investments, Mr. Friedman says. Yesterday, prices of commodities and bonds rose, suggesting that the sense of panic may be limited to the stock market.

In addition, the dollar rose sharply late yesterday. "Everybody pulled out from the stock market, but I don't see that spreading into serious international problems," says Mr. Bosworth.

In the end, U.S. consumers hold the key to the economy's performance. Personal-consumption spending accounts for about two-thirds of gross national product, the total output of U.S. goods and services.

David Wyss, the senior vice president at Data Resources Inc. in Lexington, Mass., says that the huge reduction in stockholders' assets "causes a real risk that consumers are going to retrench. There are storm clouds on the horizon. The consumer has been carrying the economy for the past year and a half. If he pulls back, that probably means a recession next year."

Mr. Wyss says he doesn't expect a downturn, although "the odds are rising. If the world's central banks stay tight and the market stays down, we've got a recession."

"I'm scared," says Mr. Wyss of the stock market plunge, "but there are great bargains out there." He doesn't think the drop will be permanent. "If the market gets back to 2,100-2,200 level and we get some loosening by the central banks, we can avoid the recession."

Mr. Bosworth says that even if the Dow Jones Industrial Average stays at about its current level, the loss of wealth from yesterday's collapse will reduce 1988 GNP by only "several tenths of a percentage point" from what it would otherwise be.

If the economy does turn sharply downward, changes in government policies and protections instituted since the Great Depression will offer the best defense against another one. Total government purchases of goods and services have risen to about 20% of GNP, from 8.6% in 1929, thus providing considerable economic momentum.

In addition, a host of government income-maintenance programs—social security, unemployment, and welfare benefits—help support spending levels.

Monetary and fiscal policy tools have been refined, and—unlike the more timid days before Franklin Roosevelt's New Deal—administrations of both parties have shown that they are prepared to work actively to avoid economic calamity. Indeed, the Great Depression taught the U.S. that the best way to deal with economic collapse is to prevent one from happening.

ROSE GUTFELD AND THOMAS E. RICKS CONTRIBUTED TO THIS ARTICLE

Tom Zimberoff

The gospel according to John

Megamarketer John Sculley first put his stamp on American business by steering the tightly-disciplined Pepsi Cola Company to victory in the Cola Wars—making Pepsi the choice of a new generation.

Having reached the pinnacle of East Coast corporate success, Sculley left it all to join the free-style young visionaries at Apple Computer. As CEO, he led Apple into battle against giant IBM while engaging in his *own* painful struggle with the man who'd recruited him: Apple co-founder and friend Steve Jobs.

In the move from Pepsi to Apple, Sculley learned vital lessons about the differences between traditional and New Age corporations—discovering, through trial and error, how management styles and marketing strategies must radically change to fit the business culture of the future. The proof is in Apple's performance: the company's turnaround has outpaced even the most optimistic industry forecasts.

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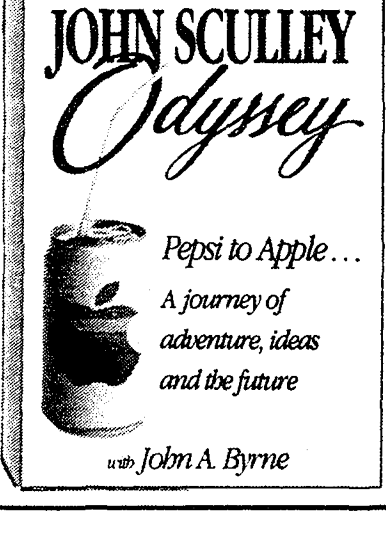

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Taking Stock

Market Jitters Cause Consumers to Reassess Their Spending Plans

Luxury Cars and Homes Get Put on the Back Burner; Looking Out for Bargains

Nightmares About Christmas

A WALL STREET JOURNAL *News Roundup*

Wall Street is now Main Street U.S.A.

In barber shops and boutiques from Maine to California, the gyrations of the stock market are local gossip. What's more, the news from New York is causing American consumers to reassess how, when, why and what they consume—and for many that means cutting back.

A typical tale is told by Scotty Addison, a salesman at the Erhard BMW dealership in Southfield, Mich. Yesterday morning, he says, a customer who was "almost in tears" told him that she didn't have enough money left in her stock account to make the $5,000 down payment on the $24,000 car she had selected. Now "the deal's on hold," Mr. Addison says.

In Atlanta, Mary Smith, a secretary at an engineering firm, says she and her husband put off buying a new car for another reason: "We figured that people may be so desperate to sell cars, furniture, houses and things like that that if we waited awhile maybe we could get a better price."

Losing Steam

Whatever the motives, purchases are being deferred in areas ranging from real estate to fine art. In New York City—where people, until recently, have thought nothing of plunking down $500,000 or even $1 million for a cramped apartment—the long-booming luxury-housing market is taking it on the chin. "The steam is going out of the residential real-estate market from Litchfield, Conn., to East Hampton, Long Island," says John Dowling, executive vice president of Cushman & Wakefield, a big Manhattan-based broker. "Yuppies have finally figured out that there are cycles."

Residential brokers say some customers are backing off from deals in the hopes that prices will fall. But there are other reasons. On Monday, as a New York attorney was getting a root canal, he turned to his dentist, Philip Terman, and said, "Doctor, nothing you could do to me could hurt as much as the market."

The attorney had recently contracted to buy an $800,000 condominium on Manhattan's East Side. However, he told the dentist, he had withdrawn margin money from the stock market to make the down payment—and he was planning to use the equity from his stock portfolio to pay for the condo maintenance. Monday, he got margin calls. To make his payment, he was planning to break his contract and forgo his deposit. "He was in here as white as a ghost," says Dr. Terman.

Shock Waves

In New York, the market rout has put sellers under more pressure. For example, an executive in the securities industry recently turned down a $2 million offer on his West Side cooperative apartment as being too low. Yesterday, he hurriedly called his broker, S.W. Bird & Co., to say he would accept the bid—if it was still offered.

"The Wall Street boom has fueled the New York City comeback over the past 10 years to an extraordinary extent," says Samuel M. Ehrenhalt, regional commissioner for the U.S. Bureau of Labor Statistics. "New York City's economic fortunes are more closely tied to Wall Street than ever before. The shock waves [from the market's movements] will be considerable."

The impact is also being felt in real-estate markets far from New York. Fred Sands, president of Fred Sands Realtors in Los Angeles, says that following Monday's market plunge four of the firm's clients said they want to reconsider their agreements to buy homes. Says Mr. Sands: "Certain people are saying, 'Wait a minute—I don't think I can go ahead. I had made a lot of money in the stock market but now I don't think I can afford the big new house.'"

Seeking Liquidity

In Berwyn, Pa., Nancy Philipps, a real-estate agent, says she and her husband decided Monday night to drop plans to buy a second home as an investment property. "This shake-up convinces us that we have to be more liquid," she explains.

Across the country, in Sunnyvale, Calif., Dean Witter III, vice president and treasurer of Amdahl Corp., talks wistfully of *his* plans for a second house. "We were about to take the plunge—and now it has to be put off," he says. Mr. Witter says that he and his wife, Rebekah, an interior designer, has already bought the land, paid the architect and were about to start taking contractors' bid to build a country retreat in the Napa Valley—and then came Monday's crash. "Last week, we had enough to do this," Mr. Witter says. And although he hasn't calculated the precise extent of his portfolio's losses, he says, "The market lost 20% of its value [Monday]. I can do that arithmetic. It puts us at or below water level."

Among others doing arithmetic are many of the nation's retailers. And for many the projected totals aren't good news. "All retailers will be stunned," predicts Kurt Barnard, publisher of the Retail Marketing Report. "Those who cater to the Yuppie with a good income and the sense that there was no end to the joyride will be hard hit."

Even before the stock market collapsed,

Please Turn to Page 5, Column 1

What's News—

Business and Finance

BLUE-CHIP STOCKS RALLIED following Monday's crash, but many smaller issues continued to be pummeled. The Big Board moved to curb program trading, disrupting trade in stock-index markets. The Dow Jones industrials swung wildly before closing up a record 102.27 points, at 1841.01, on record volume. Treasury bond prices closed sharply higher as interest rates tumbled. Prices of many commodities fell.

Fed Chairman Greenspan tried to calm markets by signaling a switch to an anti-recession policy. Meanwhile, consumers are already reassessing spending plans.

(Stories on Pages 3, 67, 52 and 54 and in Columns 1 and 6)

* * *

Reagan said he will consider a tax increase in order to reach a budget-cutting accord with Congress. He also said he may enter the negotiations himself. Reagan's shift was an attempt to reassure the stock market, though Monday's crash could complicate efforts to cut the deficit.

(Stories on Pages 2 and 26)

* * *

Stock buy-backs were announced by dozens of companies to take advantage of the lower prices for their stocks. But some previously planned buy-backs, leveraged buy-outs and takeover bids were canceled.

(Story on Page 3)

* * *

The dollar soared, aided by the stock market nervousness and signs of support among the major monetary powers. The new U.S.-West German economic cooperation helped stabilize the U.S. currency, though the agreement faces further tests.

(Stories on Pages 49 and 2)

* * *

Tokyo stocks opened this morning on a bullish note, boosted by the partial recovery on Wall Street.

(Story on Page 48)

* * *

Three small securities firms failed and a fourth was taken over following Monday's crash. The stocks of many brokerage firms plummeted. Separately, Shearson Lehman posted a 21% drop in third-quarter profit, while E.F. Hutton's net rose 5.5%.

(Stories on Pages 26 and 40)

* * *

Goldman Sachs set aside $1 billion to help mutual funds beset with redemptions, but the offer was generally declined. Fund leaders and regulators said that redemptions were lighter than they had feared.

(Story on Page 27)

* * *

TWA Chairman Icahn withdrew his proposal to take the airline private, reflecting the volatile stock market. Separately, the Hafts dropped efforts to buy Dayton Hudson.

(Stories on Page 4)

* * *

United Artists Communications and United Cable Television called off their planned merger, citing the market as well as unresolved issues.

(Story on Page 5)

* * *

Housing starts jumped 4.4% in September, but analysts called it an aberration and expect future declines. Some said fears about rising interest rates may have prompted a rush by home buyers and builders.

(Story on Page 7)

* * *

Several big banks had sharply higher third-quarter earnings, including Citicorp, Wells Fargo, Manufacturers Hanover and Bankers Trust.

(Story on Page 25)

* * *

Markets—

Stocks: Volume 608,120,000 shares. Dow Jones industrials 1841.01, up 102.27; transportation 740.25, off 36.62; utilities 170.10, up 9.12.

Bonds: Shearson Lehman Treasury index 1198.91, up 46.44.

Commodities: Dow Jones futures index 127.32, off 5.27; spot index 125.16, off 2.89.

Dollar: 144.36 yen, up 3.03; 1.8128 marks, up 0.0410.

World-Wide

THE U.S. RESUMED escorting Kuwaiti tankers through the Persian Gulf.

As the Senate began debating whether to intervene in Reagan's gulf policy, two U.S.-flagged Kuwaiti vessels began moving south from Kuwait under naval escort, a day after a U.S. attack on an Iranian facility. The senators, delaying action on Bork's nomination to the Supreme Court, renewed discussions over whether Congress should seek to invoke the 1973 War Powers Act or take other steps to limit Reagan's moves in the gulf region. A vote was scheduled for today.

Diplomatic sources said the U.N. secretary-general has proposed an inquiry into the causes of the Iran-Iraq war while both nations observe a truce.

* * *

A military jet crashed into a hotel near the Indianapolis airport, killing at least nine people and igniting a fire, officials said. The A7-D Corsair jet, en route to Nellis Air Force Base in Nevada from Pittsburgh, crashed into the lobby of the Ramada Inn after the pilot attempted an emergency landing. The pilot parachuted to safety.

* * *

Indian troops seized a major road in Jaffna, cutting off escape routes from the Sri Lankan rebels' last major stronghold, an Indian official said. Military sources in Colombo said the Tamil separatists continued resisting the Indian advance, but that New Delhi's peacekeeping forces controlled strategic positions throughout the city.

* * *

Prime Minister Gandhi was told by members of Congress that U.S. military and economic aid to Pakistan is likely to resume, but Reagan assured the Indian leader that the assistance "is not directed toward India." In talks with Reagan at the White House, Gandhi also discussed the situation in Sri Lanka and other bilateral issues.

* * *

France acknowledged that a now-defunct French firm, Ratier-Forest, violated Western export curbs by shipping machine tools to the Soviets in the mid-1970s. In Washington, the Commerce Department added Singapore to a list of non-allied countries that are entitled to acquire strategically sensitive U.S. products. (Stories on Page 33)

* * *

Communist Party officials approved Chinese leader Deng's senior aide as interim party chief. The party's Central Committee, at a meeting in Beijing, also endorsed proposals expected to bolster Deng's drive to change the country's economic and political structure. The party opens its 13th national congress this weekend.

* * *

Unesco's 158 member states opened a general conference in Paris and were expected to approve the nomination of Federico Mayor Zaragoza of Spain to be the organization's next director-general. He would succeed Senegal's Amadou Mahtar M'Bow.

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Shultz suggested it was time to move the focus away from trying to arrange an international conference as a means to direct Arab-Israeli negotiations. Shultz's remarks followed four days of Mideast peace talks about such a forum.

* * *

An American was reported kidnapped in Nicaragua. A spokesman for the Witness for Peace group said Paul Alan Fisher, 41, was abducted Saturday by Contra rebels near La Libertad. He was part of a 32-member team checking on human rights violations in Nicaragua. Two clergymen had been kidnapped Oct. 10 by anti-Sandinista rebels.

* * *

The FCC launched an inquiry to decide whether to regulate children's television stringently. The agency voted 4-0 to seek public comment on whether it should reimpose limits on the number of commercials on children's TV. The FCC also will look into whether it should regulate or ban cartoons based on toys. (Story on Page 20)

* * *

The Supreme Soviet approved Gorbachev's $774 billion budget for 1988, which is aimed at boosting social spending and improving consumer goods. The move came at the close of a two-day meeting in Moscow by the 1,500-member nominal parliament.

* * *

A senior American bishop said there was a "strong consensus" at an international bishops' synod in Rome that the Roman Catholic Church should open all non-ordained ministries to women. The prelate said he believed the synod would suggest to Pope John Paul II that women be formally installed as acolytes and lectors.

* * *

The EPA has approved the first legal outdoor release of bacteria engineered to contain genes from another species. The agency cleared a field test in South Carolina of a soil bacteria that has engineered into it genes from a common intestinal microbe. The test, to begin next month, will permit scientists to track bacteria in the soil.

Fear Grips the Market

Volatile trading plagued the market, with some blue-chip stocks rallying due to bargain hunting and corporate buyback programs. But investor fear continued to batter smaller issues. Stories include:

- **The market plunge is expected to deal a blow to the government's deposit insurance funds, page 26.**
- **Congress is putting legislation affecting the securities industry at the top of its agenda, page 27.**
- **For stock traders, another day to remember, page 42.**
- **Venture capital is going to be harder to come by and more costly, page 40.**
- **Financial advisers are urging investors to move to bonds, page 39.**
- **Stock-shy retirees haven't had heavy losses in the bear market, page 39.**
- **Executives with stock options are seeing their fortunes vanish, page 39.**

Try a Brain Tuneup To Keep Your Mind Off the Stock Market

* * *

Inner Peace Costs a Mere $10 And 45 Minutes at the Spa; Is There Anything to It?

By CARRIE DOLAN

Staff Reporter of THE WALL STREET JOURNAL

CORTE MADERA, Calif.—Nearly every day, Carol Cramer comes to the Paradise Shopping Center to buy her piece of nirvana.

"I was looking into Transcendental Meditation, but it takes so long" to learn the techniques, says Mrs. Cramer, a Sausalito homemaker. "I like something fast and easy. This takes no effort."

Universe of You, a new Marin County salon, offers help for high-strung people too busy to meditate. Now they can try to zap stress by hooking themselves up to a device called a Synchro-Energizer, which is supposed to "tune up" the wavelengths of the brain.

Balancing Hemispheres

The machine costs about $50,000 and can accommodate up to 32 serenity seekers at a time. It uses electronic sound impulses and flashing light—to balance, so the pitch goes, the left and right hemispheres of the brain. For $10 a pop, Marinites in goggles can enhance their creativity, increase their learning ability and find inner peace in about 45 minutes.

"Yogis are out, gurus are out. No one wants dogma anymore," says Randy Adamadama, a former night watchman at a science museum who now runs the brain-tuning salon. "This can get a person to a level of meditation in 15 minutes that would take a yoga instructor 10 years." Says a Synchro-Energizer salesman: "We're selling Buddha in a can."

Is there really anything to this stuff? "If flashing lights and goggles help you relax, that's good," says Stephen Peroutka, an assistant professor in Stanford University's neurology department. "Relaxation is always good for the body." He adds, however, that "there's no scientific evidence that any mechanical device can enhance learning or creativity. . . . There's no magic way to do it."

But Dr. Peroutka isn't surprised that people would use such devices. "This is the same country that bought pet rocks," he says. He suggests that memorizing multiplication tables or other types of studying would do more to "exercise" the brain.

LaLannes of the Future?

Nevertheless, a growing but still tiny number of retail outlets are offering brain-enhancing sessions. Michael Hutchison, the author of "Megabrain," a book about brain machines, predicts that such brain spas "will be the Jack LaLannes of the future."

Mr. Hutchison, a poet and novelist, has been conducting Megabrain workshops around the country. He says that more than 1,000 people have paid about $100 to spend the day trying a dozen different brain machines. The interest, he says, reflects "people's tremendous desire for self-improvement, especially in their mental state."

Altered States, based in West Hollywood, Calif., has for several years been operating flotation tanks, where customers meditate in warm water. Recently, the center added a small, two-station Synchro-Energizer; a Mind Mirror, which monitors brain waves; and a Graham Potentializer, a table that rotates counterclockwise while generating an electromagnetic current. Altered States now offers $300 "Mind Gym" memberships, allowing patrons to use the assorted devices for 20 sessions. Says attendant Bart Miali: "It's really like using Nautilus equipment, only on the mind."

The Institute for DeHypnotherapy, in Soquel, Calif., offers "Sacred Journey

Please Turn to Page 31, Column 2

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

THE IRS BAILS OUT farmers who redeem crops with PIK certificates.

"Payment-in-kind" subsidies let farmers use PIK certificates to redeem crops they pledge for loans from Commodity Credit Corp. In March, IRS Revenue Ruling 87-17 jolted farmers in interpreting the tax effects of redemption for 1986 and thereafter. In one ruling example—complex, but not uncommon—a farmer in 1986 borrows $12,000 and later redeems his grain at market value with $10,000 in PIK certificates; in 1987, he sells the grain for a $3,000 profit.

Relying on Agriculture Department rules on the transactions, the IRS said the farmer had $22,000 of taxable income in 1986 and $3,000 in 1987—an allocation that dismayed the confused farmers, their congressmen, and Agriculture officials. Now, after consultations with Agriculture and others, the IRS in Revenue Ruling 87-103 has revoked the earlier ruling and revised the allocation to even out the tax load.

The new ruling allots $12,000 of income to 1986 and $13,000 to 1987.

PAYSOP PLANS for employee stock ownership may yet be simpler to end.

Democrats' tax bills will be breasting stormy seas, but many items may well become law and so are of vital interest. One deals with PAYSOPs. The credit for contributing to them expired, so employers want to end them and move the assets to other plans. But as originally proposed, a technical correction to the 1986 act could stymie that for plans with assets held less than 84 months: It would allow a termination only if a plan made lump-sum asset distributions to employee members and if no successor plan were established.

Employers objected; many had begun to shift PAYSOP assets to other employee plans. Now the majority bills of the House Ways and Means and Senate Finance committees would delete these restrictions on plan terminations. The bills would "permit the sensible solution of rolling over the assets into another plan," says Mark Ugoretz of the ERISA Industry Committee.

PARTNERS AND ENGINEERS also are buoyed by tax-bill hopes.

Some drives to reverse setbacks in the 1986 act have paid off—so far. Both committees' bills, for example, include relief urged by the American Institute of CPAs for partnerships, small "S" corporations, and personal-service corporations required to switch to the calendar year from fiscal years: The concerns could elect to retain their fiscal years if their owners stepped up their estimated-tax payments. "Our hopes are encouraged," says Herbert Lerner of Ernst & Whinney and the AICPA.

The Senate Finance bill alone has a clause to gladden certain engineers, computer experts, and technical specialists who had worked as independent contractors. The new tax law treats them instead as employees. The bill would repeal that treatment, although it proposes some tax withholding. Sen. Moynihan (D., N.Y.) hopes to achieve more liberal rules in the ultimate conference with House tax writers.

