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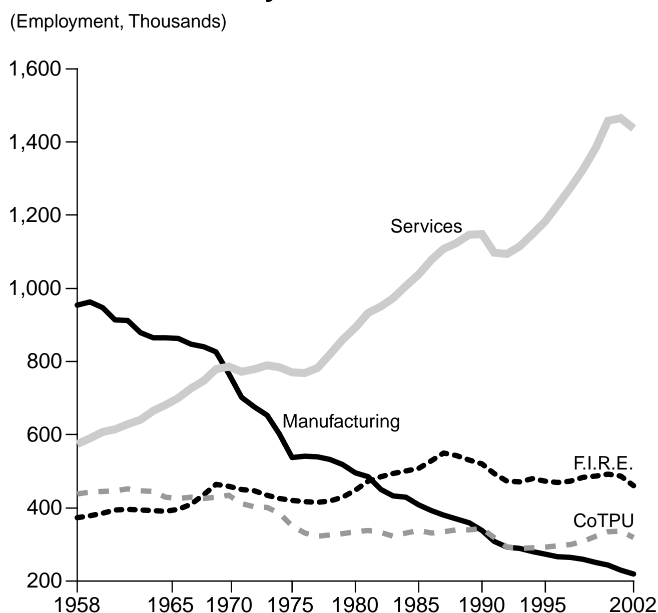
New York City's Crisis Demands 'Super TVA'

by Mary Jane Freeman

FIGURE 1
New York City Labor Force Shifts to Post-industrial Economy: 1958-2002
(Employment, Thousands)



* F.I.R.E. = Finance, Insurance & Real Estate.
** CoTPU = Construction, Transportation, & Public Utilities.

Source: New York State Department of Labor.

New York City's $7.5 billion budget crisis is as great as many states' budget deficits. Its $43 billion budget is bigger than that of all but three states. In the nationwide budget collapse of the states and cities in 2001-02, Wall Street bankers have demanded, "protect the bottom line," dictating drastic budget cuts across the nation. In 1974-75 the confluence of post-industrial economic and fiscal policies had nearly bankrupted our nation's most populous city. At that time, Wall Street imposed vicious austerity measures, ensuring the demise of New York's manufacturing and productive economy. Now Mayor Michael Bloomberg is repeating the process, slashing the workforce, cutting service programs for the elderly and poor, and insisting "a series of sacrifices" are required to close the budget gap. All the while, Bloomberg proclaims he doesn't want a repeat of the 1975 "Big MAC" (Municipal Assistance Corporation)/Emergency Financial Control Board-style takeover of the city. He is attempting to put a "kinder, gentler" face on the same genocidal policy, known as "planned shrinkage."

Budget disasters are mushrooming at all levels of government. The United States' Federal deficit is heading to $400-500 billion; states cumulatively face a $60-80 billion deficit this fiscal year; most cities are now in the same straits. Neither tax cuts nor hikes, nor "bone-cutting" budget cuts will solve the underlying economic depression conditions, resulting from the 30-year shift to a post-industrial consumer economy. Precisely such measures, used in the 1970s and 1980s, left New York City prostrate and the nation's productive goods-producing sectors decimated.

The drastic revenue declines are a direct result of this looting and takedown of our productive physical economy. By the 1990s, government budgets came to rely on revenues from the "New Economy" stock market for as much as 10-25% of their operating revenues. That bubble having turned into mountains of bad debt, the Bush Administration's plan to pump new cash into it *via* tax cuts is as fruitless as the desire of Democrats in state capitals to put new taxes on the rich; the wealth-producing side of the economy is dead.

New York City's budget meltdown may finalize the descent of a once-great metropolis and center of both production and education, if Mayor Bloomberg's current plans for layoffs, tax and fee increases, and government shrinkage are carried out. Yet, the potential for rebuilding New York City as one of the nation's great projects, is enormous. If the nation, states, and our cities are to return to protecting the General Welfare of our citizens, elected officials must junk deregulated, post-industrial economy policies, and take up 2004 Democratic Presidential candidate Lyndon LaRouche's initiative for an FDR-style "Super TVA" to launch an infrastructure-led job creation recovery.

