

urgency of taking an “FDR-type approach” to the local, national, and even international crisis: Ice unpayable debt, rev up economic activity, and maintain and expand key government functions—public health, transportation, medical care, water, power, etc.

Crisis Across the Midwest

Whatever the terminology—“financial distress,” “fiscal emergency,” or outright bankruptcy and receivership—the plight of Pittsburgh typifies the generalized pattern of local governments now at the end of the line, under the combined impact of a failing economy, loss of revenue, no funds for essential services, and—most important—lies and denial from Washington.

All the former steelmill towns outside Pittsburgh are in the same emergency condition. On April 7, the City Comptroller of McKeesport, the former U.S. Steel “tube city” on the Monongahela River southeast of Pittsburgh, said it does not have enough money to meet its payroll for the last three months of the fiscal year through June. Now also facing “Act 47 distress” status, McKeesport’s revenues fell short of ex-

penses last year by \$680,000. The hole still exists, and City Comptroller Raymond Malinchak said the week of April 12 that McKeesport lacks even the minimum to pay for firefighters, police, and other basics. On April 14, in Glassport, a neighboring former mill town, Council vice president James Uziel said the town will be meeting with state officials on the possibility of filing for Act 47 distressed status. Nearby Clairton and Duquesne have done so.

The economic base of the former world-class steel center of Pittsburgh has been shut down over the recent decades of free trade, outsourcing, and speculation. U.S. Steel, Jones & Laughlin, and other famous-name mills, as well as smaller fabricating shops, have contracted drastically, or closed altogether. Pittsburgh lost 45% of its population between 1960 and 2000, from 604,332 people to 334,563, as heavy industry closed down or contracted throughout Allegheny County and Western Pennsylvania.

Overall, in just the past four years, the state of Pennsylvania has lost 16% of its manufacturing jobs, with some 135,900 eliminated from 1999-2003. The follow-on effects of this—loss of related jobs—has devastated large areas. For example,

Lazard: Cut Entitlements, Cut Everything

Felix Rohatyn—Lazard Frères investment banker, Democratic Party power broker, who was chairman of New York’s draconian Municipal Assistance Corporation (‘Big MAC’) in the 1970s, wrote the column excerpted here in the London Financial Times on April 15, entitled, “America: Like New York in the 1970s, But Worse.”

America’s out-of-control Federal budget deficit, rapidly growing domestic and foreign debt, and off-the-books social security and Medicare liabilities look eerily similar to the fiscal situation that faced New York nearly 30 years ago. The crisis came to the city in May 1975 when the markets shut down on the city’s bonds, as they were inevitably bound to do. The U.S. and the dollar could face an equivalent financial crisis for similar reasons. The difference is that none of the elements that enabled New York to overcome the crisis is available. . . .

So far, the willingness of the central banks of China, South-east Asia, Japan, and Europe to finance U.S. deficits has allowed the administration of George W. Bush and the Federal Reserve to pursue a policy of cheap money, low taxes, large deficits and reliance on a speculative stock market and property bubble to create economic growth. This may not last forever, and either the willingness of the

foreign central banks to carry U.S. debt—or their capacity to do so—could be impaired. Some time before that moment is reached, the markets would begin to react: the dollar could fall further precipitously, interest rates would shoot up, and we would have to deal with a national crisis, which could develop into a global crisis. . . .

Many of the U.S.’s financial leaders believe there is only a low risk of this happening. But the deterioration in U.S. public sector finances has been accompanied by an equally sharp deterioration in the private sector. Alan Greenspan, chairman of the Federal Reserve, said recently that the huge rise in consumer debt in America posed no risk, as it had been matched by a rise in the value of property and stock portfolios. However, those are just the circumstances that brought about the speculative bubble of the late 1990s and the stock market collapse that followed. The U.S., at that time, was in a much stronger financial condition than it is in today. America was running huge budget surpluses instead of the current deficits; its sovereign debt was declining instead of soaring; the currency was strengthening not weakening.

To pre-empt a financial crisis, bi-partisanship, fairness and transparency will have to return to national politics. There will have to be agreement on a multi-annual plan to cut the budget deficit to a manageable level; to reform entitlement programmes; to increase national savings, reducing dependence on foreign capital; and to improve energy conservation to reduce U.S. reliance on foreign natural resources. There is little reason for optimism that such a process will take place.