A Ways and Means provision could block U.S. district and appeals judges from deducting payments to individual retirement accounts.

THE IRS COULD CHARGE fees for requested private rulings on taxes, pension plans, and exempt organizations, under a provision in both the House Ways and Means and Senate Finance bills.

IRS COLLECTIONS from tax refunds of debts owed to U.S. agencies would be prolonged through 1990 by both bills; the program now expires Dec. 31. It would extend to corporate as well as personal debts.

UNCLE SAM'S WINDFALL from California's $1.1 billion state-tax rebate is expected to be $160 million. About 40% of the 12 million recipients must pay federal tax on sums they had deducted as state-tax payments. But the rebate is tax-free for the 60% who didn't take deductions.

TAXPAYERS' APPEALS for IRS review of field audits are eased. The IRS now requires a formal protest only if the sum at issue tops $10,000; before, the threshold was $2,500. The change "removes a burden for a great many taxpayers," says Gerald Portney of Peat Marwick Main, CPAs.

CHARITIES' ANNUITIES for donors may emerge from a tax cloud.

The 1986 act denies charitable exemption to a group that provides commercial-type insurance—including annuities—as a "substantial activity." That was a blow to the many charities that offer annuities to donors to encourage bigger gifts of assets during their lifetimes. The effect apparently wasn't intended, so charities mounted a lobbying campaign to persuade the Treasury and Congress to reverse it.

Now both the House Ways and Means and Senate Finance majority bills would accede to the charities' plea. The bills provide that charitable-gift annuities wouldn't be treated as commercial-type insurance. The bills also provide for modifications of the IRS tables used to figure the charitable deductions allowed as the result of gifts used partly to provide annuities.

"For once, the system worked," says Conrad Teitell, a tax lawyer who lobbied for the provisions.

BRIEFS: President Reagan plans to name Robert P. Ruwe, 46, director of the IRS's tax litigation division, to the Tax Court. . . . The Ways and Means bill would bar child-care credits for costs of overnight camp. . . . The Finance bill would allow medical deductions for certain costs of coping with radon contamination.

—SCOTT R. SCHMEDEL

On the Spot

Stock Market's Frenzy Puts Fed's Greenspan In a Crucial Position

He Must Aid the Economy But Not Fuel Inflation; Is Tax Rise Now Possible?

Reagan's Bipartisan Stance

By ALAN MURRAY

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The stock market's Monday collapse has put Federal Reserve Chairman Alan Greenspan on the front line in the fight to prevent a market panic from turning into a general economic slump.

Just a few days ago, Mr. Greenspan was under pressure from the financial markets to increase interest rates and prove his willingness to fight inflation. But by yesterday, the focus had changed dramatically. After Monday's unprecedented market crash, traders and analysts were calling on the central bank to ease credit to avoid recession.

"I think Greenspan is the only candidate for restoring the confidence of the markets," said Jerry Jordan, the chief economist at First Interstate Bank Corp. "It's the chairman of the Fed, when it comes down to it, who pulls the levers."

Fed's Statement

Whether Mr. Greenspan is up to that task remains to be seen. He tried to calm markets yesterday with a one-sentence statement signaling the Fed's switch from an anti-inflation to an anti-recession policy. It said: "The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system."

The Federal Reserve quickly backed up its statement with action, driving the federal funds rate down to about 6¾% late in the day from more than 7½% Monday. "I think that speaks for itself," said a senior administration official when asked if the Fed had eased credit. The federal funds rate, the interest rate banks charge on loans to each other, is a sensitive measure of the tightness of monetary policy.

The central bank's response seemed to soothe the worst fears troubling the markets. After swinging around wildly all yesterday, stocks ended higher. The Dow Jones Industrial Average ended with a record gain of more than 100 points—a sharp contrast with its record 508-point plunge on Monday. And for the second day in a row, the bond market surged, largely fueled by money drained out of stocks. The higher bond prices meant lower interest rates, of course, because the two move inversely to each other.

The Fed's statement "was the most calming thing that was said yesterday," said James E. Annable, the chief economist of the First National Bank of Chicago. "The Fed is aggressively creating liquidity in the market, and that's what you want now."

Immense Challenges

Although an adequate supply of funds in the market and the economy is important, the challenges facing the Fed over the coming weeks are immense. If the Fed doesn't do enough to bolster the economy, the stock-market collapse could quickly drag down other areas of the economy. And if the Fed primes the pump with too much money, it risks a collapse of the dollar and renewed fears of inflation.

"We know how to prevent economic downturns," says Benjamin Friedman, a Harvard economist. "But I'm not sure we know how to prevent them without causing inflation."

Mr. Greenspan, who had been scheduled to make a speech in Dallas yesterday, canceled it and rushed back to Washington. He spent much of the afternoon closeted with Treasury Secretary James Baker and White House Chief of Staff Howard Baker, discussing how the administration should respond to the market collapse.

Reagan's Weakness

But the administration's ability to respond is limited. Even White House officials acknowledge that public confidence in President Reagan has been severely eroded in recent months and won't easily be restored.

"The Bork defeat showed markets very clearly that President Reagan is a total lame duck who doesn't have the power to control events," one White House aide admits. "It's hard to see what Reagan can do, unless he can come up with something pretty dramatic."

Most analysts believe that a concerted effort by the president and Congress to attack the federal budget deficit could calm market fears. The president opened the door to such a grand compromise yesterday. In an announcement made after conferring with Mr. Greenspan and the two Mr. Bakers, the president abandoned his harsh anti-tax rhetoric and called for "bipartisan" negotiations with Congress (see page 2).

Nevertheless, continued partisan squabbling leaves the outcome of any such talks in doubt. And meanwhile, the monkey is on Mr. Greenspan's back. "I think the response is going to have to come from the Federal Reserve," says Sen. Nancy Kassebaum, a Kansas Republican. "It's unfortunate. We let the Fed solve our inflation problem in the early 1980s. Now, we're going to be looking to the Fed again."

But it isn't clear just how much the Fed can do in the face of huge budget and trade imbalances, which require the U.S. to keep its interest rates high enough to finance the twin deficits. "People have been

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TWO SECTIONS

Taking Stock: Market Jolts Cause Consumers to Reassess Spending

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many economists and industry observers were predicting the most anemic holiday sales gains since the fourth quarter of 1982. The news from Wall Street was "the last nail in the coffin," says Carl Steidtmann, chief economist at the Management Horizons consulting unit of Price Waterhouse. "It will cause a lot of consumers to cut back on spending because they view the stock market as a harbinger of the health of the economy."

A visit to New York's Fifth Avenue yesterday bore out that opinion. Shirley Henderson, a tourist from the San Francisco area, said she was tempted to buy a $250 knife at Abercrombie & Fitch but changed her mind. "Five days ago, I would have bought it on the spot, but not now," she said. "I'm not sure what I'll buy now. If anything, it would be jewelry, I suppose. I'll just wait and see what happens."

At Bergdorf Goodman, one of the city's premier retailers, a clerk on the main floor said: "It's been quiet. Not as many as usual. . . . Even Fifth Avenue is quiet compared to what it should be." Farther down the avenue, at Gucci, clerks greeted a lone customer like royalty—three of them rushing up to be of assistance.

In their executive offices, retailers are still assessing what is going on; and at the moment, most aren't taking any remedial action. "You don't change your planning based on a frantic one-day sell-off in the stock market," says Orren Knauer, director of investor relations at K mart Corp., the nation's second-largest retailer.

Norman Ricken, president of Toys 'R' Us Inc. in Rochelle Park, N.J., is downright optimistic. Whatever the stock market's movements, he says, "There will always be toys for Christmas."

Perhaps. But for the grown-ups, the loot under the tree is less likely to include fine art. James Lally, a private dealer in Oriental art in New York, says, "The art market has never mirrored the stock market, and it won't now." But, he adds: "I would expect to see a contraction in activity, a wait-and-see attitude." (Not among everyone, though. Says Mr. Lally: "Don't expect Paul Mellon, who has a great collection of horse pictures [including works by George Stubbs], to say, 'Oh my God! IBM has gone down! Sell the Stubbs!' ")

A wait-and-see attitude is also being adopted by some travelers. Although most don't seem to be making any sudden travel changes based on Wall Street, "Obviously, [the market rout] doesn't bode well for our industry and for the travel industry in general," says Macdonald Clark, chief operating officer for Alamo Rent A Car Inc. in Fort Lauderdale, Fla.

Nor does the news bode well for churches, hospitals, universities and other potential beneficiaries of charitable contributions. "There's no question that all of us who are working in the charitable area are feeling anxiety," says Rochelle Korman, a partner in the New York law firm of Baer Marks & Upham who works with tax-exempt organizations and donors.

Ms. Korman predicts that many donors will probably delay their giving until the market stabilizes. She says that her conversations over the last two days with investment advisers who represent individuals with net incomes of between $10 million and $100 million indicate that "people will sit back and wait for another rally." Once the market "comes back to over 2,000," she says, "people will feel more secure that their wealth is not just grains of sand in their hands."

But even if donors go ahead with their plans to give, the receiving charities may not escape the fallout from Monday's crash. W. Christopher Singleton, an associate consultant in Merrill Lynch's philanthropic-services division, says that one of his clients is going ahead with a charitable trust for a college that he set up two weeks ago. But the client originally planned to fund the trust with stock valued at $488,000. By the close of business on Monday, the stock was valued at $340,000, about a 30% drop.

Notwithstanding the financial damage incurred by charities, there are those who have little sympathy for Wall Street's victims. A trip to Rockford, Ill., reveals bitterness toward many in New York's financial community. "I don't think some of those young bucks knew what they were doing," asserts Dorothy Westlund, a retired dietician. "They got too greedy."

Gloriana Damon agrees. "Look at all those 29-year-old millionaires," says Mrs. Damon, who owns a small print shop in downtown Rockford with her husband. "It makes me mad how they are playing with other people's futures." Mrs. Damon says her family spent all of its savings to get through the 1982 recession but recently was able to put $2,000 into the stock market to help with retirement. The small investor "has been suckered in," she concludes bitterly.

The belief that Wall Street got what it deserved is widespread in Rockford. "If people are just concerned about making dollars and not worrying about other people, then maybe they deserve to be hurt a little bit," says Willie Bankford, a local real-estate man.

And then there are those who relished recent events on Wall Street for reasons entirely apart from money. "I love how exciting it was watching the market plummet," say Diane Lesser, a professional oboist based in New York. Although she lost money in the collapse, she says, "It was an historic event—like living through a war."

Short Sellers, Data Processing Firms Won Big as Others Wailed Monday

By JAMES P. STERBA
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Here's to the winners, Frank Sinatra might croon, wherever they're hiding.

They may be outnumbered by stock-crash losers, but lots of people made money as the market plummeted: brokers and investors who sold stocks "short," people who switched to bonds or cash as the market peaked, retirees and pension funds that did likewise, and, of course, the firms and brokers that earned commissions on all the trading. "They're just keeping their heads way down," says a Goldman Sachs broker.

Not Ven Parameswaran. "Monday was our very best day," he says. "We all made money." The tiny brokerage house he heads, First Asian Securities Corp., spent the day of the big crash cleaning up by selling short, or selling borrowed stock and then buying the same number of shares later at a lower price to replace the borrowings.

"We're all very happy," says Mr. Parameswaran, a former Merrill Lynch options dealer. First Asian just opened for business on Aug. 28 and now has 12 brokers and 32 accounts, mostly from Asian-Americans. "I personally made about $15,000," he says, by buying "puts," or options to sell a security at a specified price, in stocks like International Business Machines Corp. and National Semiconductor Corp. as they tumbled.

If you can't make money in a bear market, he says, "you shouldn't be playing."

But a New York money manager believes that "the real winners are yet to be." He says that "the winners will be the people who start buying within the next week."

Before the crash, this manager's clients—all individuals—had no more than 25% of their portfolios in stocks. "Now is the time to start building a blue-chip portfolio," he says. "There are some incredible values out there. AT&T is a steal at $23. Exxon lost 25% of its value. This is the time to go after value."

One way to be a winner is to be a relatively small loser. The Ford Foundation's assets stood at $5.1 billion on Feb. 1. Later that month, according to John English, the chief investment officer, Ford moved $1 billion out of the stock market and into Treasury bills. As of midnight Monday, Ford had $4.6 billion left. While the market had plummeted 36% from its Aug. 25 high, Ford's assets were down only 15%. Since Feb. 1, the decline was 10%. That's "only" $500 million.

As for the Rockefeller Foundation, it lost only $325 million of its nest egg. According to spokeswoman Susan Russell, the foundation took a $250 million short position in Standard & Poors futures contracts in late July and early August. This hedging helped limit hemorrhaging of the foundation's assets to 17.5%, placing their value at $1.53 billion at midnight on Monday, down from $1.85 billion on Sept. 30.

Sarah Lawrence College saved a major portion of its endowment by a hair. On Thursday morning, its trustee finance committee ordered all stock in the college's endowment portfolio sold immediately. That amounted to just over 50% of the value of the $10 million portfolio, a spokesman says.

Lee S. Rosenthal of Houston sold his IBM stock on Sept. 1 for $165 a share. Why?

"Pure luck, I guess," says the president and chief operating officer of a small metal-fabricating company. "I was fearful something like this was coming and sold all my holdings."

"Now I'm looking to get back in," he says. "We had a full-blown bear market [Monday], a typical six- or 12-month bear market compressed in one day's trading. I'm feeling much more comfortable now."

So is Jim Wagele, a vice president of corporate community development for Bank of America in San Francisco. "Several months ago, I had that feeling like something like this was going to happen, and I sold pretty much everything I had," he says.

In the early 1970s, Mr. Wagele says, he invested about $5,000 in conservative stocks like American Telephone & Telegraph Co. and Pacific Gas & Electric Co. and enrolled in dividend-reinvestment plans. Last May, he liquidated about 95% of his holdings for $19,000. "I sold all but about 100 shares of PG&E, and I wish I'd sold that," he says. "Today, I feel pretty good. I have a home and three kids. The oldest is 16 years old. This was money for his college tuition."

The closer to the crash you sold, the better you did. Joan Luther, the president of Joan Luther & Associates, a Los Angeles consulting firm, and her husband sold about a million dollars of stock over the last six months, most of it when the market was over 2600. They sold the last of their shares just last week.

"I haven't liked the market for a year, everything terrified me," says Mrs. Luther. "All the experts were saying 3000, and I said here we are at 2700. How much are we going to lose with 300 lousy points?" The final inspiration to sell, she says, came when she and her husband were watching a financial adviser on the TV program "Wall Street Week," and he used the word "crash."

"I feel relief," she says. "Why should we gamble to live happily?" She won't estimate the couple's gains. "We made a few dollars," she says. "We didn't lose any."

Automatic Data Processing Inc. made a few dollars, too. Its computers do back-office number crunching and accounting for about 200 brokerage houses, and it is paid by the transaction. Normally, there are about 180,000 a day. Monday's volume was more than double that and yesterday's was way up too, says Arthur Weinbach, the senior vice president for administration and finance at the Roseland, N.J., firm.

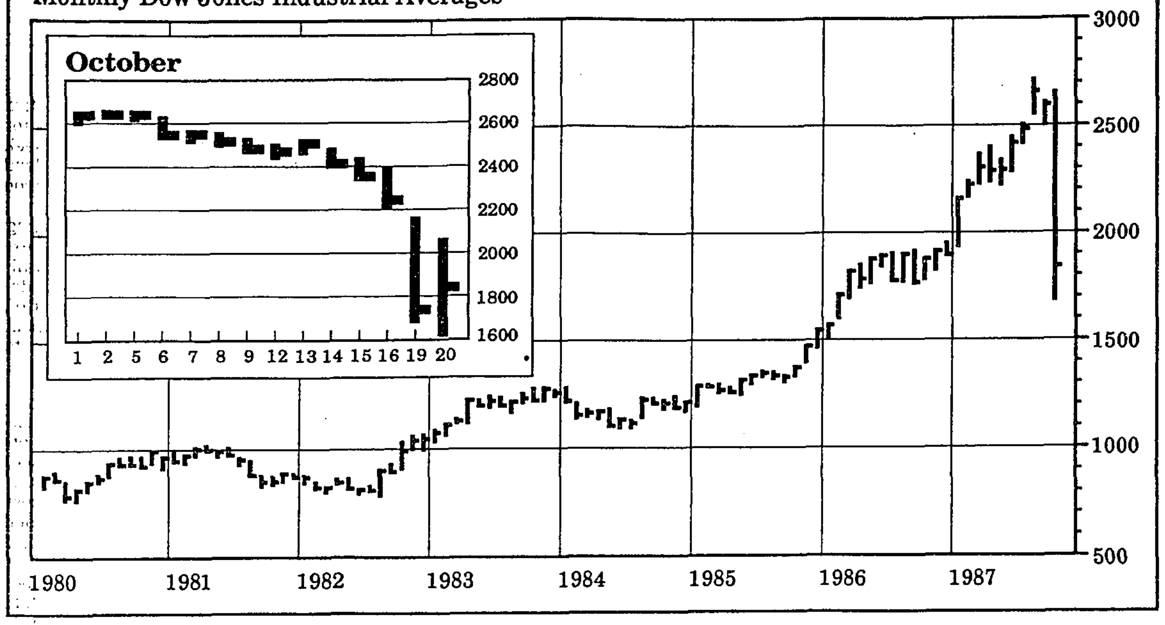
Janet Oseroff, the president of Multi-Media Music Co., a New York business-management company for singers and actors, feels like a winner. The reason: Her family hasn't owned any stock for at least 20 years.

"I really have felt that there's enough gambling in everyday life," she says, explaining her family's investments in long-term Treasury bills. "It's not an economy you can trust anymore. It's absurd." She feels bad for the losers, she says, but she adds: "I'm sort of happy about this because it gives me another reason to hate Ronald Reagan for pretending to be our president."

AFTER THE CRASH

Tracking the DJIA Through the 1980s

Monthly Dow Jones Industrial Averages



Three Securities Firms Close and a Fourth Is Taken Over in Wake of Market Collapse

By Steve Swartz and Peter Truell
Staff Reporters of The Wall Street Journal

The market's rebound didn't come in time to save a few small securities firms caught in a cash squeeze.

A New York Stock Exchange member firm in Michigan and a New York-based over-the-counter house closed their doors yesterday. And a specialist firm on the American Stock Exchange had to be taken over by a larger market maker.

Also, Metropolitan Securities, an options trading firm at least partly owned by Jon Edelman, brother of Asher B. Edelman, the noted New York takeover investor, has also closed its doors because of capital inadequacy, according to a market source. Jon Edelman didn't return a phone call to his office yesterday.

The Big Board member, H.B. Shaine & Co., of Grand Rapids, ceased doing business because customers didn't put up collateral on loans the brokerage firm called. Brown, Knapp & Co., the OTC firm, which made markets off the exchange floor in Big Board stocks, also closed its doors, a National Association of Securities Dealers official said. And W. Damm M. Frank & Co., a specialist firm on the Amex that was faced with a serious capital problem, sold its specialist position to Bear Stearns Cos., exchange sources said. The unit trades 30 stocks and three options. Its personnel and operations will remain the same, Bear Stearns said.

Although they stopped short of suggesting that trading hours would be curtailed, senior officials of the two major U.S. stock exchanges said they were concerned about their markets' ability to handle unprecedented trading volume much longer. And they said that late yesterday morning, both exchanges considered closing because of concern that stock prices were spiraling downward out of control. But about noon, they decided against the move when prices snapped back.

John J. Phelan Jr., Big Board chairman, said the system "has shown its ability to handle an increasing amount of volatility." But he added that he is concerned that another couple of days of continued high volume could cause operations problems. So far, the Big Board has absorbed two consecutive days of more than 600 million shares each, an unprecedented amount of volume.

Kenneth Leibler, president of the American Exchange, where stock volume has been running at four times its normal rate, said: "Most of our systems are operating close to capacity. We're not designed for sustained volume at this level."

The market's partial recovery didn't quell the swirl of confusion that has roiled Wall Street the past few days. Some over-the-counter market makers weren't answering their phones, other houses complained. Rumors of imminent collapse circled E.F. Hutton Group Inc. much of the day, and other major firms also were rumored to be in trouble.

Hutton vehemently denied that it was in difficulty. The firm's chief executive, Robert P. Rittereiser, said Hutton has "significant excess liquidity and is routinely meeting all its obligations." Mr. Rittereiser also denied a rumor that recent merger talks had taken place with Shearson Lehman Brothers Inc., which sought to acquire Hutton for $50 a share last year. The rumor apparently was sparked by a recent nosedive in Hutton's shares, which yesterday continued their drop, to $16.75, down $6.375, in New York Stock Exchange composite trading.