New York Becomes a Post-Industrial Society

In the 1940s New York City had the largest manufacturing workforce of any American city—mostly light and medium industry, but machine-tool shops as well. Wall Street banking and insurance jobs existed within an integrated economy, until about 1970. Then the takedown of President Kennedy's space science-centered industrial policy, and President Richard Nixon's blunder of breaking the dollar from the gold reserve system, combined to usher in an economy based on speculation.

This policy change transformed the revenue base of the city. In 1958 there were nearly 1 million manufacturing jobs, as against half a million service sector jobs (**Figure 1**). By 1971, the manufacturing workforce had lost over a quarter of a million jobs, while the services sector grew by 198,300. From the 1971 cross-over point, the diverging trajectories between these two sectors has continued and accelerated the speculative economy's dominance up to the present moment.

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By 2002, over 77% of the city's manufacturing jobs had been axed. The Finance, Insurance, and Real Estate sector grew to surpass the entire manufacturing workforce by 1982. While the Construction, Transportation, and Public Utilities sector also declined over these four decades, as of 2002 it had 100,000 more jobs than the manufacturing sector.

So while city politicians lay blame on the horrific Sept. 11, 2001 World Trade Center attacks for their current economic woes, it should be clear from this picture that while those attacks did cause untold damage, it was not those attacks that eroded the tax revenue base of the city's economy, but rather wrong-headed policies.

With the stock market in a dive and the banking industry in distress, the city's revenue base is in shock. Of the $7.5 billion deficit over the next 18 months, $1.1 billion must be addressed before June 30, 2003. Non-property tax revenues, i.e., mostly wage and salary taxes, have fallen drastically, by 12.2% during 2001-02. With corporate scandals swirling and their stocks having fallen, Wall Street firms will likely pay $500 million less than projected in corporate taxes to the city this fiscal year, a 28% drop from $2.3 billion to $1.8 billion.

Wall Street's decline is also affecting personal income taxes. Mayor Bloomberg reported in late December that one-third of the city's economy and 20% of its wage income is tied, directly or indirectly, to the securities industry, i.e., Wall Street! The mayor's November 2002 Financial Plan shows an expected $164 million loss due to a wipe-out of projected tax revenues paid on the realized capital gains portion of personal income taxes (PIT).

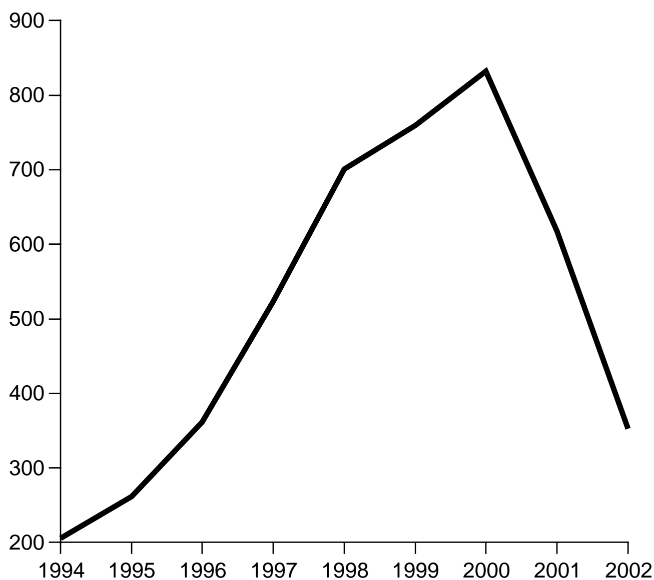
During the 1990s "boom," the PIT component of the city's revenues grew by 50%, from $3.6 billion in 1994, to $5.4 billion in 2000. Over that period, *EIR* calculates that the portion of PIT derived from individual realized capital gains, rose from $206 million in 1994, to $832 million in 2000, an astonishing 300% increase (**Figure 2**). The extent of the city's reliance on this source of revenue is shown by the percent of capital gains taxes paid as a portion of PIT; this ratio grew from 5.8% in 1994 to 15.3% in 2000 (**Figure 3**).

