U.S. cities face bankers' dictatorship

by Steve Parsons

Under the impact of collapsing revenues, state and local budget crises all over the United States are turning into fiscal hemorrhages. The situation is becoming so severe that no amount of the usual budget-cutting will stanch the flow of red ink.

In the offing is a plethora of "emergency" fiscal measures, so-called "budgetary shock therapy," aimed at radically altering the function of government to enable imposition of even bigger tax hikes and expenditure reductions. Using the model of what was done to New York City during 1975, hard-nosed Wall Street "realists" are preparing bankers' dictatorships to control and in effect replace local governments that are deemed to be too beholden to their constituencies.

In 1975, under the banner of saving New York from bankruptcy, Wall Street's top banks and investment houses abruptly terminated further debt financing—after years of encouraging and providing funds for such borrowing. This immediately precipitated a cash-flow crunch that pushed the city to the brink of bankruptcy. The bankers then insisted on the creation of an Emergency Financial Control Board and the Municipal Assistance Corporation to rule over the city's budget and borrowing practices. Lazard Frères' Felix Rohatyn was installed as chairman of what became known as Big MAC, with the mandate to impose austerity so severe that the city has become a living hell.

To this day, even though the city supposedly "recovered" from its budget crisis years ago, Rohatyn is still the chairman of Big MAC; the Financial Control Board is still in place to take over the city's finances; and a statute is still on the books that dedicates various city revenues, including sales tax receipts, to debt repayment to guarantee bonds that the banks either underwrite or own themselves.

Big MACs for Massachusetts . . .

Already in Massachusetts, five towns and cities have been forced to agree to having financial control boards oversee their budgets. Brockton was the latest, having to accede to such a board when Shawmut Bank suddenly stopped its traditional lending against the city's tax anticipation notes. The city had run out of cash for its payroll—not through its own doing, but primarily as a result of the state's fiscal quagmire that has resulted in savage cuts in state transfers to towns and cities.

In January, Shawmut Bank President John Hamill presided over a state commission, the Governor's Task Force on Local Finance, which called for imposition of such state-appointed financial control boards as "a regular part of the state-local relationship." Brockton officials report that approximately 100 other towns are in similar straits, just inches behind Brockton. Will banks like Shawmut and the financial moguls holding the state hostage to impending bankruptcy, precipitate local fiscal insolvencies that force these towns' elected governments to submit to overseers appointed by the same state and banks?

. . . and Philadelphia

On Sept. 20, an emergency meeting of Pennsylvania state officials, Philadelphia leaders, and sundry financial "advisers" was taking place at that city's Chamber of Commerce. Both the Chamber and the *Philadelphia Inquirer* have called for a financial control board to run the city, which is facing bankruptcy by November. Moody's and Standard & Poor's recently dropped Philadelphia's credit rating below that of junk bonds, to "near-default" status, and no bank will finance even its revenue anticipation notes. As a result, the city halted new spending for one week in order to conserve cash.

Speaking at a forum in July on the city budget, former New York City Budget Director and Rohatyn crony Donald Kummerfeld endorsed the Chamber's call for formation of a "bipartisan advisory board, in the following terms: "The tough things to be done can't be done by the local elected official unless he has someone else to blame."

Rohatyn himself has been "consulted" about Philadelphia, and his Lazard Frères firm is advising an untold number of cities and states. The national media once again have him in the headlines. On Sept. 11, the *New York Times* featured a commentary by Rohatyn titled "New York can be made to work," in which he focuses on gutting labor as the solution to New York's new fiscal crisis.

"For things to get better," he writes, "the city will have to make fundamental changes in the way it goes about its business." Rohatyn maintains that it's not the lack of money that creates the city's problems; it's "the work force [that] has grown by more than 50,000 people in the last 10 years," he states, adding the lie that "in the same period, labor contracts have grown generously."

"The city must develop an economic and management philosophy in setting wage and personnel policies," he writes. For Rohatyn, that "philosophy" means paying city workers not even the miserable 1.5% increase so far offered. "Nothing would be more destructive to the city's economy than an across-the-board labor settlement at rates the city cannot afford." The solution: "a one-year freeze in total labor costs . . . attrition and layoffs."

Perhaps Rohatyn hopes no one will ever again visit New York to witness the "success" of his Big MAC.