"I've been through a number of crises in my 30 years in the business, but this is a crazy situation," Mr. Rittereiser said of the rumors surrounding the firm.

Still, the stocks of many brokerage firms took a heavy beating in the market, and some analysts said they were substantially lowering their forth-quarter earnings projections for the Street because of losses sustained the past few days.

Meanwhile, banks that lend to smaller specialist firms are keeping a wary eye on borrowers in view of the stock market's recent gyrations.

"There's no question that there's been concern from major banks' Wall Street lending departments about liquidity at some of the smaller specialist firms," said Perrin Long, analyst at Lipper Analytical Securities Corp.

Specialists are exchange market makers who are required to use their own capital to make orderly markets in assigned stocks. This means that they are required to buy shares to halt price declines. In Monday's market collapse, many specialists wound up with big losses after making such purchases.

J.P. Morgan & Co., Manufacturers Hanover Corp. and Bank of New York Co. are among the biggest bank lenders to small specialist securities firms.

A Morgan spokesman indicated that the bank had been in touch with all its Wall Street clients and that Morgan has found nothing that gives it cause for concern. A Manufacturers spokesman said the bank has a substantial lending business to Wall Street firms, and he added, "All margin calls on loans to our broker-dealer customers are being met satisfactorily."

Such so-called margin calls require broker dealers to put up more collateral against their bank loans. A spokesman for Bank of New York said the concern has substantial business in lending to Wall Street firms, but he declined further comment.

It's difficult to gauge how large bank lending is to smaller specialist Wall Street firms, but the amount certainly is considerable. Lipper's Mr. Long said that according to New York Stock Exchange data, loans outstanding to member firms totaled about $27 billion at the end of June. But lending to specialist firms wouldn't be included in this total and probably would be much smaller than this, he indicated.

Meanwhile, other money center banks said they were keeping a close watch on their loans to Wall Street firms. A spokesman for one such bank said 6% of the total number of his bank's total loans to Wall Street had been short of collateral this morning. But he said the value of these loans—which were short of collateral—altogether totaled less than $5 million. "The problem seems to be most severe among the specialist firms," he said, adding, "It's quite possible some of them may need to be taken over."

Securities Investor Protection Corp., a federal/industry agency that partly insures brokerage-firm customers, filed suit in federal court in Grand Rapids yesterday and obtained the appointment of a trustee, Cyril Moscow, a Detroit securities lawyer, to take control of Shaine, which also had an office in Aurora, Ill.

Theodore Focht, SIPC general counsel, said the trustee first will seek to transfer Shaine's 4,000 accounts to another brokerage firm so that Shaine's customers can get access to their securities and cash. SIPC insures each customer account for as much as $500,000, of which as much as $100,000 is insured cash. Hugh Makens, Shaine's outside counsel, said he didn't believe the firm had privately-provided insurance, which would have granted customers additional coverage.

Shaine was operated by DST Inc., a data-processing unit of Kansas City Southern Industries Inc., which is primarily a railroad operator. In Kansas City, Mo., DST said that its investment in Shaine was about $2.6 million and that it "currently is unclear" whether any of it can be recovered. Kansas City Southern had earnings of $7.4 million in the third quarter.

The other firms that closed their doors yesterday didn't handle customer accounts, so their closings posed no threat to retail investors.

The market's rebound did help some investors who faced calls from their brokers for more collateral for stock loans. But for many investors who had bought stock on margin, the market recovery wasn't broad-based enough to provide any comfort. "Margin calls were about three times heavier than normal" yesterday, said Stephen Robert, chairman of Oppenheimer Group Inc. Mr. Robert noted that more stocks yesterday lost value than gained, which could exacerbate the margin-call problem.

Many firms said their own processing operations continue able to handle the high volume. But they complained about widespread confusion in the markets. Information has come in much more slowly than usual from the exchanges, particularly the commodities and futures exchanges, Mr. Robert said.

On the Spot: Stock Market Frenzy Puts Fed's Greenspan in a More Crucial Position

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trying for years to tell Congress and the administration that eventually the budget deficit will put the Fed in a position where it doesn't have any options left," says former Fed Governor Lyle Gramley. "Well, it's there now. It's a no-win game."

In the efforts to restore market confidence, administration officials have emphasized that the economy's "fundamentals" remain sound. That was certainly true last week. Employment looked strong, inflation was low, and consumer spending and investment were holding up reasonably well.

But the market's nose dive could change those fundamentals substantially. In just a week, the market has wiped out—on paper—nearly a trillion dollars of wealth. Among those who were hard hit, that is likely to damp enthusiasm for spending money on houses, cars, furniture and appliances. And lower stock prices will hobble businesses trying to raise the money needed for capital investment.

More important, the plunge in stocks could produce a severe psychological effect. "Even if you're not directly affected, it may make you hesitant, cautious, pessimistic," says Thomas Juster, a University of Michigan economist and an expert in consumer spending. "If you were on the edge of making a decision to buy something, you are likely to say, 'Maybe I should wait and see where the dust settles.'"

And Harvard's Lawrence Summers notes that any businessman "thinking about starting a building project or ordering an expensive machine has to think to himself: 'Let's wait and see how things shake out.'"

Biggest One-Day Gains			
DATE	CLOSE	GAIN	%CHG.
Oct. 20, 1987	1841.01	102.27	5.88
Sept. 22, 1987	2568.05	75.23	3.02
April 3, 1987	2390.34	69.89	3.01
April 21, 1987	2337.07	66.47	2.93
May 26, 1987	2297.94	54.74	2.44
Feb. 17, 1987	2237.49	54.14	2.48
May 5, 1987	2338.07	51.85	2.27
Jan. 22, 1987	2145.67	51.60	2.46
Aug. 11, 1987	2680.48	44.64	1.69
Jan. 5, 1987	1971.32	44.01	2.28

To counter those forces, "the Fed should be easing," Mr. Summers says. The mistake made in 1929, many economists note, was that the central bank held its tight grip on credit for too long and thus turned market panic into depression.

"The next move on the part of the Fed should be a lowering of the discount rate, when the opportunity is right," agrees Irving Auerbach of Aubrey G. Langston & Co. Last month, the Fed raised its discount rate—its rate on loans to member banks—to 6% from 5½%.

Fed Governor Wayne Angell acknowledged yesterday that the stock-market plunge could suggest the need for an easier Fed policy. "Declining stock markets tend to add to people's preferences for liquidity," Mr. Angell said. "That can move quite easily into a deflationary force. What's appropriate for us to do is make certain we supply the amount of money people may wish to hold in such an environment."

But an easier credit policy carries serious risks. With unemployment below 6% and many businesses operating near capacity, inflation could easily accelerate. Moreover, easier credit in the U.S.—if not matched by easier monetary policies abroad—could depress the dollar and threaten the administration's dollar-stabilization agreement with other industrialized countries.

"The effects of this decline in stock prices are going to be negative, and perhaps sizably so," Mr. Gramley says. "But if the Fed were to begin anticipating negative effects and start easing monetary policy, it risks being misunderstood and thus worsening the crisis of confidence. The Fed has to sit tight, let the smoke clear, assess what the damage is and then respond as conditions become more clear."

Harvard's Mr. Friedman contends that the stock-market drop could force the Fed to abandon efforts to defend the dollar. "The point is, the dollar is going to have to come down sooner or later," he argues. "To resist that in a climate in which the economy might be weak would be especially foolish."

Robert Hormats of Goldman, Sachs & Co. agrees. "I think we have gotten ourselves locked into a syndrome where everybody thinks that any fall in the dollar is a catastrophe," he says. "But it's not highly inflationary if the dollar falls a little bit in a controlled manner. In fact, with the stock market falling, that creates a deflationary climate, so a dollar drop would certainly not be inflationary."

Despite the pitfalls, Fed officials hope to negotiate the risky waters ahead without slowing growth or sparking inflation.

"When you go back through U.S. history, you find there are some kinds of market volatility that have less impact and some that have long-lasting effects," Governor Angell says. "Certainly, we've had stock-market movements that did not have deep or long-lasting effects on the real economy. That's our job—to insulate the economy from these forces."

Ultimately, the Fed's ability to hold the economy together in coming months could depend on Mr. Greenspan's skill in instilling confidence in the markets. "We lost our great man at the Federal Reserve," says Mr. Jordan, referring to former Fed Chief Paul Volcker. "His was a purely judgmental monetary policy, but the truth is people trusted his judgment."

Whether Mr. Greenspan can engender the same respect remains to be seen. "We have these twin fears that inflation is going out of control or that we are heading into recession," Mr. Jordan says. To allay those fears, Mr. Greenspan must walk a very narrow line, he adds. "Not too much, not too little, just the right amount."

Stock Market Crash Complicates Task of Dealing With the Deficit

By Rose Gutfeld
Staff Reporter of The Wall Street Journal

WASHINGTON — The stock market crash that has pushed President Reagan into budget negotiations with Congress has also complicated the task of dealing with the deficit.

Many economists contend the market decline could cause a sharp reduction in government revenue by slowing economic growth. The sharp sell-off also could hurt revenues by increasing capital losses, although some analysts contend that many sellers earned profits, suggesting a boost in revenue from capital gains. Lower interest rates—as a result of the budget negotiations or a slowing economy—also could reduce government outlays.

Lawrence Kudlow, chief economist at Bear, Stearns & Co. in New York, said slower growth could add $10 billion to $20 billion to the budget deficit for fiscal 1988, which began Oct. 1. A sustained market plunge, by causing a big drop in household assets and consumer confidence, will restrain consumer spending, economists say. This in turn would reduce corporate profits and taxes and eventually could cut personal taxes as employment growth slows or layoffs occur.

A growth slowdown is hardly a certainty, however. Economists are sharply divided on how big an effect the market plunge will have on consumer confidence, and the Federal Reserve Board and the Reagan administration will be working to prevent any downturn. Moreover, a stock market rebound could buoy spending.

Meantime, a debate is under way among economists over the likely effects on capital gains. Peter Davis, an economist at Prudential-Bache Securities Inc., contends, "There is no question this will dramatically reduce capital gains tax payments for returns due next April."

But Kenneth Simonson, chief economist for the American Trucking Associations, disagreed, contending the sell-off will increase revenue. "There are probably more people with gains than losses," he said. Moreover, he noted that individuals are limited in the amount of deductions for capital losses they can take against ordinary income in the year the losses occur. This will cushion the impact on the Treasury.

Treasury officials and some private economists questioned whether the market decline would have any significant effect on capital gains revenue. Among other factors, they noted, tax effects would be reduced if the stocks were held by tax-exempt institutions or foreigners who get tax breaks through treaties.

Whatever the ultimate effect of the market crash, the government's budget process ground on yesterday. President Reagan ordered temporary cuts laying the groundwork for automatic reductions that are to take effect Nov. 20 unless Congress and the president compromise on a deficit-reduction package. The cuts, required under the Gramm-Rudman law, amount to 10.5% in affected military programs and 8.5% in nonmilitary programs.

And on Capitol Hill the House Budget Committee, on a 20-14 party line vote, sent to the floor a deficit-reduction bill that would raise taxes by $12 billion this fiscal year and $53.4 billion over three years. The deficit-reduction package, which combines legislation previously approved by other committees, also includes $4.7 billion in cuts, mostly in Medicare and farm subsidies. In addition, there is revenue gain of more than $7 billion from the refinancing of Rural Electrification Administration loans.

An aide to House Speaker James Wright (D., Texas) said late yesterday that the lawmaker still intends to pass a deficit-reduction package as "a first step" in a broader compromise plan on the deficit. But the aide said plans may change depending on the timing and substance of the negotiations with the White House.

FDIC, FSLIC Face Threat of Costly Blow If Stock Drop Slows Buying of Failed Banks

By Jeff Bailey
And David B. Hilder
Staff Reporters of The Wall Street Journal

The stock market's plunge appears likely to deal another costly blow to the government's deposit insurance funds, already reeling from record numbers of bank and savings and loan failures.

Unless the market turn on Tuesday continues to gain momentum, officials said, the Federal Deposit Insurance Corp. and the Federal Savings and Loan Insurance Corp. could be hurt by less private money being available to buy failed institutions, meaning the insurance funds would have to shoulder more recapitalization costs. The funds also could find liquidating loans, real estate and other assets of failed banks and thrift institutions more costly, as values fall along with stock prices.

Should the market downturn prove to be temporary, the funds would have less to fear.

Meanwhile, the market's drop has halted a disastrous increase in interest rates that since April had caused billions of dollars of paper losses in the bond and mortgage-backed securities portfolios of banks and S&Ls.

Texas Bailout in Question

The FDIC and FSLIC, which insure, respectively, bank and S&L deposits of as much as $100,000, increasingly have looked to private investors to help recapitalize failed institutions. Investors have done so, in part on the belief that the strong stock market would allow them to turn around the institutions and then take them public or otherwise sell them at a profit.

One federal banking official said yesterday he was worried about the pending bailout of First City Bancorp. of Texas, which hinges on an investment group raising $500 million of fresh capital. "It's getting some discussion here," the official said. "I'm glad we aren't closing today or tomorrow." The costly alternative would be a Continental Illinois Corp.-type bailout done solely with FDIC funds.

As previously reported, the investment banking firm of Donaldson, Lufkin & Jenrette Securities Corp. has agreed to raise the $500 million for First City. As of last week, the firm believed it had informal commitments from large investors for roughly that amount. Officials at the firm wouldn't comment yesterday on the offering, which was recently filed with the Securities and Exchange Commission, but hasn't become public. One person close to the money-raising effort said that as of midday yesterday, no investors had withdrawn their interest. "It's almost impossible to predict," this person said. "Who . . . knows what's going to happen?"

But A. Robert Abboud, the former Chicago banker who heads the group that has agreed to take over First City, said he sees no danger of the transaction falling apart. "This deal's going to go," he said from First City's Houston headquarters. "I'm finding it hard to see how . . . (the market's decline) affects us." The First City transaction isn't scheduled to be completed until December.

Bids Could Drop 30%

Bids for insolvent banks and savings and loans probably will decline as much as stock prices have—30% or more. "The prices of private deals will mirror the (stock) prices of comparable public companies in the market," said Steve McLin, president of America First Financial Corp., a San Francisco concern that has raised about $120 million to bid for banks and S&Ls, including failed ones.

Such so-called vulture funds will now find it "tough to raise money for deals," according to William Isaac, the former FDIC chairman who now represents investment groups bidding for banks and S&Ls.

Also, Mr. Isaac cautioned, "if we go into a deep recession, you'd find the (bank) failure rate go up again." The FDIC expects about 200 banks to fail this year, but said recently that failures appeared to be peaking.

FSLIC's Particular Problems

The FDIC currently has about $11 billion in assets under liquidation. In the midst of Monday's market plunge, according to Steven Seelig, an FDIC liquidation official, one bidder for the commercial finance unit of a recently failed bank withdrew his interest. Mr. Seelig said the market's decline could damp the price investors are willing to pay for assets of failed banks and the FDIC's ability to quickly sell assets—allowing the agency thus far to preserve its precious cash reserves.

FSLIC, which is itself insolvent, has more than 50 failed S&Ls it would like to sell. The recently authorized $10.8 billion recapitalization of the fund would give it money to recapitalize some of those institutions partially and to attract private funds to help in the recapitalizations. However, the big paper losses many S&Ls suffered from the interest-rate increases this year will make fixing these institutions more costly. And the stock market's decline could make investors less generous. "The price is going to be a lot lower," said the head of one investment group. "All bets are off."

James Barth, chief economist at the Federal Home Loan Bank Board, which oversees FSLIC, said he thinks it is too early to say what the market's impact will be on efforts to sell off insolvent S&Ls. "Right now, we've had a couple of days' news," he said. "Acquisitions and mergers are long-term propositions."

The dip in interest rates this week, however, is a hopeful sign for thrifts and for FSLIC. Rates on fixed-rate home mortgages dropped nearly a full percentage point yesterday, as funds poured into government and agency securities. As a result, well-secured home mortgages, unlike other bank and thrift assets under liquidation, could become more valuable. "The direct fallout on housing of Monday's meltdown in the stock market is negligible, as long as the thing doesn't spread to the bond market," said James W. Christian chief economist at the U.S. League of Savings Institutions.

"But if we saw the stock market just continue to go down, then you'd start to have effects on consumer confidence and probably as a consequence of that, you'd see some fall off in consumer spending, and all the numbers start to get worse then," Mr. Christian said.

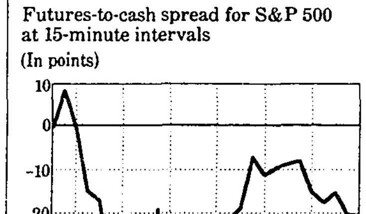
The stampede into Treasury securities is likely to have some positive effects for homeowners who have adjustable-rate mortgages. Because the yields on Treasury securities have been dropping, so will the rates on the approximately 75% of existing adjustable-rate loans that are tied to Treasury rates.

If deposits continue to flood into thrift institutions, as they did at some institutions on Monday, then the thrifts' cost of funds also will drop. Such a drop would benefit homeowners who have adjustable-rate mortgages linked to the thrifts' cost-of-funds indexes.

Futures vs. Stocks

Futures-to-cash spread for S&P 500 at 15-minute intervals

(In points)



Source: Knight-Ridder Tradecenter

The chart depicts the relationship of futures contracts on the Standard & Poor's 500 stock index to the index's cash value. It shows, in points, the value by which the futures contract is above or below the stock market.

This relationship, called the spread, is crucial to program trading. When the chart shows a reading greater than zero, futures contracts are more expensive than the cash market, and arbitragers can seek to profit from the difference by selling futures contracts and buying stocks.

Conversely, a reading of less than zero means that the stock market is more expensive than the futures market. In this case, arbitragers would seek profits by selling stocks and buying futures.

Big Board Blue-Chips Snap Back Amid Dive Among Smaller Issues

Continued From Page 3

plunged amid indications investors might be liquidating their commodities holdings to help meet stock margin calls. Gold's price plunged $18.50 an ounce in New York, to $463.20. It had risen $10.10 an ounce during the stock market crash on Monday. (Story on page 54)

In the OTC market, the Nasdaq trading system bent under the volume that yesterday hit a record 284,117,100 shares, which traders said reflected heavy selling by individuals. On Monday, 222,930,000 shares changed hands. The previous record Nasdaq volume, 261,850,700, was set last Jan. 23, with heavy institutional buying.

The price declines on roaring volume clearly had Nasdaq officials concerned yesterday. "We're scared. Of course we're scared," said John Pinto, senior vice president of compliance at the National Association of Securities Dealers. "We're looking at conditions in the marketplace that are indescribable; gigantic losses, it's staggering." Some 6,730 brokerage firms operate in the OTC market under the NASD's supervision.

For one thing, he said, in the past few days the NASD has sent market surveillance officials into more than six OTC firms to monitor their financial condition and operations. These are firms that underwrite new issues, sell them to their own customers and act as the primary market makers in their stocks. Such arrangements are common among so-called penny stock brokers, but some regional firms also operate this way.

What worries the NASD is that such firms could get a double whammy from the market plunge, which is pushing down the value of the shares they hold for their own capital, even as customers aggravate the decline by selling the same stock from their own accounts.

By late yesterday, Mr. Pinto said, no NASD firms had been shut down for capital shortfalls, which, among other things, could result in firms failing to pay up when their customers sold shares. Should any NASD firm suddenly run into serious capital problems, he said, the NASD would attempt to transfer the business to a stronger firm or try other bail-out strategies before ultimately falling back on the Securities Investor Protection Corp. The SIPC is an industry-backed organization that provides reimbursements to individual customers of failed member firms.

Meanwhile, some firms weren't answering their trading lines yesterday, possibly to avoid sales that would drive prices of their proprietary little issues down even further, traders said. "At least at the firms where we have our people, we know they are answering their phones," Mr. Pinto said.

In the OTC market, shares trade among brokers who quote prices to one another over a computer system run by the NASD, rather than through single specialist firms for each security, as is done on the stock exchanges. One reason the OTC market showed less damage than the exchanges on Monday was that some brokerage firms either couldn't or wouldn't answer their telephones when other brokers called.

You Have No Time to Meditate? OK, Get a Brain Tuneup Instead

Continued From First Page

Home" weekends for $150. They include sessions on its 32-station Synchro-Energizer and a Mind Mirror, as well as instruction in power breathing and other meditation techniques. "A whole lot more people are interested in higher consciousness, especially since the Harmonic Convergence," says C.C. Chaitanya of the institute's marketing department.

