

NY's Big MAC Bankrupt; Bankers Cry for Fascism

July 22 (IPS) — The Municipal Assistance Corporation (Big MAC) — the bankers' institution created to put New York City's financial situation in order — will be unable to sell the remaining \$2 billion of its \$3 billion in bonds because New York banks don't have the liquidity to purchase them.

Recognition of that fact produced hysteria within banking circles here this week while simultaneously the bankers attempted to shift the blame for the city's impending default onto the municipal unions.

Investors reacted to the first public offering of MAC bonds Monday as if they were being offered the bubonic plague. The bonds plunged by 10 points, losing a total of more than \$84 million in face value.

The liquidity crisis is not confined to New York banks. Yesterday, Bank of Italy head Guido Carli shut down the Italian bond market. Not a single issue was traded.

Today, the West German bond market collapsed forcing the Bundesbank, the West German central bank, to go into the market for some 500 million deutschmarks — or as much as the total spent during the panic two weeks ago.

A Political Question

A New York City default is now inevitable. The political question to be answered is what kind of default will it be — a banker-designed, RAND directed fascist reorganization of the city or a working class program of debt moratoria linked to protecting workers' standards of living.

Yesterday in an editorial "economics lesson" that reflected the panic in the financial community, the New York Times warned that "default means bankruptcy. Nobody knows exactly what bankruptcy would entail... but it could mean an indefinite period of payless paydays.... the abrogation of all union contracts and the imposition of economies far more sweeping than any yet suggested."

Key members of the Big MAC executive board paraded in front of the press over the last three days to declare that the "unions threaten to destroy the city... It's up to them, if they don't go along we can't sell these bonds."

Such statements are total lies. Even

if the unions were to agree to accept pay cuts, as demanded by MAC, it would in no way effect the marketability of the illiquid MAC bonds — the banks simply can't buy them.

In addition, short of declaring a debt moratorium, nothing can save jobs and services. The sanitation workers are a case in point. They "loaned" out of their union treasury \$1.6 million to pay for the jobs of 1700 laid off workers until the city found new tax money. When the money ran out last week, the men were laid off and the city told union leaders that there would be no money to pay them back.

The demands by MAC bankers that city unions roll over and play dead are the foot in the door for a post-default reorganization of the labor movement.

The Real Problem

For weeks, Rockefeller banks have been playing with the New York financial situation without achieving any real financial resolution.

Almost the entirety of the first billion in MAC bonds was absorbed directly by the New York banks. No members of the financial community seriously entertained thoughts of the First National Aardvark in Podunk, Kansas or anywhere else stepping in to buy MAC bonds.

As one investment banker told IPS last week, "These bonds are for domestic consumption only," i.e., for the New York banks to deal with.

At this point, however, if the banks were to deploy enough capital to bail out New York they would have zero liquidity to deal with any other emergencies. Under such circumstances, a simultaneous collapse in Western Europe and the developing sector would be likely, and the banks themselves would be finished.

Jack Devine, Chase Manhattan's chief municipal bond trader, today banks purchasing more illiquid MAC paper. "The situation is very bad and getting worse," he said in an interview. "We are already overloaded with obligations."

Yesterday, the city of Philadelphia was forced to raise interest rates on a new bond issue because the New York City banks which normally buy Phila-

delphia bonds were reported "over-stuffed" with MAC bonds. The New York State Job Development Authority had to withdraw from the market altogether.

But Rockefeller cannot allow the city to default. IPS Financial Intelligence has calculated that a default on only several hundred million dollars of debt at this point would trigger a chain reaction collapse of capitalist paper values to the tune of \$5 trillion.

A spokesman for First National city Bank became hysterical when asked to comment on a possible city default as early as August: "Of course we're worried. We've got millions of dollars of bonds tied up in New York City. We're absolutely sick about the whole thing... the entire state and municipal bond market would be shot... Every state and local government would be shut out of the market. New York City could never borrow again."

"The question is," the spokesman continued, "whether (Mayor) Beame will get off his fat ass and do something. Clean out the city! Restore fiscal responsibility! Otherwise it's the end."

The MAC bankers have ordered Beame to trim sufficient money from his budget and raise tax levies to stave off the default. As hinted by former MAC chairman Thomas Flynn, these cuts would eventually amount to some \$2 billion — the face value of the unsaleable MAC bonds.