The artificial capital gains tax bonanza has now vanished; Figure 2 shows that since 2000, there's been a stunning 58% fall in capital gains tax revenues that go into New York City's coffers. Using a Congressional Budget Office formula, it can be estimated that $480 million of capital gains tax revenues in Fiscal Years 2001 and 2002 went "poof."

FIGURE 2

Individual Capital Gains Taxes Paid To New York City Annually*

($ Millions)



*2001 and 2002 are estimated.

Source: NYC Mayor's Office of Management & Budget; Department of Finance; Comptroller's Report FY 2002-Ten Year Trend; NYC Independent Budget Office; *EIR*.

The City's Debt Burden

Another contributing factor to the city's budget crisis is its surging debt obligations. In 1982, the Lazard Frères-directed "Big MAC" dictatorship was lifted, but what remained was the means for the Wall Street banks to get their loot via the earmarked income streams of the city, such as sales tax revenues, stock and transfer tax receipts, etc., paying debt service on the bonds issued by MAC and others. So bonds issued by the banks 30 years ago, due to accrued interest, provide a source of loot. Bloomberg noted, "the City is *still paying almost $500 million annually* in [MAC] debt service, largely for deficit financing" from that period! (emphasis in original).

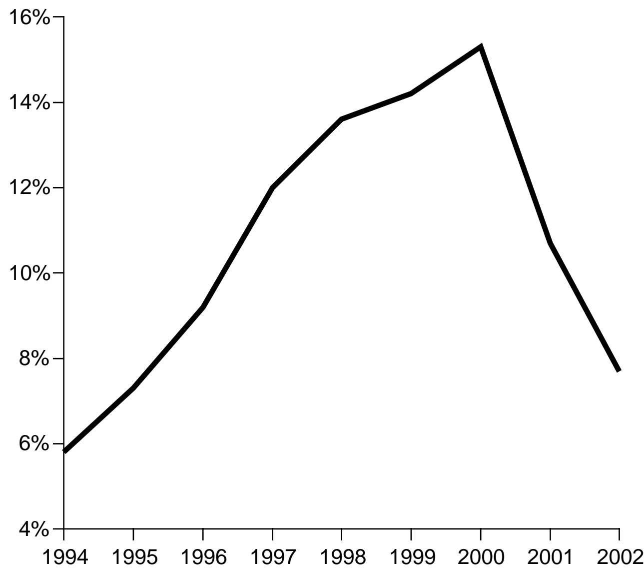
At the "lifting" of Big MAC in 1982, the total debt outstanding stood at $13.9 billion; debt service paid on that debt was $1.75 billion, which was 22% of revenues (**Figures 4** and **5**). By 1990, the debt profile improved with $19.9 billion total debt outstanding; debt service paid was back down to $1.75 billion (the 1982 level), and was only 11.6% of revenues. Then from 1990 to 2002 the total debt outstanding ballooned from $19.9 billion to $43.1 billion; debt service doubled from $1.75 billion in 1990, to $3.8 billion in 2002; and debt service as a percent of revenues grew from 11.6% to 17.1%. The City Comptroller's December 2002 debt report found that "debt per capita (the share of the burden on each of the City's 8 million citizens) has grown to $5,083 in FY 2002, an increase of 104% over FY 1990, when the figure was $2,490 per citizen."

Use of debt to fund capital projects *per se* is not the problem, but rather the debt service and deficit spending funded by this borrowing.

Bloomberg has opted for wielding the budget axe. So far this year he has slashed city programs and workforce budgets by $2.1 billion, and more cuts are expected soon. Thousands of city workers have been laid off, including police, fire, health and social services, just as demand for city services

FIGURE 3

NYC Capital Gains Tax Paid as Percent of Total Personal Income Taxes*



*2001 and 2002 are estimated.