At Tranquility Center, a New York salon using the small Synchro-Energizer, operator Christine Zerrer says, "I've meditated 15 years and the experience is similar. In fact, I've hooked Zen monks up to it, and *they* even noticed some increased awareness. There's always room for improvement."

Each brain-machine entrepreneur has his own style. The big appeal of Universe of You is low price. "We're like the K mart of consciousness-raising," says Mr. Adamadama.

To understand the goals and people at Universe of You requires an open mind. "If you've never done anything like this before, you might just think of it as another Marin mind trip," concedes Mrs. Cramer, who once attended a Shirley MacLaine mind-expanding seminar and who last spring, she says, walked across seven feet of burning coals. She hopes the brain-tuner will help her have more lucid dreams, improve her memory and "make it easier to get into the vacation mode" for a coming trip to Hawaii.

Arthur Knadler, a Sausalito investor, calls himself a skeptic. "I don't embrace that mysticism stuff," he confides. Still, he gets Synchro-Energized a couple of times a week and finds it better than lying in flotation tanks, which he tried before. The Synchro-Energizer, he says, "gives you a general sense of well-being, and you don't have to get all wet."

Patrons enter a lavender lobby, decorated with symbols of yin and yang and pictures of a wizard and a waterfall. In a dimly lit room with mirrored walls and reclining padded chairs, the machine's operator invites customers to remove their shoes and loosen their clothing.

The customers put on headphones and goggles with four lights around each eye. Lights begin to flash at different speeds and intensities. Through the headphones comes the sound of a heartbeat, then assorted clicks, then a sound like a lawn sprinkler. Later there is synthesized music accompanied by the sound of the pounding surf.

An operator sitting at a console twists knobs that control intensity and pitch. "I use a very gentle, comfortable pitch to get them inside their niche with the machine," she says. "Toward the end, I get them alert and focused, so they can go back to work or drive their car without hitting a tree."

Afterward, patrons are invited into an adjoining room where an orange statue of Buddha, wearing Walkman headphones, sits between a pair of ferns. There they can sit in bamboo chairs, help themselves to herbal tea—choice of carob or licorice flavor—and share their experiences.

Bob Zatko, a hot-tub and sauna salesman from Oakland, says his first session provided "an alternative reality to normal reality." He found the experience "very relaxing; in fact, I fell asleep." One man marvels that "it sounded like you were right there at the ocean." The ocean, in reality, is a little bit down the road.

The operators at Universe of You make no medical claims, though patrons contend the machine has done everything from growing hair on bald spots and improving hearing to unleashing more-ethereal experiences. Stephen Landess, a maker of massage machines, says he wasn't prepared for an out-of-body experience that happened during one of his sessions. "I wasn't planning on going anywhere," he says. "My light body walked right out the door and went to the gas station."

The Synchro-Energizer is the brainchild of Denis Gorges, a Cleveland psychiatrist. He invented the machine, and his company, Synchro-Tech Inc., sells it. Dr. Gorges says he spent about 30 years developing it. "I walked around in a jogging suit hooked up with electrodes for two years," he says, "experimenting on myself with different stimuli." He says the machine's signals are "all brain-friendly."

Mr. Adamadama wants to franchise brain-tuning centers. To maintain quality *control, he says, he would have to be sure* franchisees are knowledgeable about holistic medicine, astrology and New Age music. "The California market is a natural," he says. "This kind of thing isn't new or alien to them."

Bennett LeBow Ends Efforts to Take Over Northwestern Steel

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—Investor Bennett S. LeBow agreed to end efforts to take over Northwestern Steel & Wire Co., indicating a victory for a shareholders' group that opposed his offer, which had an indicated value of $172.5 million.

Certain stockholders of the Sterling, Ill.-based steel concern had granted Mr. LeBow options to acquire their shares. His takeover proposal called for acquiring all 7.5 million of Northwestern's common shares outstanding for $10 cash and 0.13 share of a $100 preferred stock with a $14 annual dividend. Valuing the preferred at its face, the offer indicated a value for the common stock of $23 a share.

In a settlement with the shareholders opposing his takeover, Mr. LeBow agreed to let the options terminate without exercising them and to withdraw his takeover proposal. He didn't elaborate on his decision.

At one point this summer, Mr. LeBow assigned his options to Edgcomb Corp., a Tulsa, Okla.-based metals distributor, and Edgcomb proposed acquiring Northwestern on the same terms. However, it has since ended that effort. With Mr. LeBow bowing out, Northwestern is left with no known suitors, Chairman Peter Dillion said yesterday. The company had rejected Mr. LeBow's offer.

However, Northwestern's board earlier retained First Boston Corp. to explore ways to maximize shareholders' value, including a possible recapitalization, restructuring or sale of the company.

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One Year Later

Despite Dire Forecasts, The 1986 Tax Revision Inflicts Little Damage

Capital Spending Holds Up, As Do Charitable Gifts; But Tax Shelters Dwindle

Some Benefits Still to Come

By ALAN MURRAY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—General Motors Corp. Chairman Roger Smith, who was criticized last year by fellow industrialists for enthusiastically backing tax overhaul, now feels vindicated. "All the bad things that people predicted would happen, didn't happen," he says.

"I can't really disagree with that," admits Charls Walker, a heavy-industry lobbyist who a year ago predicted that the law, which slashed tax rates and trimmed deductions and credits, might cause a recession. "I thought it would have had a bigger impact by now."

Today, exactly one year after President Reagan signed the Tax Reform Act of 1986, the law still sparks controversy, however. Some critics of the legislation are blaming it for the recent stock-market plunge, which could stall economic growth. Kenneth Hagerty, a lobbyist for the venture-capital industry, has already started making rounds on Capitol Hill, arguing that the elimination of the tax break for long-term capital gains contributed to the crash.

Surprising Strength

But it now seems clear that the dire economic consequences of the tax overhaul were greatly exaggerated. The economy's surprising strength over the past year suggests that recent problems have little to do with that sweeping legislation. "There will be people who say tax reform caused the market drop," says Joseph Minarik, an economist at the Urban Institute, "but that's ridiculous."

Indeed, whatever the ultimate effects of the market's plunge, it will probably serve to reinforce the basic lesson of the past 12 months: that the economic impact of even radical tax changes can easily be overwhelmed by other events.

"Taxes really don't matter that much in the broad scheme of things," Mr. Minarik says. Their effects, he adds, "are subtle and a long time in coming."

A year ago, prominent economists such as former presidential adviser Martin Feldstein predicted that repeal of the investment tax credit would tip the economy into a downturn. And USX Corp. Chairman David Roderick complained that the law would put U.S. industry "dead last among all countries in the world."

But instead, the manufacturers that were supposed to be hardest hit have staged a surprising recovery in the past 12 months, thanks to rising exports. And capital spending, though still weak, has been far better than expected. "The dire predictions clearly haven't materialized," says Robert Greenstein, the director of the Center on Budget and Policy Priorities.

Not Fully in Effect

The tax bill still hasn't taken full effect. Many of the most beneficial provisions won't take hold until next Jan. 1. Among them: the cut in the top marginal tax rate to 33% and the rise in the standard deduction for taxpayers who don't itemize. Because such important benefits were delayed, many economists predicted last year that the tax law could damage the economy in the short run but help it in the long run.

With the first year now over, however, tax overhaul's contribution to the economy looks increasingly bright. Says Chase Manhattan Bank Chairman Willard Butcher: "I'm enough of a supply sider to believe that lowering marginal tax rates ultimately will redound to the benefit of the economy."

John Creedon, the president of Metropolitan Life Insurance Co., adds: "I don't think we've seen enough of the results of tax reform yet to know what its ultimate effects will be. I'd rather answer that question in mid-1989. Certainly it has slowed up some construction in the short term. But maybe in the long run it will help."

Although the short-run effects have been milder than anticipated, the legislation has still made its mark on the nation's economic landscape. Most tax shelters have been shut down, rents are starting to rise, and some types of investment have been damaged. Here are first-year effects on some major parts of the economy.

Investment

The law's repeal of the tax credit for investment, reduction in write-offs for real estate, and curbs on tax shelters all were expected to sharply depress business investment. But in fact, investment has held up surprisingly well.

Orders for nondefense capital goods, a key indicator of business investment in equipment, were a strong 16% above a year earlier in August after staying well ahead of year-earlier levels in each of the previous five months.

Even more surprising has been the strength in construction, which was expected to be especially hard hit. Through August, the amount of new construction put in place was about 2% above the 1986 period, according to Commerce Department figures. Although plans for new office buildings have soured, contracts for manufacturing plants, while still 2% below last year, are accelerating along with the expansion in manufacturing.

In a paper prepared for the National Association of Business Economists, Ber-

Please Turn to Page 19, Column 1

What's News—

Business and Finance

STOCKS REBOUNDED BROADLY as the Dow Jones industrials rocketed 186.84 points, to 2027.85, far exceeding Tuesday's record gain. The average now has recovered over half the 508.00 points it lost Monday. Big Board volume was the third highest ever. The over-the-counter stock market was nearly back to normal.

Most interest rates fell again, but the bond rally began to slow. The dollar and commodity prices rose.

(Stories in Col. 6 and Pages 3, 75, 49, 60 and 59)

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Many corporate raiders are emerging from the stock market debacle with manageable or small losses. They also have newly undervalued companies in their sights.

(Story on Page 2)

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A market-making firm, A.B. Tompane & Co., became the latest casualty of Monday's crash and will be taken over by Merrill Lynch. Securities firms continued to struggle with the huge volume of orders.

(Story on Page 3)

* * *

Dayton Hudson plans to purchase as much as 15% of its stock, and analysts viewed it as a defensive measure against possible hostile suitors. More than 100 other companies also announced stock buy-backs.

(Story on Page 4)

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Treasury Secretary Baker said half of any deficit-cutting accord with Congress should consist of revenue-raising steps, such as asset sales. But Reagan continued to hold the door open to a possible tax increase.

(Story on Page 5)

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Stock-index markets suffered major setbacks this week, including a Big Board curb on program trading. Some traders say the index markets may never again play as influential a role in U.S. stock trading.

(Story on Page 6)

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Money market funds swelled to record levels for the week ended Tuesday as investors fled stocks. But some assets were trapped due to delayed payouts by mutual funds.

(Story on Page 4)

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Tokyo stocks bounced back, recovering more than half their loss from Tuesday's record drop. London share prices posted a record one-day gain in volatile trading. Other markets around the world also rebounded.

(Stories on Page 46)

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First Interstate Bancorp reported an unexpected $74.9 million quarterly loss, partly due to continued real estate woes. MCorp and First City Bancorp of Texas also had big losses.

(Stories on Pages 7 and 8)

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First Bank System confirmed that President Dennis Evans sold a big portion of his stock in the company last May, just after the bond market turned against the banking firm.

(Story on Page 8)

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Short interest increased to near-record levels on the New York and American stock exchanges for the month ended last Thursday.

(Story on Page 48)

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France delayed a stock offering in the state-owned defense group, Matra, citing the volatile stock market.

(Story on Page 34)

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McDonald's profit rose 14% in the third quarter, slightly higher than expected. Analysts said the fast-food industry's slump may be over.

(Story on Page 10)

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Markets—

Stocks: Volume 449,350,000 shares. Dow Jones industrials 2027.85, up 186.84; transportation 787.01, up 46.76; utilities 184.27, up 14.17.

Bonds: Shearson Lehman Treasury index 1202.55, up 3.64.

Commodities: Dow Jones futures index 129.11, up 1.79; spot index 126.25, up 1.09.

Dollar: 144.63 yen, up 0.27; 1.8170 marks, off 0.0042.

World-Wide

THE U.S. SUSPENDED plans to ease sales of certain high-tech gear to China.

Complaining that Beijing has ignored its requests to stop supplying Silkworm missiles to Iran, the White House decided to shelve plans for China to purchase some advanced U.S. technology without going through licensing procedures. The move came after China refused last week to acknowledge sales of weapons to Iran.

The Senate approved a resolution requiring that the administration report to Congress on its Persian Gulf policies. The resolution calls for the report within 60 days. It left unresolved the future of the War Powers Act, under which Congress could force a withdrawal of forces. (Stories on Page 35)

Shipping sources in the gulf region reported an explosion off the southern coast of Kuwait, site of an oil terminal. Cause of the blast wasn't known.

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NORWAY FOUND that U.S. allies violated Cocom export controls.

A Norwegian police investigation of illegal shipments of high-technology products by state-owned arms maker Kongsberg uncovered what appear to be far more serious violations of allied export-control rules by Italian, West German, French and British firms, U.S. officials said. Oslo wasn't expected to announce those findings officially until today. (Story on Page 34)

A senior administration official, who learned of the inquiry's conclusions during briefings by Norwegian diplomats, faulted Cocom controls as "weak."

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An American researcher at MIT won the 1987 Nobel Memorial Prize in Economic Science. The Royal Swedish Academy in Stockholm cited Robert M. Solow, a former adviser to the Kennedy and Johnson administrations, for his explanation of how certain factors make industrialized economies grow. (Story on Page 44)

* * *

Japan's Defense Agency selected General Dynamics Corp.'s F-16 jet fighter to replace a fleet of aging aircraft that protects Japanese sea lanes against Soviet invasion, a defense official in Tokyo said. The decision comes after a three-year dispute between Japanese and U.S. interests over the $6 billion jet project. (Story on Page 34)

* * *

Shultz expressed confidence that he would make progress on a superpower arms-control accord during talks with Soviet officials in Moscow. The two-day meeting is to begin today. In Washington, Reagan said the Kremlin issued "a statement about wanting a summit," and that a date could be announced as early as today.

Israeli Prime Minister Shamir told Shultz during talks last weekend in Jerusalem to explore the possibility of peace negotiations between Israel and Jordan under the auspices of the U.S. and the Soviet Union.

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The Soviet news agency Tass reported that the Communist Party Central Committee dismissed Geidar Aliev from the ruling Politburo and sent him into retirement "for reasons of health." Aliev, 64, was absent from the June plenary meeting of the Central Committee, prompting speculation that he was ill or out of favor with Gorbachev.

* * *

Reagan held Oval Office talks with Honduran President Azcona, and said that Nicaragua's Contra rebels must "remain strong" until Managua is "irreversibly on the road to democracy." In El Salvador, leftist rebels attacked several electric power stations as representatives of the guerrillas and Duarte's government met in Venezuela.

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U.S. immigration officials eased slightly their amnesty-program rules, allowing children in this country illegally to remain with parents whose status is made legal. But the Immigration and Naturalization Service rebuffed pressure to establish a national, blanket policy for spouses. (Story on Page 20)

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The Senate began debating Bork's nomination to the Supreme Court, but couldn't agree on when to take a final vote. Fifty-four senators have announced their opposition to Bork's confirmation, making defeat of the nominee almost certain.

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Indian soldiers fought house-to-house battles along mined and booby-trapped streets in the northern Sri Lankan city of Jaffna, the last Tamil separatist stronghold. New Delhi's forces, sent to the island nation to enforce a July 29 truce, renewed appeals for the Tamil rebels to surrender.

* * *

South Korea's Roh was pelted with eggs and assaulted with a tear-gas grenade during campaign stops in Kwangju, considered an opposition stronghold. The government's presidential candidate said he wouldn't be intimidated by such acts, the first such incident in the campaign leading to the election that is to be held by Dec. 20.

Ripple Effects

The volatile trading activity of the past few days has caused aftershocks across the financial landscape. Stories include:

- **For some arbitragers, the market's recovery may be too late, page 2.**
- **Financial firms rush to convey a new message in their ads, page 41.**
- **Annuities and insurance policies may gain favor as investments, page 41.**
- **Junk bonds are struggling despite a big bond market rally, page 58.**
- **With interest rates down, companies issued over $1 billion of debt, page 61.**

Searching for the Past In Texas, Dick Reavis Is Taking Every Road

* * *

Chevy Suburban, Typewriter Accompany Him on Tour; Tallying Dead Armadillos

By PAULETTE THOMAS
Staff Reporter of THE WALL STREET JOURNAL

COLEMAN COUNTY, Texas—The sun is low, and Dick J. Reavis has already spent an hour trying to find a highway in the hardscrabble prairie. After scowling at his maps awhile, he drives on—until the dirt road dead-ends at a pond.

Having confused Farm-to-Market Route 586 with Farm-to-Market Route 568, Mr. Reavis is lost again. "Sometimes, I have to wonder why I started this," he growls over another map. "I ain't got any spatial sense, and no number sense either."

Mr. Reavis is on a year-long nostalgia trip, a true Texan in search of the true Texas—the one he grew up in. He is only 41 years old, but a lot of rural Texas has already been overrun by restaurant chains, cable television and Wal-Mart stores. "You won't see the things I've seen in another 20 years," he says.

Toads and Armadillos

A former motorcycle outlaw and civil-rights worker turned writer, Mr. Reavis decided last year to drive every mile of road on the Texas highway map and chronicle the trip in a series of magazine columns. Long days filled with chicken-fried steak and cigarettes have been grueling and disorienting for Mr. Reavis. He measures his progress by hours (more than 2,000 behind the wheel), by miles (75,000 down, 30,000 to go), by the points on his maps he has visited (the towns of Direct, Dial and Telephone, for instance, all along the Red River) and by the body count of horned toads and armadillos left in the wake of his Chevy Suburban.

Mr. Reavis keeps a radar detector next to the faith-healer statue on his dashboard. Nonetheless, he is running slightly behind schedule. He has a self-imposed deadline of New Year's Day, when he has arranged to drive triumphantly into the Cotton Bowl in Dallas. Lately, he has been traveling 400 miles a day instead of 250. Where once he took thoughtful photographs of every county courthouse, he now sticks his camera out the window and shoots without even pulling to a stop.

A Hand-Painted Sign

But Mr. Reavis, who grew up in six small towns in Texas, won't skip a single road. "I'm afraid I might miss something," he says. There is, for instance, that satellite dish next to a chicken coop along Farm-to-Market Route 1176. Farther down the road, in front of an old frame house, a hand-painted sign nailed to a tree offers an insight into the limitless range of true-Texas entrepreneurship: "Notary," the sign reads. "Matremonial [sic] service. Blacksmithing. Welding."

And where else but in the true Texas could Mr. Reavis draw his eight-shooter, reel off a shot at a rattlesnake coiled in the sun, cut himself some souvenir rattles and celebrate the kill over a few beers with a stranger happening by? "If I'd have thought about it," he says with a shrug, "I guess I could have just run over it."

In addition to such drama, the nomadic life gives the thrice-divorced Mr. Reavis the chance to escape. On this day, for instance, back at his home in Granger, roofers are repairing the damage from a hailstorm, and a mechanic who was working on his Volkswagen seems to have disappeared. The crises at home are all the more reason for him to stay at a place with telephones, like the Texas Ranger Motel here in Coleman County.

If owner Juanita Jones deems lodgers trustworthy enough, they can take phones to their rooms for $1.60 a night on top of the usual $20 charge. "You're on the honor system, now," she says cheerfully. The Texas Ranger—named in honor of the owner's brother, who is one—made phones available as a concession to the late, great oil boom, when executives demanded some form of communication when they came here to hunt animals. Another convenience, an outdoor kitchen sink, makes it unnecessary for the hunters to clean their

Please Turn to Page 20, Column 2

Business Bulletin

A Special Background Report On Trends in Industry And Finance

BIOTECH INDUSTRY sees 1988 as a landmark year.

Approval of the blood-clot dissolver TPA is expected by then. Several new products—including a treatment for anemia, another for cancer, and a wound-healing drug—should be under review by the Food and Drug Administration. At least three new vaccines—for AIDS, herpes and malaria—should go into clinical trials. "We are at the springboard of the commercial phase of the industry," says Peter Drake, a Kidder, Peabody & Co. analyst.

Signs of improved industry health are plentiful. "Product sales are up 50% at large companies, and total assets are up 65% industrywide," says G. Steven Burrill, author of a new study by consultant Arthur Young. While the industry is still operating at about break-even level, Mr. Burrill says that's because companies are "investing everything they can afford in technology."

Drug companies are waiting for products to prove themselves before looking to buy biotech companies, says analyst Sarah Gordon of Hambrecht & Quist.

MAP SALES gain ground as makers revamp products and widen distribution.

Travel, the global marketplace and concern about students' geographical illiteracy are boosting map sales. "A global perspective is becoming more important in business," says Kathleen Hammond of Hammond Inc., Maplewood, N.J. Rand McNally & Co., Skokie, Ill., agrees, noting its maps and atlases are now distributed by office-supply companies. The educational market also grows as maps bought in the 1960s wear out. Rand McNally reports yearly school sales up 221% since 1983.