This clarifies the meaning of MAC hatchetman Felix Rohatyn's statement last week that the "residents of the city will have to change their life styles."

The Dilemma

Such demands point out the Rockefeller's fatal dilemma: The New York City fiscal crisis cannot be forced to cohere with the present degree of control RAND forces enjoy locally; financial considerations have forced the banks to throw political considerations to the winds.

Even such witting RAND trade union agents as AFSCME District Council 37 President Victor Gotbaum cannot swallow the banks' latest demands. Where previously they had engaged in RAND-programmed fratricidal disputes over who should be laid off, they have uniformly refused to accept pay cuts.

Similarly, Beame, with the bankers demanding the annihilation of city services, has hesitated and even balked at implementing MAC's orders.

That situation has freed opposition to the bankers to move. Yesterday a group of State Senators, Assemblymen

and City Councilmen organized by City Councilman Luis Olmedo proposed in a press conference in New York City that a one-year debt moratorium be imposed on all New York City debts — except Big MAC. Since that institution's bonds cannot be sold anyway, that exception would not prove to be too

great a burden to the city's taxpayers.

With these proposals, Luis Olmedo and his allies are effectively proposing to make New York City a pilot model for the U.S. and the world in the urgently necessary task of bringing about an end to the depression.

12 Democrats Call for Debt Moratorium

NEW YORK, July 22 (IPS).—A group of 12 Democratic New York State legislators and two New York City Councilmen today called for a one year suspension of debt service on the mass of city debt, exempting only the bonds issued by the Municipal Assistance Corporation (Big MAC).

At a press conference today, Assemblyman Frank Barbaro (D-Bklyn) spokesman for the "Ad Hoc Committee for Social Justice," denounced the banks for creating the city's current fiscal crisis. In a strongly worded prepared statement the committee charged the banks with "seeking to establish a financial dictatorship over the lives of our citizens." The group announced an eight point program which also included demands for substantial increases in real estate, stock transfer, and other bank-related taxes.

Ad Hoc Committee member Councilman Luis Olmedo (D-Bklyn.), who introduced a resolution calling for an 18-month moratorium on all city debt into the New York City Council June 17, declared at today's press conference that he was "sticking to" his debt moratorium resolution. "We're not paying any debt, including the Big MAC bonds."

Ad-Hoc Committee members Assemblymen Barbaro and Michael

Pesce (D-Bklyn.), today publicly endorsed the Olmedo Resolution.

The announcement of support for the debt moratorium by the State legislators is a clear warning to Rockefeller that significant political forces will not tolerate the city being placed in receivership should the Olmedo Resolution be passed and the debt service be suspended.

Choices Are Clear

The Ad Hoc Committee's statement, which has thus far been either blacked out of the press or distorted to omit references to the debt moratorium, charged the banks with seeking "to solve the crisis they created on the backs of the lower and middle income working people."

The Ad Hoc Committee members also characterized the proposed cuts of thousands of jobs, wage freezes and cutbacks, and increased transit fare and tuition at the City University as immoral, illegal and the result of an anti-people philosophy which is reminiscent of the days of Herbert Hoover.

"The capitulation of the Mayor and some members of the Board of Estimate and the City Council to this financial extortion by the banks is unconscionable," Assemblyman Barbaro asserted on behalf of the Committee. "All elected officials must

stand firm and united, together with the people of our city, in opposing the disgraceful tactics of the would-be financial dictators of our city."

A Moral Obligation

A member of the Ad Hoc Committee supported the statement adding "The Mayor, the Board of Estimate and the City Council...save our City from Big MAC policy-makers — elected by no one and accountable to no one...we are either going to run down New York for the security of the bankers, or we are going to maintain jobs and services for the security of our citizens."

"In the coming weeks," the Committee members continued, "we will be contacting other legislators and asking them to stand with us in unequivocal opposition to any proposal to place an additional burden on the people. We will not back down!"

U.S. Labor Party candidate for U.S. Senate from New York, Elijah Boyd called the action by the legislators and councilmen a "historic and courageous step."

Boyd announced plans to form Committees to Defend the Olmedo Resolution to prevent it from being sabotaged by Rockefeller-allied politicians such as Councilman Matt Troy, Chairman of the Finance Committee. Troy presently has the Olmedo Resolution bottled up in his committee.