Source: NYC Mayor's Office of Management & Budget; Department of Finance; Comptroller Report FY 2002-Ten Year Trend; NYC Independent Budget Office; *EIR.*

FIGURE 5

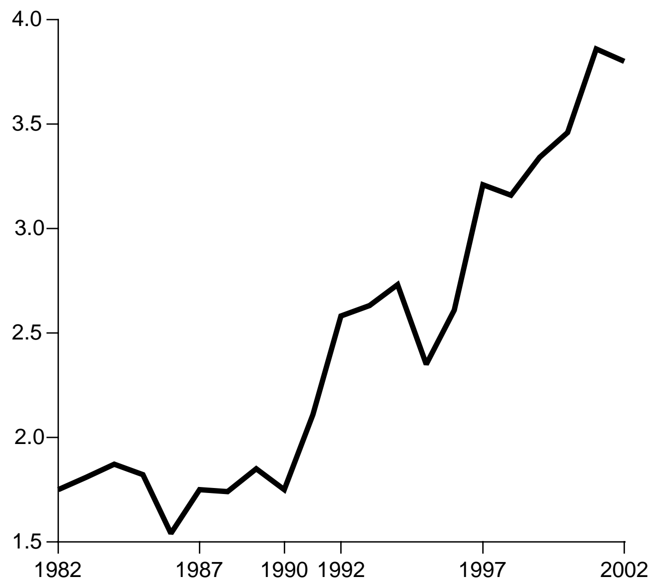
New York City's Debt Service as Percent of Revenues, 1982-2002

Source: NYC Comptroller's Reports, Ten-Year Trends.

FIGURE 4

New York City's Debt Service 1982-2002

($ Billions)



Source: NYC Comptroller's Reports, Ten-Year Trends.

increases due to layoffs. Contempt for the city's workforce, notably its firemen—national heroes only a year ago—was shown by Deputy Mayor Marc Shaw: "[Firemen] only fight fires 5% of the time—they hang around doing nothing the other 95% of the time." Shaw was urging adoption of Bloomberg's plan to close firehouses to help close the budget.

Without soup kitchens, pantries, and shelters, 20% of New Yorkers would go hungry. The Food Bank of New York City, a coordinating agency for food distribution, reports an "unrelenting surge in demand for food since September 11," 2001—and demand was very high even before this. As of September 2002, more than 1.5 million of the city's 8 million people depend on free food to survive; of these, 500,000 are children and 300,000 are seniors. Recently, demand has soared, requiring some facilities to cap services. A Food Bank of New York City report found "unemployment, inadequate wages, and homelessness impact the demand" for food the most.

New York's official unemployment rate hit 8% in November, well above the national 6% average; the real rate is far higher, with laid-off workers working part-time or leaving the labor force. But averages are deceptive. The rate is an 10.2% in the Bronx and 8.9% in Brooklyn—between them, a "city" of 4 million people.

The city's infrastructure is enormous: over 6,000 miles of water mains—some over 100 years old; 600 miles of subway track, 5,700 linear miles of streets; over 1,000 schools; 78 police precincts; 223 firehouses; six community colleges; and 23 health/hospital buildings.

During the fiscal "Big MAC" crisis of the 1975-82 period, maintenance of this vast matrix was virtually halted. In 1998 city engineers surveyed the decay, and determined that a *minimum of $91.38 billion over 10 years* was required to bring it to a state of good repair and address new capital needs. But projected funding levels were $52.08 billion, thus creating a nearly $40 billion deficit. They also found that only 40% of recommended funding levels was available for full maintenance of these assets, which led to frequent school closures, water main breaks, and bridge and roadway disruptions.

Deferred spending over the last 30 years, as well as the Sept. 11 attacks, magnify the size of the infrastructure deficit and need to rebuild.