Map and atlas companies put more effort into product development. Hammond installs a computer mapping system, allowing it to enter more niche markets. It also makes its atlases easier to use and tackles the juvenile market with the comic-strip style "Captain Atlas and the Globe Riders." Rand McNally issues the new edition of its road atlas in October to take advantage of the Christmas market. "I think you'll see more specialty maps" such as maps of California's wine country, says Thomas Pomeroy of map-maker H.M. Gousha, San Jose, Calif.

USED COMPUTERS become a growing market as new equipment abounds.

Arrival of a new generation of more powerful personal computers creates business opportunities as corporations struggle with what to do with existing equipment. "The car industry was in exactly the same situation in about 1909," says Alex Randall, president of Boston Computer Exchange Corp. "We're headed into an environment in which there is a major industry in the secondary market."

Some, like the Boston Computer Exchange, work with dealers to place used machines so that corporations can buy new equipment. Trade-ins, once unheard of, become more common. NYNEX Business Centers accepts trade-ins worth up to 50% of the purchase price of a new system. Some MicroAge Inc. dealers begin accepting trade-ins. But MicroAge thinks the big market may be in refurbishing used PCs so companies can redeploy old equipment.

With corporations driving the used-PC market, it won't be like the used-car market, says MicroAge's Steven Malisewski. "It won't be as negotiable."

"PRO BONO" WORK is now a degree requirement for students at Tulane University School of Law. "I think students ought to learn about the millions of people who can't afford lawyers for their legal problems," says John Kramer, dean.

WALL STREET CHAOS spurs activity in a $99, simulated trading game from Wall Street Games Inc., Wellesley, Mass. With nothing real at stake, players still swamped the game's toll-free telephone lines, selling stocks short on Monday and buying on Tuesday and yesterday.

THE P.U. PROJECT offers $10,000 in prizes for the best advertising parodies of cigarette brands and other "unhealthy" products. Launched by a physician-led health promotion group called Doctors Ought to Care, Augusta, Ga., the campaign aims to make schoolchildren aware of problems caused by such products.

GIFTS TO COLLEGES keep growing as fund-raisers get more aggressive.

Last year, the big motivation was the new tax law. This year, schools credit fund-raising gains to more organized campaigns and greater participation of younger alums. "Alumni have gotten the message," says Richard Nordin of the University of Southern California. At Haverford College in Pennsylvania, the percentage of alumni making donations is running at 55%, up from 52% in 1986. The college's 1988 and 1989 campaigns aim for 60%.

Gifts from alumni, parents and friends at Villanova College in Pennsylvania have more than doubled to $495,000 in the first four months of the current fiscal year. College of William & Mary, Williamsburg, Va., says gift income is up 62% for its first quarter, ended Sept. 30. University of Southern California fund-raisers expect more than a 10% increase in giving this year.

Baylor University increases alumni reminders 25% but, like many oil-patch schools, hopes just to keep even with last year's contributions.

BRIEFS: Coleco Industries Inc., maker of the Cabbage Patch dolls, introduces pillow-sized sculptures called Couch Potato Pals for stay-at-homes of all ages. . . . In honor of Halloween, Manhattan Brewing Co. will peddle beer brewed with pumpkin.

—LYNN ASINOF

Mixed Bag

Stocks Leap 186.84 In Best Gain Ever, Yet Worries Abound

President Terms Crisis Ended, But SEC Promises Study Of the Market's Volatility

Is Rise Too Much Too Soon?

By GEORGE ANDERS
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—The stock market rebounded smartly yesterday, and President Reagan declared that the crisis "would appear to be" over. But even if the crisis is over, the malady lingers on. Volatility remains a big problem and could haunt the market in the weeks ahead.

The Securities and Exchange Commission said late yesterday that it will review recent stock-market activity "to determine what, if any, steps should be taken to ameliorate future market volatility." The agency also said it is continuing to monitor trading activity.

The Dow Jones Industrial Average soared a record 186.84 points yesterday to close at 2027.85. It was the second record-setting point advance in two days, and at 10.1% is one of the largest percentage gains in history. And yesterday most other stocks surged, too, unlike Tuesday, when just the blue-chip issues rallied.

Bond Rally Slows

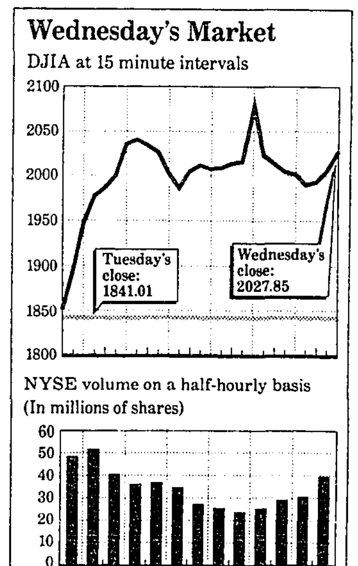
Meanwhile, the bond market's recent rally began to slow. Government bond prices rose around ½ point, or $5 per $1,000 of face amount, as investors began to fret about the market impact of the heavy new government borrowing expected to be announced next week. The dollar again strengthened modestly against major currencies, and commodities advanced with market fundamentals reasserting themselves as liquidation pressures eased. (See stories on pages 3 and 60.)

Stocks now have recouped more than half the ground lost in Monday's record 508-point plunge. The rebound has soothed some fears of an imminent economic disaster and cooled some of the panic that prevailed Monday. But the quick rebound hasn't eliminated and in some cases may even have intensified the worries of investment professionals about the underlying health of the market, particularly the fast-paced computerized trading that much of Wall Street has come to love.

"One of the worst things that could happen now is for the market to rally fast and regain all 500 of those points," says Steve Reynolds, a top money manager at Bankers Trust Co. "It would take away the sting. It would distract attention from the internal things that need to be done to our markets and the external things that need to be done in the world economy."

Role of Program Trading

A primary concern for financial professionals is the way the interplay between stocks and stock-index futures—sometimes known as program trading—careened out of control this week. On Tuesday, the chairman of the New York Stock Exchange took the unprecedented step of shutting down an automated trading system that provides the main bridge between stocks and futures. The market's recovery since then has added weight to his argument



that something needs to be done about program trading.

But the gears are starting to screech in other parts of Wall Street's high-tech investment machine. The specialists, or market makers, on the floor of the New York Stock Exchange, are under fire for being too poorly capitalized to do much more than watch as prices gyrate. Traders report immense fatigue and stress, too. "This sort of market shortens your life," says Donald Crooks, a top equities trader at Morgan Stanley & Co.

The market's convulsions are casting a long shadow over the entire economy as well. Even if stocks recover to last week's levels, "there will be an aftershock to consumer confidence," says Richard Hoey, economist at Drexel Burnham Lambert Inc.

Economists are already scaling back their estimates for auto sales, housing starts and the entire economy's growth next year, on the belief that consumers will feel poorer after the market's Monday plunge and will spend less. Some econo-

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TODAY'S CONTENTS

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TWO SECTIONS

Mixed Bag: Market Leaps 186.84, But Worry Is Rife Over Volatility

Continued From First Page

mists think corporate America might follow the consumers' lead.

"People won't forget this volatility for many years to come," says Robert Arnott, a market strategist at Salomon Brothers Inc. It has already changed Mr. Arnott's own spending ways. When he got word of the crash Monday, he says, "I canceled everything discretionary I could on the new house I'm building." He will have one patio now instead of two, and a regular driveway instead of cobblestones.

On a broader level, economists at Forstmann-Leff Associates Inc. expect that a market-induced slump in consumer spending will slash two percentage points off next year's economic growth. They are expecting growth of zero to 2% now, instead of 2% to 4%. Others have even given up trying to make accurate forecasts. Drexel's Mr. Hoey joked this week that he now revises his economic forecast hourly.

What is especially bewildering to market experts is that there wasn't any profound event that triggered the market's crash—or its rebound. The only comparison the experts can offer is to a "crisis of confidence" in 1962, when the stock market skidded despite little bearish news. "The difference is this time the market's moves are much greater," says David Levine, an economist at Sanford C. Bernstein & Co.

Internal Workings Cited

And it seems clear that the moves are bigger partly because of the market's internal workings. Attention is focusing on wild gyrations in the Standard & Poor's 500-stock index futures, which are traded on the Chicago Mercantile Exchange.

Asked yesterday what steps regulators might take to reduce market volatility, SEC Commissioner Charles Cox said, "Some of the things I've heard proposed—not in the commission—are limits on options positions and in futures positions. Also, I've seen proposed price limits on futures similar to the ones on commodities."

Since stock-index futures began trading in 1982, users have argued that they help add liquidity to the market and help big institutions hedge risks. In quiet market conditions, that is probably true, agrees John Phelan, the chairman of the New York Stock Exchange.

But the past few days haven't been quiet. Stock prices tumbled 22% Monday, and the most actively traded futures, the Chicago Mercantile Exchange's contracts on the Standard & Poor's 500-stock index, were down more than 30%. In the Monday panic, the futures market "was the one place you could go" if you wanted to sell big chunks of a portfolio at a time, says a major West Coast money manager. A torrent of sell orders pushed futures prices to huge discounts to stock prices, dragging stocks down soon afterward.

Ordinarily, such sharp swings might reverse of their own accord. But a popular hedging strategy known as "portfolio insurance" helped the selling pressure feed on itself.

At least $60 billion of pension-fund assets and other big institutional accounts are covered by portfolio insurance, which isn't really insurance but uses stock-index futures to hedge against potential losses. It is the epitome of Wall Street's "high-tech" approach to trading, where computer models decide when to buy and sell. Users have included the pension plans of Virginia, Hughes Aircraft Co. and Manville Corp.; many big banks have provided the service to clients.

Low-Cost Protection

When stocks are rising, portfolio insurers don't hedge and instead ride the market higher. When stocks are falling, portfolio insurers sell stock-index futures, in effect cushioning the values of their stock portfolios from the full brunt of a dropping market. The idea, according to Wall Street proponents, is to provide "protection at a low cost."

In Monday's collapse, the more stocks fell, the more the portfolio insurers needed to sell stocks or futures. Such predictable, relentless selling pressure probably scared away many potential buyers from both stock and futures markets. Sellers attempted to unload an estimated $10 billion of futures contracts, enough to overwhelm even the boldest of buyers.

"I don't know if Monday's drop would have been 50 points or 400 points without portfolio insurance, but it definitely made things worse," says a market analyst at a major Wall Street brokerage house.

Ironically, Monday's market rout was so severe that portfolio insurers couldn't properly enact many of their hedges. And when stocks recovered, portfolio insurers were forced to unwind their hedges at a loss. Manville Corp., for one, conceded that "it's questionable how well portfolio insurance worked this week."

One investment banker predicted "the end of portfolio insurance as a strategy; it's really turned out to be portfolio destruction."

Tighter Curbs Predicted

Others predicted much tighter curbs on stock-index futures. The SEC's chairman, David Ruder, has already talked of setting daily limits to price moves or imposing further restrictions on the positions that big traders can take. Currently, there aren't any price-move ceilings or floors, and only loose limits on the size of positions, though most commodity futures and options contracts have such restrictions.

"If stocks are going to start trading like commodities, with violent price swings, we might as well start regulating them like commodities," says Bankers Trust's Mr. Reynolds.

Unlike Tuesday's rebound, which was centered on large, blue-chip stocks, the market rallied across the board yesterday. Advancing issues led declines on the New York Stock Exchange, 1,749 to 209. The Nasdaq composite index of over-the-counter trading surged more than 7%. And in the broadest measure of the market's advance, the Wilshire 5,000-stock index rose 182.711, to 2553.125, indicating that the total market value of stocks rose more than $182 billion.

A look at specific stocks shows, however, that the market hasn't yet recovered all its losses from Monday. International Business Machines Corp. stock, for example, closed yesterday at $122.75 a share, well up from its Monday close of $103.25, but below its Friday close of $135. And among smaller stocks, Information Resources Inc. rose yesterday to $20.125 a share, up from its low of $17.75 Tuesday. (Like many over-the-counter stocks, it bottomed Tuesday, lagging the blue chips' recovery.) But it is still down from its Friday close of $25.75.

A spokesman for the New York Stock Exchange said the Big Board did well in handling yesterday's volume of about 450 million shares—which was off from the two previous, 600-million-share days but was still far above a normal day.

So far, major financial players have held up surprisingly well in the market's turbulence. Mutual funds, for example, which held more than $800 billion of assets on Sept. 30—much of it belonging to individual investors—have seen only limited calls for redemptions so far, and say they are meeting them easily. What's more, those investors who are pulling money out of stock funds are tending to reinvest it in money-market funds, often within the same mutual-fund group.

Wall Street's largest brokerage firms say they also have weathered the market's wild swings with little damage so far. "The record volume alone is good for business," said Jack Baker, the head of equity trading at Shearson Lehman Brothers Inc. "And we made money" Tuesday by trading for the firm's own account, he added.

Problems Loom

Big problems for Wall Street firms could come on Monday, when stocks bought last Monday are actually supposed to change hands. Both the Big Board and the American Stock Exchange are considering calling people into work Saturday to help process this week's activity.

Yesterday's market rally was fueled by news of lower West German interest rates, as well as signs of a compromise in Washington on reducing the budget deficit. And many investors simply decided the stock market had overreacted Monday.

"We're in America, and the country isn't going broke," said Morgan Stanley's Mr. Crooks. "There are some fantastic values out there, and people are buying."

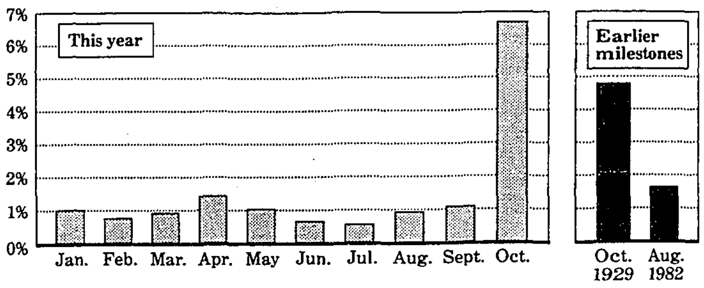
Still, the market's wild swings may cause American industry to hold back on expansion plans, fearing bad times. And such worries can become self-fulfilling. A money manager with big food-stock holdings says executives at those companies have already told their employees to cut travel and discretionary spending, as a direct, immediate reaction to Monday's market crash. Also, several takeover bids have been halted because of tumbling stock prices, including the Haft family's $6.3 billion attempt to buy Dayton Hudson Corp.

Compared with Monday's bleak outlook, "there's a whole laundry list of positive things for the short-term," said Shearson's Mr. Baker. But because of the adjustments to increased volatility, "there's no long term anymore."

TIM METZ CONTRIBUTED TO THIS ARTICLE

Measuring the Market's Volatility

Standard deviation of the day-to-day percentage changes in the Dow Jones Industrial Average, in percent



The chart measures how closely the Dow's daily percentage gains or losses are clustered. If the reading is small, like the 0.59% in July 1987, the numbers tend to be tightly grouped around their monthly average.

A large deviation—like the 6.7% reading for October 1987—confirms that the market is swinging wildly. October's reading surpasses the 4.8% recorded in October 1929, and dwarfs the 1.6% reading for August 1982 when the current bull market got under way.

MCA Inc.

Net Fell 37% in 3rd Period; Lower TV Earnings Cited

MCA Inc. reported third-quarter net income of $46.8 million, or 62 cents a share, down 37% from $74.5 million, or 96 cents a share, in the year-ago quarter.

Revenue was $770.6 million, up 1% from $759.3 million.

The Universal City, Calif., entertainment concern said its results were hurt by lower television earnings and losses in the toy products division resulting from a delay in shipments of "Gotcha!" products.

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Trade Tangle

Brokers' Back Offices Stagger Under Load, Exasperating Clients

Callers Can't Get Through; Buy, Sell Orders Are Lost; Crowd in 'Rotten Room'

Exchanges to Shorten Hours

By STEVE SWARTZ
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK – Behind the mahogany doors on Wall Street, securities firms are beginning to get a black eye with some members of the trading public.

Among the disenchanted is Glen Duke, a New York City retiree, who telephoned the giant discount brokerage firm of Charles Schwab & Co. 62 times this week and never did make contact with a human. Mr. Duke says that in earlier phone calls, Schwab employees were unable to quote the price of a Kodak option that he has struggled for four days to buy. Instead they kept him on hold "listening to music for an hour."

Many brokerage houses have been having trouble keeping their trade-processing machinery afloat during this week's trading tidal wave. Under the weight of previously unimaginable stock volume, their telephones aren't always answered, share prices aren't always available and some trades aren't getting confirmed.

But the brokers say that, partly because of improved computers, Wall Street is faring better than during the notorious back-office snarl of the late 1960s.

Unhappy Memories

In that earlier crisis, Wall Street almost drowned in paper. Many investors' confidence was shaken as their securities and cash were misplaced by overworked clerks.

The New York and American stock exchanges yesterday announced plans to close two hours early, at 2 p.m., today and on Monday and Tuesday "to allow the financial community time to process transactions." The Big Board was the first of several securities markets yesterday to announce temporarily shortened hours. (See article on page xx.)

The Securities and Exchange Commission said it supports the early closings. The SEC said it "emphasizes that the securities industry remains in a strong capital position."

In 1967, from Aug. 8-11 and from Aug. 14-18, the Big Board closed at 2 p.m. because of heavy volume. As a comparison, daily volume in August 1967 ranged from just 6.2 million to 13.5 million shares.

Also, in the second half of 1968, the Big Board closed on most Wednesdays to allow brokerage houses to catch up. For some firms, that wasn't enough, and they were taken over by larger firms or they went out of business. A major problem in those days was the physical movement of stock certificates between brokers; these days the paper is held in one central depository.

"Picture the worst traffic jam you've ever seen and then double it," Donald B. Marron, the chairman of PaineWebber Group Inc., says of the 1960s. But he says the current trouble "bears no relationship whatsoever to what happened" then.

Missing in Action

This week, some brokers lost track of buy and sell orders. Others were still bickering Wednesday over details of orders placed Monday, when the market sank a record 508 points.

At Shearson Lehman Brothers, "problem trades" are running as high as 5% of an estimated total of 100,000 trades a day. Normally they would amount to less than 1% of a typical 40,000 daily trades. Still, the brokerage firm says it has managed to keep on top of the workload.

When brokers get to arguing over the terms of a trade, the situation usually is resolved by clerks who work for the brokerage houses on the exchange floors.

At the Amercan exchange, some disputed trades are resolved in a little-known office called "the rotten room," says Kenneth Leibler, the Amex president. The rotten room is crowded this week, handling twice its normal load of trades.

It is a similar story a few blocks away at Shearson, where hundreds of employees, from clerks to managers, are sifting through trades, sometimes sleeping on cots and working 17-hour days. Robert Smurra, who heads the securities clearing operation at Shearson, says: "We'll all be here Saturday. We'll be here Sunday. And we'll be divorced by Monday."

Merrill Lynch & Co., E.F. Hutton Group Inc. and Shearson said late yesterday that they will keep their branch offices open for extended hours this weekend. Merrill said it took the step to respond to investors' need for information.

The pace is tough on securities firms' workers. At Kidder, Peabody & Co., a unit of General Electric Co., "We're dong fine, but everybody's tired," says Max C. Chapman Jr., Kidder's president. He adds, however, "What I worry about is people getting too tired and making mistakes."

Sleepless Nights

At Shearson's back office operation Wednesday around 8 p.m., Barbara Richards, a 39-year-old trade processor, was still untangling trades. "It's beginning to wear and tear on me, especially with the eyes," she says. These print-outs are extremely small."

Brokerage houses are paying dearly for the confusion. "This is terrible," snaps Leslie Quick Jr., the chairman of the big discount brokerage firm of Quick & Reilly

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What's News—

* * *

Business and Finance

STOCKS FELL BACK in volatile trading, as the Dow Jones industrials skidded 77.42 points to 1950.43. Heavy selling by foreigners, and by U.S. investors meeting margin calls, helped fuel the drop. Still, there were signs of stability in the market. The Big Board and other stock exchanges will close early today, Monday and Tuesday due to the order backlog.

Interest rates tumbled further as major banks cut their prime rates to 9% from 9¼. Treasury bond prices continued to surge. The dollar recovered from an early decline.

(Stories on Pages 3, 53, 39, 41 and in Column 1)

* * *

A budget agreement between the White House and Congress appears almost certain in the wake of Monday's stock market crash. Though Reagan's shift on a tax increase makes a boost likely, officials concede a budget pact may not affect the deficit much.

(Stories in Column 6 and on Page 3)

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The Chicago Merc said that it will impose daily price limits on stock-index futures and options contracts, starting today. The action is in response to the unprecedented market swings of the past several days.

(Story on Page 2)

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Economists have turned bearish following the stock market's collapse. Though few are predicting a recession anytime soon, nearly all economists have scaled back their forecasts.

(Story on Page 8)

* * *

Money-market funds soared a record $9.64 billion in the week ended Wednesday as many investors shifted money out of the stock market.

(Story on Page 6)

* * *

Corporate raider Alan Clore appears to have been hurt badly by the market's plunge. He has sold his stake in Rorer back to the firm and may lose control of KaiserTech.

(Story on Page 4)

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Investors are growing skeptical about takeover accords as many companies scuttle or rethink their bids. Carteret Bancorp, for example, said its suitor wants to pay less.

(Stories on Pages 4 and 5)

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Henley Group is believed to have bought millions of shares of Santa Fe Southern Pacific this week. It may preface the first major takeover attempt since Monday's crash.

(Story on Page 4)

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BankAmerica posted its first quarterly operating profit in 1½ years, the result of sharply smaller loan losses and reduced operating expenses.

(Story on Page 11)

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Enron Corp. will take an $85 million quarterly charge due to large losses on secret, unauthorized trading at its international oil unit.

(Story on Page 7)

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Monsanto's NutraSweet unit seeks federal approval for a new technology that would let its low-calorie sweetener be used in baked goods.

(Story on Page 16)

* * *

Salomon's profit plunged 79% in the third quarter, reflecting runaway costs and weak trading results.

(Story on Page 4)

* * *

Nikko Securities is committing $100 million to a U.S. mergers and acquisitions fund, unfazed by this week's turmoil in the stock market.

(Story on Page 33)

Markets– * * *

Stocks: Volume 392,160,000 shares. Dow Jones industrials 1950.43, off 77.42; transportation 751.71, off 35.30; utilities 181.54, off 2.73.

Bonds: Shearson Lehman Treasury index 1235.11, up 32.56.

Commodities: Dow Jones futures index 128.70, off 0.41; spot index 126.60, up 0.35.

Dollar: 145.05 yen, up 0.42; 1.8185 marks, up 0.0015.

* * *

World-Wide

SHULTZ MET with Shevardnadze in an effort to reach an arms-control accord.

Both sides said the secretary of state and the Soviet foreign minister were making progress toward completion of a superpower treaty calling for the elimination of intermediate-range nuclear missiles. A U.S. official said that Shultz and Shevardnazde had "basically resolved" a dispute over West German arms, and that only "technical" differences remained over verification procedures and missile-dismantling schedules. Shultz is to meet today with Gorbachev.

Reagan, at a news conference, said a date hadn't been set for a third summit with Gorbachev, but he expressed hope that such a meeting would occur.

* * *

REAGAN WARNED Iran again about "provocative acts" in the Persian Gulf.

The president, in a nationally broadcast news conference, said the U.S. wasn't operating in the gulf "to start a war," but would "respond" to Iran's attacks on shipping. Reagan's comments came after an Iranian missile, believed to have been a Chinese-made Silkworm, struck a Kuwaiti oil terminal. At least five people were wounded and the facility set ablaze in the missile strike. None of the U.S.-flagged tankers protected by Navy ships was in the area.

The Islamic Jihad, which holds American hostages in Lebanon, said "thousands" of suicide bombers are prepared to attack the U.S. in the gulf.

* * *

The Teamsters union said it wants to rejoin the AFL-CIO, which expelled the union in 1957 for refusing to sign a code of ethics statement. The proposal, considered a move by the Teamsters to improve its image while under threat of a government takeover, is likely to spark debate within AFL-CIO leadership. (Story on Page 9)

* * *

Norway said that it uncovered possible violations by U.S. companies of Cocom rules. U.S. officials reacted cautiously because the Norwegians didn't offer conclusive evidence that the U.S. companies, or some European machine-tool makers, violated export regulations on high-technology shipments to Moscow. (Story on Page 23)

* * *

The Senate scheduled a vote today on Bork's nomination to the Supreme Court after Senate Republicans agreed to end debate. Wyoming Sen. Simpson, the GOP whip, said the Reagan nominee has "no desire to prolong" the squabbling over his confirmation. A majority of senators have announced opposition to Bork.

* * *

Exiled Soviet poet Joseph Brodsky won the 1987 Nobel Prize in literature. The Swedish Academy cited the former labor camp inmate's work for its "clarity of thought and poetic intensity." Brodsky, 47, who lives in New York, became a U.S. citizen in 1977.

* * *

The Labor Department proposed a record $5.1 million fine against five firms involved in building a Bridgeport, Conn., apartment complex that collapsed April 23, killing 28 workers and injuring 10 others. OSHA said design deficiencies and employer "complacency" were responsible for the L'Ambiance Plaza accident. (Story on Page 10)

* * *

The EPA proposed new standards to improve the safety of drinking water that comes from rivers, lakes and other surface-water sources. The $2 billion plan would affect less than 5% of the nation's drinking-water systems, but is said to be among the most expensive cleanup programs to result from a 1986 law. (Story on Page 54)

* * *

Surgeon General Koop said an "explosion" of AIDS cases among heterosexuals isn't likely although the disease's greatest rate of increase is among that group. About 26% of AIDS victims are heterosexuals, but only 4% contracted the disease through heterosexual sex, according to U.S. data.

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Nancy Reagan returned to the White House, five days after undergoing a modified radical mastectomy. Surgeons at Bethesda Naval Hospital removed the first lady's left breast and nearby lymph nodes Saturday after a small tumor detected during a routine exam proved to be cancerous.

* * *

China's political disputes are expected to prevent leader Deng Xiaoping from designating a successor when the Communist Party opens its 13th congress Sunday in Beijing. Premier Zhao Ziyang, however, is expected to emerge from the meeting confirmed as party chief and the leading candidate to succeed Deng. (Story on Page 22)

* * *

Indian soldiers stormed through the Sri Lankan city of Jaffna, the Tamil separatists' last major stronghold, amid reports that most of the rebels had withdrawn. Sporadic clashes continued between the Tamils and New Delhi's forces, sent to the island nation to enforce a July 29 truce.

Fallout From the Market's Gyrations

- **Leaders of corporate America are taking some defensive steps, but few are scaling back business plans in anticipation of a recession, page 2.**
- **Fidelity Investments and other big mutual-fund groups appear to have avoided a big loss of assets, 6.**
- **How to answer margin calls, 29.**
- **The booming market for art works is expected to soften, 30.**
- **Despite the uproar on Wall Street, many people across America don't see a crisis, 29.**
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- **Reporter's notebook: one scribe's view of the plunge, 6.**
- **Business-school students remain calm about the future, 29.**

More Than Marriage Is at Stake in the Split Of Publishing Couple

* * *

He Heads Simon & Schuster; She Is Taking Her Talent To Rival Random House

By LAURA LANDRO
And JOANNE LIPMAN
Staff Reporters of THE WALL STREET JOURNAL

NEW YORK—Richard Snyder and Joni Evans's divorce battle is the talk of the publishing business. At stake are millions in assets, including a sprawling Westchester County estate. She wants her share; he wants his. The judge has yet to divvy it up.

Divorce court may not be the end of this love match. Mr. Snyder is chief executive of Simon & Schuster Inc. His wife, until recently one of her husband's top executives, last week was named publisher of archrival Random House.

"You could picture one heck of a competition," says financial writer Andrew Tobias, whom Ms. Evans edited at Simon & Schuster. It might even be as big, Mr. Tobias says, as the legendary competition between cosmetics tycoons Helena Rubinstein and Charles Revson.

Joni Evans

In the Snyder-Evans war, Ms. Evans has already captured certain literary territory. Although she says she does not plan to raid Simon & Schuster, authors Mario Puzo and Ann Beattie have followed Ms. Evans to Random House. And many people who follow publishing expect the two houses will soon be slugging it out over the biggest literary names. "I would think all of Joni's authors would wonder whether they should stay at Simon & Schuster or go with her," says Mr. Tobias. (He is still under contract at Simon & Schuster.) Other publishers' authors will be fair game, too. Ms. Evans says she has wooed Donald Barthelme from G.P. Putnam's Sons, and she expects to sign other authors shortly.

But as she forges ahead at Random House, Ms. Evans will have to watch her back. The company is a much more subtle place than Simon & Schuster, where Ms. Evans's brand of brash enthusiasm generally plays well. She will have to get along with chairman Robert Bernstein, who, at the age of 64, forced out her predecessor, Howard Kaminsky, 47.

"The key to Joni's character is her competitiveness, and at Random House they think of them-selves as gents," says a former Random House executive now at another publisher. "They don't like open aggressiveness." Mr. Kaminsky was not a typical Random House gent, and that is one reason he ran afoul of Mr. Bernstein. Ms. Evans is more like Mr. Kaminsky than anyone else at Random House, he says. Simon & Schuster people have a reputation for collegiality. At Random House, he says, "they let you make your mistakes and then punish you for them."

Richard Snyder

In her new job Ms. Evans will have to work with a crew of editors whose ranks include plenty of heavyweights. One of them puts his thoughts about Ms. Evans this way: "She'll do fine as long as she understands she's part of the team."

Ms. Evans says it will all work. "I'm adorable! I'm not ruthless!" Her new colleagues are "a hell of a bunch," and she hopes to bring them her enthusiasm and

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NOTICE TO READERS

Because of heavy trading, certain final market statistics were unavailable for this edition.

Washington Wire

A Special Weekly Report From The Wall Street Journal's Capital Bureau

FINANCIAL FEARS underscore Reagan's weakness but damage others, too.

The president seems detached, even to some ardent supporters. He is totally on the defensive in the aftermath of the stock crash, reacting to events. His vow to personally get involved in budget negotiations with Congress could backfire; the Democrats, sensing his weakness, don't see him as a formidable adversary in this climate.

Treasury Secretary Baker also stumbled with public hints about the dollar just before Monday's crash. Congressional Democrats don't look much better. "Everyone is scared politically," says New York Rep. Downey, a Democrat. Senate Finance Chairman Bentsen's claim that the protectionist trade measure will calm international markets further shakes investor confidence.

Budget Chief Miller is dismissed by White House and Treasury officials as out of step; chief economist Sprinkel is considered irrelevant.

TOUGH U.S. TACTICS win quick economic results abroad but raise hackles.

The public campaign to get West Germany to lower interest rates works; Japan also eases. But the pressure leaves a bad taste. "We always feared that this international coordination would be used by the U.S. to bully us," says a German official. "Now we are seeing it happen." Even British officials suggest that U.S. policies lie behind the big market crash.

Foreign concessions are grudging; Bonn applies its reduced short-money rates to fewer transactions than usual. The Bank of Japan warns that fighting inflation remains a top priority; that implies rates may rise later. The U.S. may have to keep the heat on. But jittery markets, fearful of international squabbling, could crimp that effort.

IRAN'S ATTACKS on Kuwait pose a dilemma for U.S. strategists.

Policy makers want to avoid extending U.S. protection beyond escorting ships through the Persian Gulf. But increased Iranian assaults in Kuwait would increase pressure for broader U.S. military support. "The war is going to escalate on the Kuwaiti side rather than with Iraq," predicts David Mizrahi, editor of MidEast Report.

So far, U.S. officials are urging Kuwait to beef up its own defenses. "We are intensely concerned," says one State Department official. But he insists that "our policy remains to escort U.S.-flag vessels—period." Arab states' uneasiness about the U.S. commitment is eased somewhat by the Senate's decision to sidestep the War Powers Act, which could have forced a gulf pullback.

The U.S. continues to warn Iran against retaliations for the American attack on an Iranian sea platform.

ASLEEP AT THE WHEEL? Congressional Democrats are expected to scrutinize the Securities and Exchange Commission and the Commodities Futures Trading Commission in the wake of the stock plunge. They note that former SEC Chairman Shad testified last spring that chances of a 500-point drop in the market were remote.

STIRRING A FUSS: Though many political analysts think Jeane Kirkpatrick won't enter the GOP presidential race, in New Hampshire ex-Laxalt partisans, former Gov. Thomson and the Manchester Union Leader escalate urgings that she run. Kemp backers, fearing their man would be hurt, try to portray the former U.N. ambassador as liberal on welfare, taxes and abortion.

BEYOND BORK: Reaganites vie to push their Supreme Court choices.

The White House expands its list as different factions line up behind candidates. Some Justice Department officials back federal Judge Anthony Kennedy of California. Others say he is too moderate and promote Judge Pascoe Bowman of Missouri. Some conservatives still press for an intellectual force, such as Judge Ralph Winter of Connecticut or Judge Laurence Silberman of Washington, D.C.

White House aides say a fresh face might be more salable than oft-considered candidates. Former Chief Justice Burger touts Judge Gerald Tjoflat of Florida as a law-and-order jurist. Judge Pamela Rymer of Los Angeles could gain. The White House, one adviser says, will consider conservative Southerners and women, who might be harder for some senators to oppose.

Reagan will quickly be given a short list of final choices when the Senate officially votes down Bork.

MINOR MEMOS: After the Navy's Persian Gulf attack, Weinberger said that "events did move with great decisiveness" and "resulted in nearly total destruction," adding: "I'm speaking of the stock market." . . . Dole, commenting on his wife's resignation as transportation secretary to help him become president, quips: "Elizabeth's now out of work, and that's another reason I need a better job." . . . An old mill in New York that was once in Oliver North's family is renovated by artists and dubbed "Fawn Hall."

—Compiled by RONALD G. SHAFER

Reagan's Reversal

Stock Market's Crash Makes Budget Accord, Tax Rise More Likely

Baker, Baker and Greenspan Change President's Mind; 'Everything on the Table'

But Will a Compromise Help?

By ALAN MURRAY
And GERALD F. SEIB
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – The stock market's collapse has dramatically altered the political landscape here and made a budget agreement between the White House and Congress all but inevitable.

Although a budget compromise that almost surely will include a tax increase represents an abrupt change in President Reagan's position, it isn't likely to do much to reduce the federal deficit. Administration and congressional leaders concede that they will be hard pressed to produce more than $23 billion in deficit cuts—the same amount they would have got if they had done nothing and just let the Gramm-Rudman budget-reduction law take effect.

At a news conference last night, Mr. Reagan said "$23 billion is all we're looking for in a reduction."

But many investors and foreign governments are hoping for a budget-reduction package far larger than that. "That's the crazy thing about this," one administration official says. "This is supposedly being done for the market, but we will probably end up the same place we were if the stock market hadn't crashed."

President Reluctant

President Reagan, who has stubbornly refused all year to even consider raising taxes, appears to have been dragged kicking and screaming into talks with Congress by Treasury Secretary James Baker and White House Chief of Staff Howard Baker—with an assist by Federal Reserve Board Chairman Alan Greenspan. The two Mr. Bakers, in effect, seized control of administration economic policy and pushed the president in a direction that he—as well as others in the administration—had strongly opposed.

A statement from the president yesterday afternoon makes it clear that he is now ready to accept some new taxes. "Everything is on the table, with the exception of Social Security," the statement said. Rather than repeat his previous vows to veto taxes, the president said his goal "was to develop a package that keeps spending and taxes as low as possible." At his press conference, the president said only that he won't accept a tax increase that has "a deleterious effect on the economy."

Some members of Congress and the administration have talked about trying to put together a package that reduces the deficit by more than $23 billion. But a senior administration official involved in the discussions said yesterday, "I wouldn't look for that. It's hard enough to get $23 billion." He added:

"What the markets are looking for is evidence that the executive and legislative branches can work together. It is important to send a signal to them that we are cooperating."

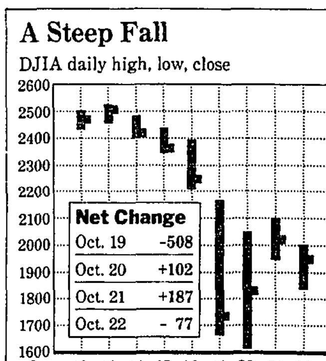
Wall Street Wants More

But Wall Street expects more than a show of cooperation. "If they don't do something that speaks to fundamental change, it won't do anything" to calm the markets, Arthur Levitt Jr., the chairman of the American Stock Exchange, warned yesterday afternoon. The Dow Jones Industrial Average fell 77.42 points yesterday.

Also speaking yesterday afternoon, Donald Straszheim, the president of Merrill Lynch Economics Inc. in New York, said, "If the outcome is nothing more than a ratification of the $23 billion cut that was going to happen anyway and statements by the president and Democratic leaders reaffirming the appropriateness of their positions over the last few years, that's not enough. The dashing of the market's optimistic hopes could do damage in itself."

A Steep Fall

DJIA daily high, low, close



Noting the administration's inability to reduce the huge budget and trade deficits, Frederick W. Zuckerman, vice president and treasurer at Chrysler Corp., said yesterday morning that he is "really bearish on both the bond and stock markets."

'Paying the Piper'

"I think we are finally paying the piper for seven years of profligacy by this administration," he said. "I do not believe the present reduction in interest rates is real because I don't believe the administration is determined to reduce the deficits. There will be a serious impairment of consumer confidence." He added: "I don't think we're going to have a depression like

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TWO SECTIONS

Fidelity Investments Keeps It in Family During Crash

Firm's Other Mutuals Pick Up Many Refugees From Its Stock Funds

By CHRISTOPHER J. CHIPELLO And GARY PUTKA

BOSTON—Like a lot of other investors, Stan Luniewicz retreated from the stock market this week. But he didn't leave Fidelity Investments.

When the market began crashing Monday, Mr. Luniewicz immediately tried reaching Fidelity to move money out of stock funds. After two days of unsuccessfully calling Fidelity 50 times from his car telephone, he gave up and came downtown to Fidelity's storefront investment center. "I had to come down here and do my business in person," complains Mr. Luniewicz, a computer salesmen from suburban Woburn, Mass., standing outside Fidelity's office.

Despite his frustration, what Mr. Luniewicz did was exactly what Fidelity hoped he would. Instead of pulling $9,900 out of Fidelity, he switched it from two Fidelity stock funds to a Fidelity money-market fund.

At least so far, Fidelity and other big mutual-fund groups appear to have avoided the mass exodus of assets that has plagued them in past market downturns. Indeed, at Fidelity—the largest independent mutual-fund company with some 2.5 million investors and $81 billion under management before the crash—98% of all mutual-fund redemptions have been put back into other Fidelity investments.

Delayed Transfers

There have been problems, of course. The market's unprecedented gyrations have rattled customers and strained the systems of Fidelity and other companies. Deluged by hundreds of thousands of calls daily, Fidelity angered some investors by temporarily delaying transfers among its funds to five business days from the normal one day.

Fidelity also fell way behind in its hourly price quotes for its popular Select sector funds, which invest in specific industries. As much as 20% of the calls to Fidelity have reached a busy signal. And Fidelity had to tap credit lines when it couldn't sell stocks fast enough to meet redemptions.

Moreover, with the market still moving wildly, Fidelity isn't sure if it will retain the money moved out of stocks. This money has switched mainly into money-market funds, cash-equivalent accounts that invest in short-term debt securities. Ultimately, the easy withdrawal privileges of these liquid accounts could enable investors to pull out completely.

Also, because the market drop lowered the value of its assets under management, "in the short term, Fidelity will be hit by a loss of management fees," says Jack Bowers, editor of Fidelity Monitor, a newsletter on Fidelity funds. "But as long as they keep the money in the group they'll be fine because they'll have it available to go back into the stock funds later."

Other large mutual-fund companies report a similar experience. "In 1974, when the market tanked, we had only four funds"—three stock funds and a fledgling bond fund—and many investors went away, says a spokeswoman for Baltimore-based T. Rowe Price Associates Inc. Now T. Rowe Price has 25 funds, and 80% of the money taken out of stock funds has gone into money-market funds, the firm says.

For several years, big mutual-fund groups have been adopting strategies not only to attract investors' money in a bull market, but to keep it in a bear market. The basic idea: offer a variety of funds that have something for everyone, and let investors shift money with a simple phone call. First with money-market funds and then with new bond-fund products, investment companies lured a whole new category of investors.

Fidelity has diversified—and grown—most. Its more than 100 funds allow investment in anything from precious metals to government securities. With that array, a bank of toll-free numbers, and a huge investment in new computers and telephone-switching equipment, Fidelity was ready for the market's conniption—almost.

The biggest complaint is that investors had a hard time reaching Fidelity. "I couldn't get through on the phone. I couldn't tell how I was doing," says Pat Bower, who switched from Fidelity's Magellan stock fund to a money market fund Monday. Another Fidelity customer, who also says he couldn't get through by telephone, drove from Martha's Vineyard to switch his assets at the Boston center, where an electronic board that normally carries fund quotes wasn't working.

Not everyone has been staying in-house. Ted Live, a Massachussetts state planner, says he took $2,500 out of Fidelity's Overseas Fund "as a precaution."