We need not have a destitute "Forgotten Man" again, if LaRouche's Super TVA with bankruptcy reorganization of the doomed monetary system is chosen as the way out of these budget crises. LaRouche's approach to launch an economic recovery and rebuild nations, with its directed credit for great infrastructure projects, is well suited to restore the great city of New York.

Medical Malpractice Meltdown Preventable

by Linda Everett

With each passing month, thousands of U.S. physicians, along with hospitals and nursing homes, are being sucked into a forbidding whirlpool of vanishing malpractice insurance, the new crisis within U.S. health care. On its face, the problem appears to be the inability of physicians to obtain affordable medical malpractice insurance, or even to find an insurance company willing to insure them. Such insurance is necessary to assure that patients, or their families, harmed by a physician's (or hospital's, or nursing home's) medical mishap or negligence, can receive the financial resources necessary to cope with the injury and loss, medically and otherwise. Right now, physicians in Pennsylvania, West Virginia, Mississippi, Florida, Nevada, and Massachusetts are reeling from astronomical increases in malpractice insurance premiums which threaten their very careers as doctors; they have risen as high as 70%, occasionally more than 100% of a doctor's income.

Disappearing Doctors

Some 60% of Pennsylvania's doctors had their insurance policies expire in December, and face major hikes in premiums; 18% of the state's neurosurgeons are retiring, leaving the state or reducing services; 15% of obstetricians/gynocologists are doing the same. Nearly 400 orthopedic surgeons report that their current insurer will not renew their policy—even though they have no history of malpractice claims. In just five Philadelphia counties, 250 doctors are retiring, leaving the state or limiting their practice due to premium increases. Doctors at Abington Memorial Hospital in Philadelphia announced they would be forced to stop offering trauma care, because physicians there could not find insurance or afford premiums as high as $150,000 a year. Wyoming County (Scranton) Community Medical Center Trauma Center, one of 23 in the state, may close for the same reason.

In the West, millions of people lost the only trauma center in four states for weeks last summer.

On Jan. 2, over two dozen general, orthopedic, and heart surgeons at four West Virginia hospitals started a 30-day leave of absence, hoping to find lower-cost insurance premiums elsewhere. Almost all surgeries at the facilities were cancelled, forcing emergency patients to travel 90 miles away to Ohio or Pennsylvania. Some 22 Philadelphia hospitals narrowly averted a job action over premium increases, when Governor-elect Ed Randell promised to urge the legislature to take steps to reduce the insurance costs for specialists in the riskiest fields, such as obstetrics and neurosurgery. But doctors in Northeastern Pennsylvania are still threatening to reduce their practices or quit medicine entirely.

Obstetricians have stopped delivering babies in several states, endangering care especially in rural areas. In New Jersey, 65% of hospitals report that some physicians have left their practice due to premium increases. Last year, the American Hospital Association reports, malpractice rate hikes forced 20% of U.S. hospitals to scale back some services. Premium hikes are hitting nursing homes as well.

Insurers offering malpractice coverage are leaving some states, pulling out of the market altogether (St. Paul Companies); some are in liquidation (PHICO Insurance Co.). In Florida, four years ago, there were more than 40 carriers; now there are but six private companies. In Pennsylvania, nine companies used to write malpractice insurance; now, there are two.

Insurers Recouping Losses?

Insurers say that the large number of malpractice claims and extravagant cash rewards some juries award injured patients, are the cause for premium increases. Some studies indicate no such huge increase has occurred (relatively few injured patients actually sue to recover damages; of these, only 23% win before juries). Malpractice claims, payments, and settlements from 1975-2001 have, on average, risen gradually with medical inflation—but malpractice premiums have fluctuated wildly during the same period.

When insurers loot doctors and hospitals through premium hikes, it is often to recoup their own investment losses. With Federal Reserve Chairman Alan Greenspan repeatedly lowering interest rates, insurers have lost dramatically on what they earn on new investments in variable-rate bonds—