The avalanche of calls began at the start of last week, with the daily average of calls increasing to 140,000, roughly 30% more than normal. By the weekend, calls were running at double the usual rate. On Sunday afternoon, Edward C. Johnson III, Fidelity's chairman, and a dozen top officers met from 4 to 7:30 in the first of what have become twice-daily strategy sessions. Former telephone operators were redeployed from other departments to help handle the growing tidal wave of calls.

Record Number of Calls

On Tuesday, Fidelity recorded a record-shattering 500,000 phone calls—more than five calls a second—including 218,000 calls to an unmanned service that gives quotes to touch-tone phone callers. Redemptions of stock-fund shares and switches into money-market funds hit their peak.

Fidelity won't say exactly how much has been switched out of its stock funds or lost to the fund group altogether during the market's wild ride. Fidelity's total assets under management dropped to $69.5 billion as of Tuesday, from $81.1 billion on Oct. 1. Stock-fund assets plunged to $28.2 billion from $40.7 billion, while money market-fund assets climbed to $32.8 billion from $29.1 billion. That figure doesn't include money in the process of being switched from stock funds. Bond fund assets fell to $8.6 billion from $10.5 billion.

Fidelity acknowledges that redemptions have been high in the Magellan Fund, the largest equity mutual fund in the country, whose assets reached $11 billion before last week. Eric Kobren, editor of a newsletter that follows Fidelity, estimates that Magellan through Monday incurred $750 million to $800 million in net redemptions during the downturn.

Redemptions and losses in share values as a result of the market decline have reduced the giant fund's total asset value to $7.7 billion as of Tuesday, Fidelity said. If Magellan's assets stay at that level, Fidelity will lose over the next year some $20 million or more in management fees. Some of that will be recouped in added fees on money-market funds.

The shift of assets from equity to money-market funds will mean tighter profit margins for mutual-fund groups as long as investors remain wary of the stock market. Still, "it may be surprising how much these (companies) make in a bear market," says John Keefe an analyst at Drexel Burnham Lambert Inc. One buffer against lost revenues will be redemption charges and switch fees. Fidelity charges $10 per transfer among the portfolios in its $3.5 billion Select funds.

Smaller mutual-fund companies that emphasize equity funds are likely to be hurt most by the turmoil in the stock market, analysts say. "In the past couple of years, many small (fund management) companies have started up," says Mr. Keefe of Drexel Burnham. "You might find some throwing in the towel," and that could leave customers for the bigger fund groups to recruit, Mr. Keefe says.

Money Funds Grew by $9.64 Billion, A Record, in Week Ended Wednesday

By RIFKA ROSENWEIN
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK – The tumultuous stock market sent investors scurrying into money market funds this week, as assets rose a record $9.64 billion.

Most of the movement came from investors switching out of bond and stock funds and into money market funds within the same fund group. Though activity slowed down toward the end of the week, mutual fund organizations said they expect to see more inflows into money market funds over the next week from investors who sold securities this past week.

The Investment Company Institute said money market funds rose sharply to $256.84 billion in the week ended Wednesday. "Investors shifted billions of dollars from equity funds to general purpose and broker-dealer money funds which provide safty and liquidity. Investors thereby remain ready to re-enter stock funds should conditions warrant," said Alfred P. Johnson, chief economist at the Washington-based trade association.

This week's increase far surpassed the previous record weekly rise of $6.69 billion in the week ended Jan. 9, 1985. That gain was caused largely by a sharp increase in interest rates.

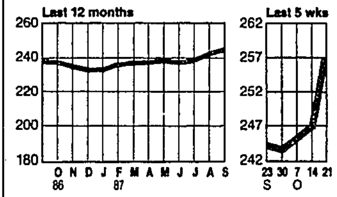
Emery Erickson, a portfolio manager at IDS Financial Services, a Minneapolis-based unit of American Express Co., said that about 80% of the money that moved within its group of funds this week was switched into money market funds. Transfers early in the week added about $80 million to the average total of $1.1 billion in money fund assets carried by the group.

Mr. Erickson noted, however, that by late in the week, when the stock market picked up, about $20 million moved back into equity and bond funds. He said IDS had no trouble meeting redemptions, which were lighter than expected, and didn't extend its normal one-day settlement policy.

"I think we've already seen most of the switching," said Jerry Cole, senior vice president of Kemper Financial Services, Chicago. He said he expects the proceeds from institutional and retail investors who sold individual securities to begin showing up in money market funds in about a week.

Money Market Funds

Assets, in billions of dollars



Source: Investment Company Institute

Mr. Cole said that assets in Kemper's money market funds, which contain an average total of about $13 billion, increased by about $300 million. "We didn't find lots of activity at the beginning of the week," he said. "There was nothing we couldn't handle." His group also didn't extend its normal one-day settlement policy for redemptions.

The Investment Company Institute said assets of 207 general purpose funds rose $4.12 billion to $78.14 billion, assets of 93 broker-dealer funds rose $1.23 billion to $109.33 billion. Assets of 108 institutional funds rose $4.29 billion to $69.36 billion.

The average seven-day yield for funds, in the week ended Tuesday, rose to 6.7% from 6.56% a week earlier, according to Donoghue's Money Fund Report, a Holliston, Mass.-based newsletter. The average 30-day yield for funds increased to 6.5% from 6.39%, and the average maturity of funds dropped to 38 days from 39 days.

Banks, which compete with money funds, were paying an average yield of 5.64% on money market savings accounts in the week ended Wednesday, compared with 5.6% the week before, according to Banxquote Online, a New York-based information service. Bank yields were 7.27% on six-month savings certificates of deposit, compared with 7.13% the previous week, and 7.72% for one-year bank savings CDs, compared with 7.65%.

Reporter's Notebook: A Dow at 2700 And Prospect of Recession Didn't Mix

By TIM METZ
Staff Reporter of THE WALL STREET JOURNAL

Seems everyone on Wall Street and Main Street has a theory about what touched off the Great Stock Market Crash of 1987. Me too:

The Dow's ascent of 44% to a record 2722.42 in less than eight months scared plenty of Wall Street pros who lived through the bear market of 1973-75. To them, the big, fast runup meant a nasty correction would follow.

So after the record-setting market session of Aug. 25, many veterans pulled in their horns, sold stock and raised cash. The buyers at that point were more aggressive, often younger and with shorter Wall Street memories, who figured the Dow's rush to 3000 was on.

The concurrent rise in interest rates and slide in bond prices made the veterans even more worried, but many others figured that was a fluke and would soon reverse.

Result: Increased polarization among investors. Merrill Lynch's mid-September peek into the portfolios of a representative sampling of 100 institutional investors showed 44% holding more than 15% cash (the bears), and 39% holding less than 10% cash (the bulls).

My own early October sampling of a dozen investment advisers showed they were polarizing, too. Four of the six bears got bearish in late September, while three of the six bulls grew more bullish.

Then the U.S. and its six major trade partners huddled in Washington late last month for secret talks on how to support the dollar. From veiled remarks and the steady continued upward march of interest rates after the G-7 parley, some on Wall Street darkly concluded the U.S. must have cut a deal that committed the Federal Reserve to prop the dollar with high interest rates, even if a recession ensued.

From then it didn't take a rocket scientist to realize that a 2700 Dow and impending recession don't go together. Suddenly, the bears' march to the stock market exits was joined by fully invested bulls. Portfolio managers started selling stock index futures to cushion themselves against the impending losses.

Last week that selling drove the futures prices to huge discounts from the levels of the underlying indexes, triggering massive stock selling programs by stock index arbitragers. The program sales zonked stock prices, so portfolio managers sold some more index futures, touching off renewed program selling. The cycle fed on itself. By Monday, fear had become panic, the correction a crash, and look at the mess now.

* * *

This hasn't been a banner week for Washington lobbying powerhouse Robert Gray, who sold his Gray and Co. Public Communications International to J. Walter Thompson's, Hill & Knowlton PR unit for $21 million back in mid-1986.

In New York Wednesday night to hear his pal Howard Baker address the Economics Club banquet, Mr. Gray spent some time muttering into his mutton about his recent dealings with discount broker Charles Schwab & Co.'s Washington office. "First I got a $21,000 margin call, which I paid immediately, and then I got a $79,000 call and paid it right away, too," he said.

Thus, Mr. Gray demonstrated he was: 1) good for a quick $100,000, and 2) probably qualified for at least an American Express green card.

No matter. When at midweek he tried to jump in for part of the Dow's record 186.84-point runup, it was bad news from the Washington office of Schwab. "They told me they were sorry, but because of an order from San Francisco (Schwab's headquarters) I'd have to deposit $50,000 with them before they'd take my buy order."

Hugo Quackenbush, Schwab's public relations poohbah, says that as of Wednesday, Schwab sent out orders to all its branches to tighten up payment and trading procedures in view of the market malaise. These days it seems some of Schwab's customers aren't just satisfied to save a few bucks on commissions—some want to walk away from trades that go the wrong way.

"We're sorry to inconvenience a valued customer like Mr. Gray, but we've taken some hits, and we just thought it prudent to tighten up across the board. We're not allowing any fancy trading tactics and we're requiring cash up front for any over $10,000," he said.

Mr. Gray says he didn't cough up the $50,000 and buy stock on Wednesday, which—given yesterday's market downturn—probably means Schwab did him a favor.

* * *

The good old days for Arthur F. (Artie) Long were the 1960s, before blue ribbon investment banks and law firms flooded into the mergers and acquisitions advisory business. Corporations, not raiders, took over other corporations, and they did it not to liquidate them in a fast trade, but to manage their assets.

Artie Long was there to help fashion the tender offer terms for such acquirers as Jimmy Ling's LTV Corp., J. Hugh Liedtke's Pennzoil and T. Boone Pickens' Mesa Petroleum, which in those days lusted after oil and gas reserves rather than stock market profits.

Well, thanks largely to the stock market meltdown, the good old days are coming back, Mr. Long wants the world to know. Assuming stock prices don't soon return to their pre-crash levels, "the game will change overnight," Mr. Long asserts. "No more raiders leveraged to the eyeballs and planning to liquidate or resell their targets," he says. "It'll be cash-rich companies on the prowl for assets they can manage at prices that finally make sense again."

And that's not just wishful thinking, says Mr. Long, president and biggest owner of D.F. King & Co., the Wall Street proxy solicitation and advisory concern. During the past week, he says, four corporate chief executives have contacted him to ask King to stand ready to advise in possible acquisitions, and 22 more companies have signed up for the firm's "stock watch" service, which monitors trading of the companies' stocks for signs of an accumulation.

Texas Air Maintenance Heats Up Fights With Restive Unions and Competitors

By PAULETTE THOMAS
Staff Reporter of THE WALL STREET JOURNAL

HOUSTON – Airplane maintenance at Texas Air Corp. has heated up disputes with the company's restive labor unions and with its airline competitors.

At the company's Eastern Airlines unit, a months-old increase in maintenance complaints by unionized pilots—which the company calls a slowdown—is beginning to take its toll on day-to-day operations, the carrier said. The airline's recent progress in operating and financial performance "is being slowed as a direct result of the slowdown," in which pilots are interpreting regulations in the most literal way possible, according to Stephen Kolski, an Eastern attorney.

Meanwhile, contract talks that began last week with the company's machinists, who maintain aircraft, promise to be bitter.

At the same time, the company's Continental Airlines unit is fending off charges that its newly inaugurated national advertising campaign creates a misleading impression about one aspect of its maintenance operations. Continental, which is trying to overcome a reputation for inferior service, indirectly suggests in its television ads that it performs major maintenance work for other airlines; but, those airlines say they perform more maintenance, by far, for Continental.

United Airlines, a unit of Allegis Corp., and American Airlines, a unit of AMR Corp., said they have complained about the ads to the three commercial-television networks and to the advertising division of the Council of Better Business Bureaus.

'On-Call' Relationships

Airlines often have "on-call" relationships with other carriers, under which planes might receive maintenance work in cities where the airline doesn't have a maintenance base. But a United spokesman said the airline performed $50 million of contract maintenance for Continental's fleet of Boeing Co. planes last year, while Continental performed "maybe $2,000 worth" of maintenance on United aircraft.

"Last week they replaced a navigation wing-tip light on a 727, and in the last month they checked some engine oil," he said. "We're talking about very minor work."

A spokesman for American said its maintenance crews performed 83,309 maintenance man-hours of work for Continental, compared with the 3,300 maintenance man-hours by Continental for American last year. "The amount of maintenance they perform for us is miniscule, and very routine," he said.

The American spokesman pointed to a scene in a Continental television commercial in which Continental maintenance employees purposely stride toward an American plane, as if they were ready to perform maintenance work. The commercial, the American spokesman claimed, was staged at Houston's Hobby Airport. "They asked us to move our equipment so they could photograph *their* plane," he said. "They misrepresented themselves, and that doesn't sit well with us."

Network Meetings

A Continental spokesman said he couldn't comment on the circumstances of the filming because he wasn't present. The company met with representatives of the NBC television network Wednesday and will see officials of CBS and ABC today to defend the commercials.

"The issue of quality of Continental's maintenance has been raised directly or indirectly by these carriers," the spokesman said, "and this advertising deals directly with that issue." The commercials were unveiled with great fanfare last month at an employee pep rally, in which Frank Lorenzo, chairman of Texas Air, proclaimed: "I'm really proud of the advertising you have seen."

At Eastern, Mr. Kolski, the company lawyer, complained to a congressional subcommittee this week about the effects of the elaborate maintenance-complaint tactics that pilots have dubbed "MaxSafety." He claimed that pilots are logging entries of maintenance violations at rates far above last year. Many entries are subjective evaluations; for instance, a windshield that is accepatable to one pilot might be termed scratched and blurred by another.

More Replacements

As a result, he said, avionics parts are being replaced at a rate that is up 128% from a year ago, replacements of certain altimeters are up 150% and replacements of windshields have increased 72%. The pilots' union also distributed pre-addressed postcards for pilots to use to report maintenance problems to the company and to their congressmen.

"This program was designed to make management focus on safety," said an Eastern pilot, Ronald Cole, an active union member. "If something is broken, the law requires us to record it in the log book. This in no way should be considered a slowdown."

A small group of pilots also appeared at the hearing to complain that the pilots' union was pressuring them to take part in the slowdown. "Eastern Airlines has never pressured me to fly an airplane which was unsafe," said Thomas H. Lewis Jr., a captain with Eastern. "Eastern is more committed to safety today than it has ever been before."

Reagan's Reversal: The Stock Market's Plunge Spurs Accord on Budget Deficit; Tax Rise Is More Likely

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in 1929. But the outlook isn't good."

Members of Congress were skeptical that the negotiations would go beyond the $23 billion deficit cut already expected. "It's not very much," said Sen. Pete Domenici, a New Mexico Republican on the Senate Budget Committee. "We really ought to do more, but I don't expect it."

Moreover, budget experts note that the $23 billion number cited by the administration and Congress gives a deceptive picture of deficit reduction. The cuts will be made from a fiscal 1988 baseline well above fiscal 1987 spending. As a result, odds are that the deficit next year will rise from the $148 billion deficit in fiscal 1987, even with a budget agreement.

Negotiations will begin in earnest next week, and administration officials say they will have to scramble to complete an agreement by mid-November. The package must be completed and enacted by Nov. 20 to avoid the automatic spending cuts of the Gramm-Rudman law.

Administration officials are quick to caution that plenty of pitfalls still lie in the way of any budget agreement. The administration may find it difficult to wrest domestic spending cuts from Congress; and some administration officials, stressing Mr. Reagan's opposition to tax increases, worry that he could back away from an agreement at the last minute.

But the fear of continuing financial turbulence if the talks fail will weigh heavily on the negotiators. Thus, the pressures on both sides to reach agreement will be intense.

Although the details of any agreement remain to be worked out, officials say the package could include roughly $10 billion to $12 billion in additional revenue for fiscal 1988. While a portion of that will clearly be taxes, some of it might also include items such as higher tax collections expected from an increase in the Internal Revenue Service work force.

Although intended to convince markets that the nation is in good hands, the extraordinary maneuvers of the past week in many ways underscored Mr. Reagan's detached leadership. The president responded to the stock-market crash only after the two Mr. Bakers, in effect, took charge.

The Turning Point

The turning point in the administration's long odyssey toward a budget compromise with Congress came at 3:45 Tuesday afternoon, at a tense meeting in President Reagan's private quarters at the White House. The stock market had plunged 508 points the day before, and its recovery had been thin and narrow. Moreover, there was a growing clamor for action from Congress and the markets for a show of presidential leadership.

Mr. Reagan sat down with his four top economic aides for what one White House aide calls a "very frank" meeting. The aides already had decided that Mr. Reagan should calm the markets by declaring that he was ready to negotiate with Congress to put the federal budget in order. In the end, the aides persuaded him to take an action he clearly didn't like. Mr. Reagan walked to the South Grounds of the White House and announced his move.

He called for bipartisan negotiations to reach a deficit-reduction package and said he was "willing to look at whatever proposal" congressional leaders presented.

But an incident the next morning illustrated that Mr. Reagan wasn't happy about being forced into the move. During a meeting Wednesday that included his chief of staff and Treasury secretary, Mr. Reagan turned to them and said, according to one account: "Every time you talk to me about this, you bring up taxes. What's wrong with Bakers anyway?"

Rumblings in Tokyo

The president's aides had begun bracing for possible problems at about 7:30 Monday morning, when calls began coming in from officials in investment houses tipping off the administration that bad signs were spreading through the Tokyo stock market.

Chief of Staff Baker found himself virtually alone as the crisis began taking shape. Treasury Secretary James Baker was in Europe, Fed Chairman Greenspan was in Texas, and Secretary of State George Shultz, a former Treasury secretary, was in the Mideast.

Dan Crippen, a White House economics aide, put together a list of market leaders for Chief of Staff Baker to contact. They included John Gutfreund, the chairman of Salomon Brothers; William Schreyer, the chairman of Merrill Lynch; David Ruder, the chairman of the Securities and Exchange Commission; and John Phelan, the head of the New York Stock Exchange. He also instituted a system to give Mr. Reagan an hourly update of market information.

Beryl Sprinkel, the chairman of the president's Council of Economic Advisers, briefed Mr. Reagan on the market slide at a regular staff lunch Monday. But the extent of the slide wasn't clear then, and Mr. Reagan urged his troops in familiar tones to resist calls that he predicted would emerge for a tax increase to close the budget deficit.

As the market situation worsened, the chief of staff called the Treasury secretary in Europe and Mr. Greenspan in Dallas and urged them to return to town. Secretary Baker had been up until 1 a.m. drafting a statement issued with West German leaders reiterating the Louvre Accord, an arrangement to help stabilize exchange rates, and noting that the pact provided for "flexibility." Mr. Reagan tried to make reassuring comments late in the afternoon—with little effect.

Narrow Rebound

The market rebounded on Tuesday, but Howard Baker was being told by his Wall Street contacts that the rally was narrow and focused on blue-chip issues. He formed a team to draft a presidential statement. By about 1:30, White House Communications Director Thomas Griscom had drafted two different versions of a statement, both stressing the administration's cooperation with Japan and Germany but one focusing more on the White House's willingness to negotiate with Congress.

But the key paragraph of the statement would be the last one, explaining how the administration would handle the budget deficit that was so troubling world markets. Though the idea of initiating budget negotiations with Congress had been under discussion among White House aides since the morning, the key paragraph wasn't made final until a mid-afternoon meeting of the two Bakers and Messrs. Greenspan and Sprinkel in the Treasury secretary's office. They found themselves in agreement: The president would have to tell the world that he was prepared to begin negotiations with Congress to arrive at a deficit-reduction package.

They moved to the White House to deliver their message at the climactic Tuesday meeting in Mr. Reagan's residence. The session lasted 45 minutes. The president was uneasy, arguing that he has negotiated before but seen Congress fail to live up to agreements. But in the end, he agreed to authorize negotiations.

Calls for Action

Even after the Tuesday statement, business leaders called the White House to press for action. Roger Smith, the chairman of General Motors and of the Business Roundtable, telephoned Howard Baker both Wednesday and Thursday to urge presidential leadership.

Another chief executive officer from a major corporation, talking to Chief of Staff Baker and separately to Treasury Secretary Baker during the crisis, says he told them, "Gang, you've got lit dynamite in your hands. Don't start playing partisan games."

And yesterday, as the market volatility continued, Mr. Reagan went further. At a morning meeting with the two Mr. Bakers, he said he wanted to meet personally with congressional leaders and was willing to put all budgetary issues except Social Security on the table. The statement was made at last night's evening news conference. But Mr. Reagan decided his aides should issue an advance statement in mid-afternoon, hoping to help calm markets.

"The whole world in effect has changed in the last few days," says Senate Minority Leader Robert Dole of Kansas. "We may have to back off some long-held views—on both sides. If we're going to retain confidence, we have to move with dispatch."

Possible Changes

One administration official said additional cuts in Medicare and farm spending could be part of the final package. On the revenue side, the package also could include the closing of an estate-tax loophole, which would raise more than $1 billion, and several other smaller revenue measures that were in the congressional tax bills as well as the president's budget.

Budget Director James Miller has played almost no role in the recent deliberations. He disagreed with the notion that the budget deficit contributed to the stock-market crash, and he infuriated White House and Treasury officials by continuing to say he didn't think the president would accept a tax increase—even after the pivotal Tuesday statement.

Mr. Miller was on Capitol Hill Tuesday afternoon, and he wasn't informed of the crucial meetings at the Treasury and White House. After learning of the president's decision, Mr. Miller told Chief of Staff Baker that he felt he should have been included. Mr. Baker reportedly replied: "I guess that's so."

JEFFREY H. BIRNBAUM, ROSE GUTFELD AND THOMAS E. RICKS CONTRIBUTED TO THIS ARTICLE

The Outlook: Stock Market Plunge Turns Nation's Economists Decidedly Bearish

By LINDLEY H. CLARK JR.
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK

Monday's stock-market collapse has turned the nation's economists decidedly bearish. While few are predicting an actual recession before late next year, nearly all of them have scaled back their forecasts.

"Between August and now, nearly $1 trillion has been wiped out of consumer wealth," says David Wyss, an economist with Data Resources Inc., an econometric forecasting firm. "The shock to consumer spending is enough to send the economy down. DRI looks for the inflation-adjusted gross national product to grow by 1½% between the fourth quarter of this year and the final quarter of 1988."

Some analysts are sticking to their forecasts because they don't know what else to do, and many are unwilling to come up with precise new numbers. Mickey Levy, chief economist of Philadelphia's Fidelity Bank, had forecast that the inflation-adjusted gross national product would grow at an annual rate of 3.5% to 4% between now and mid-1988 and then slow down. He hasn't decided yet on new numbers, although he's sure they'll be lower. "But I'm not expecting an early recession—yet," he says.

George McKinney, a University of Virginia economist, says, "Whatever forecast you had, you have to pull it down. It's hard to understand why the drop has been as bad as it has. John Maynard Keynes used to compare investors to schools of fish that all swim in one direction and then, for no apparent reason, all headed off another way."

Edward S. Hyman, chief economist of the New York investment firm of C.J. Lawrence & Co., had been predicting that real GNP would grow by 4% between the fourth quarter of this year and the fourth quarter of 1988. But yesterday he said, "I'm cutting my forecast to 2%, but I don't know a lot. I'm down here in Wall Street, and maybe I'm too close to it."

On the other hand, there is Robert J. Eggert, who edits a newsletter nearly 3,000 miles away in Sedona, Ariz., where he makes his own forecasts and polls 50 other economists around the U.S. "My view is to be calm about the whole thing," he says, not sounding calm at all. He thinks that most of his analysts will shade their forecasts, "but," he says, "sometimes they surprise me."

Michele Fratianni, an economist at Indiana University, thinks the U.S. can avoid a recession if it pursues proper policies, notably by devaluing the dollar farther and controlling any resulting inflation with monetary policy. "Why should we shoot ourselves in the foot with a recession?" he asks.

Stuart Hoffman, an economist at Pittsburgh's PNC Financial Corp., says, "I haven't changed the numbers yet. I'm waiting to see what the next few days will bring in prices." Tuesday through Thursday was certainly an improvement over Monday, when the Dow Jones Industrial Average fell 508 points, but analysts are doubtful that the comeback will impress consumers as much as the crash.

Few analysts expect consumer spending to drop right away. Michael Evans, president of Evans Economics, an econometric forecasting firm, says stock-market drops in the past have hit consumer spending with a lag of four to five months. That's why he, like Data Resources, looks for a mild recession in early 1988.

In telephone polling conducted on the four days through last Monday, Albert Sindlinger, a Media, Pa., pollster, found a significant drop in consumer confidence, especially among people who owned stock or mutual fund shares. Mr. Hoffman says, "Consumer spending will start off pretty well in 1988 because of the reduction in withholding stemming from the '86 tax cut. Soft goods, such as clothing, and service spending ought to do fairly well, but items such as cars and appliances may be postponed."

The importance of a consumer pullback to the forecasters is limited by the fact that nearly all of them had been expecting a pullback even before the market collapse. For the past five years consumers have been sharply increasing their borrowing as their spending outran their income, and for at least a year forecasters have been looking for a spending cutback.

If the market stabilizes, Alan Meltzer, a Carnegie-Mellon University economist, thinks the damage to consumer spending will be limited. "Monday's crash cost about $500 billion in consumer wealth," he says. "The immediate cut in consumer outlays would be only about $20 billion to $25 billion, and those are small numbers in our economy." But he concedes that the secondary effects could be greater.

Most analysts nonetheless expect the current expansion, which will be five years old next month, to keep rolling through its sixth year. But they say this with less conviction than they did early this month. At a meeting of the National Association of Business Economists in New Orleans, some analysts were talking of faster growth next year and some even sounded as though they expected a boom.

They talked of further improvements in the trade balance, with resulting gains for exports and industrial production.

It's true there are signs of business strength all around. Members of the National Association of Purchasing Management in the September survey reported strong growth in orders, production and prices. Unemployment is under 6%, and the economy had added 2.5 million new jobs in the past year.

Economists also find encouragement in the apparent agreement by West Germany to do more to stimulate its economy and to help stabilize the dollar. Mr. Eggert suggests that last Monday's stock-market debacle may have done some good if it persuaded the Germans to be more cooperative. The stock-market collapse apparently did persuade President Reagan to take a less hostile view toward tax increases, a step that may promote more harmony with Congress on reducing the budget deficit. The collapse has also diverted the Federal Reserve from its single-minded assault on inflation fears.

Jerry L. Jordan, chief economist of First Interstate Bank in Los Angeles, suggests that it's now time for Alan Greenspan, the Federal Reserve chairman, to play Paul Volcker: "When Volcker confronted a weak dollar and soaring inflation in October 1979, he hadn't established his reputation as a great man yet. He needed a symbol. So he called a press conference and said that henceforth he would pay more attention to the money supply and less to interest rates. He restored market confidence.

"Mr. Greenspan should do something like that now: tell the market he will watch bank reserves, the monetary base, or whatever, and assure the market that there will be enough money to prevent a recession but not enough to speed up inflation."

Restoring market confidence might even salvage the economists' forecasts.

Merrill, Hutton, Shearson Will Extend Office Hours

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—Merrill Lynch & Co., E.F. Hutton Group Inc. and Shearson Lehman Brothers Inc. said their branches nationwide will extend office hours to answer questions from customers because of the recent massive stock market trading.

Merrill Lynch said its branch offices will be open from 9 a.m. to 1 p.m. tomorrow and from 5 p.m. to 8 p.m. Tuesday and Thursday. "This is no time for investors to go it alone," said William Schreyer, chairman and chief executive officer.

Hutton said its branch offices will remain open until at least 8 p.m. today and from 9 a.m. to late afternoon tomorrow. "Although the markets won't be open, we want to do all we can to help our clients during this confusing time," said Jerome Miller, senior executive vice president.

Shearson, a unit of American Express Co., said all its branches will be open today until 9 p.m. and tomorrow from 9 a.m. to 5 p.m. Shearson said it plans to stay open until 9 p.m. each night next week as well.

Teamsters' Proposal to Rejoin AFL-CIO Could Help to Improve Union's Image

By ALBERT R. KARR AND GREGORY STRICHARCHUK
Staff Reporters of THE WALL STREET JOURNAL

The Teamsters union, in a bold move considered an attempt to improve its image while under threat of a government takeover, said it wants to rejoin the AFL-CIO.

The proposal is likely to spark a heated debate within AFL-CIO leadership circles, where the Teamsters have some allies, but also among many enemies, who long have been angered by the big union's reputation for having ties to organized crime.

The Teamsters, which claims to be the nation's largest union, with 1.9 million members, were expelled from the 13 million-member federation in 1957 for refusing to sign a code of ethics statement.

The union repeatedly has been in trouble with the law, and four of its presidents either have been imprisoned or forced out because of criminal charges.

Rejoining the AFL-CIO might help blunt expected efforts by the Justice Department to take over the union, which has been accused of being influenced by underworld figures. Reaffiliation also might help to improve the union's image with the public and with workers the union would like to organize to prop up its sagging ranks.

Total membership has fallen from a high of about two million in 1974 to about 1.5 million, Leo Troy, a Rutgers University economics professor and labor expert estimates. The union claims a larger membership, but its figure and assertion that it's the biggest union is disputed by others.

Teamster allies are pushing for the reaffiliation as a way to strengthen labor's fading clout by putting one of the nation's largest unions—and a tough one at that—under the federation umbrella.

The AFL-CIO said yesterday that it received a Teamsters application for affiliation, and AFL-CIO President Lane Kirkland said the proposal will be taken up by the federation's executive council at its meeting tomorrow in Miami. The AFL-CIO is having a convention that begins there this weekend.

Proponents of reaffiliation within the AFL-CIO hope they can get a favorable vote, and some of them have been working this week to help the Teamsters draft a proposal that could find favor with the executive council. The Teamsters' allies within the federation are said to include the Hotel Employees & Restaurant Employees, the United Food & Commercial Workers Union, and the AFL-CIO's Building & Construction Trades department.

Federation officials declined to say which way the council might vote if the Teamsters requested reaffiliation. But the Teamsters also have many enemies within the federation who believe the union's reputation could be a detriment to the AFL-CIO and the labor movement. Moreover, relationships between the federation and the Teamsters have been bitter for years, so some union analysts think the Teamsters' bid to rejoin the AFL-CIO will meet stiff opposition.

The AFL-CIO's Mr. Kirkland has had harsh words for the Teamsters in the past, including charges that the Teamsters tried to raid the International Typographical Union. Mr. Troy notes, however, that "the House of Labor has guests that are already tainted" by various charges of crime links or mob control, referring to such examples as the Hotel and Restaurant Employees, Laborer's, Longshoremen's and Food Workers unions.

But the Teamsters have had a long-developed unsavory reputation, including a citation by President Reagan's organized-crime commission as one of a handful of *unions with underworld ties.* Jackie Presser, its current president, has been indicted by a federal grand jury on a charge of keeping "ghost employees," people who received salaries but didn't do any work, on the payroll of Teamster Local 507, his Cleveland base. Mr. Presser pleaded innocent to the charges.

The bid to rejoin the AFL-CIO seems part of a wide-ranging Teamsters campaign to fight the Justice Department takeover plan. Already, the Teamsters have cranked up a congressional lobbying campaign, enlisted the support of several presidential candidates and other members of Congress, and created a political action committee with receipts heading toward $10 million, which would easily be the biggest PAC in existence.

The Teamsters anti-takeover campaign has received backing from its usual union allies and also from the AFL-CIO itself. The federation's executive council in August voted for a resolution opposing the government takeover plan. One Teamsters spokesman said the union is "very appreciative" of that action, which he said "went a long way to intensify the spirit of brotherhood and solidarity" among unions.

But if the Teamsters were to rejoin the federation, it might have to tame some of its aggressive organizing, since the AFL-CIO doesn't permit raiding between its member unions. Even now, the Teamsters are engaged in an organizing battle at the Adolph Coors Co. brewery in Colorado with the Machinists Union. The machinists have the AFL-CIO's go-ahead to try to sign up the Coors workers following the end of a long AFL-CIO boycott of Coors beer.

JEFFREY H. BIRNBAUM CONTRIBUTED TO THIS ARTICLE

Stock Prices Tumble, But Signs of a Return Of Stability Are Seen

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ting customers know what the prices were in their trades.

Separately, the Toronto and Montreal stock exchanges also said they will close at 2 p.m. today, Monday and Tuesday to aid order processing.

Major Wall Street firms also have scheduled a full workday for tomorrow to catch up on the paperwork. At Kidder, employees from the municipal-bond department, internal audit and even investment banking have been drafted to help the trading staff. Mr. Ryan said that this week, most traders "have been starting their work day at 6 a.m. or 7 a.m. and not finishing until 10 p.m. or midnight."

With a 4½-hour trading day for the next three sessions, "we'll have the ability to process the transactions of everybody who wants to trade," Mr. Ryan said. He predicted that the shorter hours will be "very temporary," however. He said the last such hour-shortening move that he could recall was in the late 1960s, when Wall Street's far less automated trading desks were overwhelmed by record volume of 20 million shares a day.

This week's stock market malaise, meanwhile, was reflected in the price of New York Stock Exchange memberships, as two seats were sold yesterday at prices considerably lower than in other recent sales. One seat was sold for $750,000 and another for $760,000, the exchange said. On Monday, a seat was sold for $875,000.

Seat prices in all other sales since April have been at least $1 million. The record, set in an April sale, was $1.1 million. Currently, seats are quoted at $675,000 bid and $875,000 asked.

Hong Kong Retains Bank As Futures-Crisis Adviser

By a WALL STREET JOURNAL *Staff Reporter*

HONG KONG—The Hong Kong government has hired Hambros Bank Ltd., a British merchant bank, as its adviser on the crisis in the stock-index futures market.

Buyers of futures contracts face huge losses. These buyers, mainly local brokers and their clients, purchased contracts on the mistaken assumption that the stock market's bull run would continue. The Hang Seng index, as computed in the futures market, closed Monday at between 3529 and 3695, after dropping by 300 points or more.

Since then, local brokers have been pressuring the futures exchange to settle all contracts outstanding at a fixed price, rather than one determined by free market forces. The fixed price they advocate would result in sellers of futures contracts being deprived of their profits, either totally or partially.

At stake are 87,400 contracts outstanding, with a value of $15.7 billion Hong Kong dollars ($2 billion).

The sellers, mostly banks and some local and foreign brokerage firms, have expressed outrage at the idea of an arbitrary settlement.

Hong Kong's stock exchange, which suspended operations Tuesday, is scheduled to reopen Monday. Fund managers and brokers fear that arbitragers will dump their physical holdings of stocks, unless they are satisfied that losses will remain fully covered by their futures contracts.

President Reagan Says He Won't Rule Out An Increase in Taxes

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that Mr. Reagan was sending mixed signals about whether he would be involved personally in the budget-deficit negotiations and whether he would be willing to consider raising taxes.

Last night, Senate Majority Leader Robert Byrd (D., W.Va.) praised the president's "considerable courage and statesmanship" and said he was "encouraged" by the news conference. "By his answers tonight, the president indicated to me that he is flexible and that he sincerely wants to negotiate and achieve a package we can all support," Sen. Byrd said.

Mr. Reagan emphasized that he prefers to raise government revenue by enacting $22 billion in previous administration proposals, which are mostly user fees and other non-tax measures. He repeatedly refused to be drawn into more specific discussion of a possible tax boost, although he made clear that some taxes might be more acceptable to him than an income tax increase.

"There are some taxes such as the income tax that have a more definite effect on the economy than some other taxes," Mr. Reagan said. "But I am not going to discuss anymore what we are going to do" once negotiations begin.

Indeed, the president's presentation last night suggests that the administration has established a strategy for the coming negotiations, in which it will remain publicly opposed to taxes that it says hurt the economy while implicitly leaving the way open for increases it can claim don't have that effect. Mr. Reagan stuck to that line in the face of repeated questioning, indicating he'd been well-prepared to stick with that approach.

Pressed about his previous promises to veto any tax increase that reaches his desk, Mr. Reagan squirmed a bit and explained that he still thinks "taxing is something—well, I think it's what brought on the troubles that we had when—when I came here." But he stuck to his line that he was going to remain flexible for the negotiations. "You're all trying to get me into saying what I am going to do when I sit down at the table with the other fellows, and I'm going to tell you that I'm going to do what I think is absolutely necessary for the economy of the United States," the president said.

Mr. Reagan said the stock market slide "was a long-overdue correction," and he added that "what factors led to its kind of getting into the panic stage, I don't know. But we'll be watching it very closely."

Answering one of last night's few foreign-policy questions, Mr. Reagan said the U.S. will continue responding militarily to Iranian attacks. He warned that the Ayatollah Khomeini was "running a great risk because we're going to respond. We're not going to sit there." But he also stressed that "we're not there to start a war," and he added that he didn't see such actions as this week's American retaliatory attack on Iranian offshore military platforms as "leading to a war or anything else."

Big Market Maker Closes On Amsterdam Exchange

By a WALL STREET JOURNAL *Staff Reporter*

BRUSSELS—One of the larger market makers on the floor of the Amsterdam Stock Exchange was forced to close and, according to industry sources, others were under special surveillance in the aftermath of this week's wild market fluctuations.

The stock crash Monday also threatened to take its toll at the Amsterdam-based European Options Exchange, which yesterday placed five of its 132 market makers under surveillance because of liquidity problems. The options exchange said it could force the five "relatively small" firms to close unless they meet minimum financial requirements today.

A spokesman for the Amsterdam Stock Exchange said Mellegers & van den Elsaker BV was forced to close yesterday because it couldn't meet financial obligations. The spokesman said Mellegers couldn't cover a position taken earlier this week, but declined to give details.

No one at Mellegers could be reached for comment yesterday.

Mellegers made a market in several important Dutch stocks, including Royal Dutch Petroleum Co., Akzo N.V., Gist-Brocades N.V., and Oce-van der Grinten N.V.

The exchange spokesman said "we have no comment" on reports that other Amsterdam market makers had been placed under surveillance by the exchange with special restrictions on their activities.

Trade Tangle: Brokers' Back Offices Stagger Under Load

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Group Inc. "This is going to cost us a fortune." On Tuesday alone, about 13% of the orders that the firm tried to execute never made it to the floor of the exchange. Brokers typically guarantee execution of their clients' orders. But Mr. Quick isn't sure his firm will have to make good on all these trades.

Most non-institutional orders to buy or sell securities are executed automatically, by computers that connect the brokerage houses to the stock exchanges. But many of those computers are getting backed up. Yesterday morning, the Pacific Stock Exchange told brokerage firms not to bother even sending orders through its automated system.

Whatever the reason for the trading snafus, the small investor is miffed. Jeff Walker in New York City complains that his Thomson McKinnon Securities Inc. broker was unable to execute some of his trades this week. He thinks Wall Street "has been worrying about the big traders" instead of the little guys.

Hugo Quackenbush, a Schwab senior vice president, says of this week's huge volume, "It's like trying to fly out of the airport at Christmas time during a snowstorm. Some people are going to be ticked off." He adds that Schwab apologizes for any problems.

Brokerage houses are having trouble making sure some of the trades they agree to handle for customers are actually executed on the floor of the Big Board or another exchange. Leonard Haynes, the co-head of Shearson's processing operations, said the firm normally hears back from the Big Board's specialist—the market maker who executes the trade—within minutes after Shearson enters an order.

Wednesday night, however, a computer printer in Shearson's back office was still clanking out information on a few of Tuesday's trades. Thus investors had been waiting more than 24 hours to find out whether or not they actually bought or sold, and at what price.

According to Mr. Haynes, all Shearson can tell such customers is, "We're working with the floor. Be patient."

Many firms previously tested their processing operation for emergency buying and selling, but none had expected the enormous sustained volume that hit the Street this week. "We couldn't keep this up for very long," says Mr. Haynes. "The systems are iron. Unfortunately, the people aren't."

Chicago Merc Imposes Trading Price Limits To Curb Volatility

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immediate plans to follow the Merc's lead in imposing price limits.

A particularly jarring opening of trading in the Standard & Poor's 500 pit yesterday shook the confidence of even the hardiest participants, traders on the Merc floor said. After prices closed at 258.25 Wednesday, the pit was deluged with sell orders when trading resumed yesterday, forcing the contract down more than 60 points within seconds. The sell-off was tied to a missile attack on a Kuwaiti oil facility, and negative comments from the widely followed market technician Robert Prechter, traders said.

"I lost $30,000 on a single contract," moaned one trader, who said his brokerage firm disqualified him from trading as a result.

However, Mr. Brodsky said the tumultuous price swings of the past four days, rather than yesterday's chaotic opening, were the main reason the Merc took action.

The S&P 500 contract for December settlement closed down 13.75 points at 244.50.

Infinite Graphics Buys Caetec

MINNEAPOLIS—Infinite Graphics Inc. said it completed the acquisition of Caetec Systems Inc. for 325,000 shares of its common and 187,500 warrants to buy additional shares.

The maker of computer software said the warrants are contingent upon its performance over the next 24 months. Caetec is an Atlanta-based developer of 3D solid modeling software.