Felix Rohatyn, New York Dictator, 1975-82

The following is an abridgement of "How LaRouche Fought New York's Fascist Financial Dictatorship, 1975-82," by Richard Freeman, EIR*, July 27, 2001.*

The paradigm for the genocide that is carried out today in such U.S. cities as Washington D.C., or Camden, New Jersey, is the Lazard Frères' plan that was deployed against New York City from 1975 through 1982. Under that plan, every vital service needed for human existence was imploded in large areas of the city. People living in those areas either died, or fled from the city.

Katharine Graham and her gang's policy to force the closing of D.C. General, Washington's only public hospital, by an unelected Financial Control Board—which set off a national battle led by LaRouche Democrats, over "general welfare vs. genocide"—is modelled on the 1975 New York Plan, and was drawn up by the same forces, with Lazard Frères investment bank directors at the center.

New York City black and Hispanic neighborhoods, which were targetted for extinction, either were left as abandoned urban wastelands, or, in selected neighborhoods, were taken over by urban renewal/gentrification real estate interests; and new apartment complexes and fancy restaurants were built for wealthy, mostly white, tenants. The rents were often three to ten times those that the displaced poorer families would have been able to pay.

The Lazard/New York Plan was aimed at shrinking a city, and leaving only enclaves of wealthy residents. It is the City of London-Wall Street financial oligarchy's paradigm for application under conditions of financial disintegration in the near future in the United States and other nations.

In 1974-75, the financier oligarchy precipitated a financial crisis in New York. They took the known, but soluble underlying economic-financial problems that beset the city, and made them worse. By April 1975, thanks to the bankers' operations, New York City had no money, and its credit rating was so destroyed that it could not borrow from the financial markets. Seizing on the crisis it had created, the Wall Street banking elite rammed through the New York State legislature, legislation which invoked "emergency police powers," and in June 1975, created the Municipal Assistance Corp. (Big MAC), and, in September 1975, the Emergency Financial Control Board (FCB—the "Emergency" was dropped three years later).

Under the direction of Lazard Frères banker Felix Rohatyn, who became the unelected Führer of New York for the next several years, the FCB and Big MAC ruled as a single, unified dictatorship. The power of the City Council and mayor, in all but name, was suspended. Lazard was especially equipped for this function, because it had long pursued the racist policies of Cecil Rhodes, and in 1933 helped install Hitler into power.

The oligarchy did not hide its policy, but arrogantly brandished it publicly, calling it the "planned shrinkage" of New York. On Nov. 14, 1976, Roger Starr, a member of the *New York Times* editorial board, and a spokesman for the banker and real estate interests, wrote a 4,000-word feature in the Sunday *New York Times Magazine,* advocating planned shrinkage. Starr declared, "Planned shrinkage is the recognition that the golden door to full participation in American life and the American economy is no longer to be found in New York." At that time, New York City had a population of 7.5 million. Starr decreed that, "New York would continue to be a world city [sic] even with fewer than 5 million people." This led to only one conclusion: forcibly killing or expelling one-third of the city's population.

Starr elaborated his account of how this genocide would be accomplished. After labelling sections of New York City as "virtually dead," Starr wrote that in the past, the New York government and various soft-headed people had tried to keep those "dead" sections alive. This was a mistake: "Yet the city must still supply services to the few survivors, send in the fire engines when there are fires, keep the subway station open, even continue a school. In some of these sections, under the pressure of a local official . . . the city is pressed to make new investments in housing."

So, new investment must be stopped: "If the city is to survive with a smaller population, the population must be encouraged to concentrate itself in the sections that remain alive," and leave the "dead sections" to die.

He described how undesirable districts of the city "can be cleared away" by tax policy, making it unprofitable to invest in buildings in these districts. He mentioned other means to shut a district down.

Once an area that Starr designated for closure, were cleared away, "The stretches of empty blocks may then be knocked down, services can be stopped, subway stations closed, and the land left to lay fallow." Starr realized, but did not say, that "stopping services," is a direct means to actually facilitate the clearing away of an area.

Rohatyn: 'The Pain Is Just Beginning'

At around the same time, Starr also insisted: "Stop the Puerto Ricans and the rural blacks from living in the city . . . reverse the role of the city . . . it can no longer be the place of opportunity.

"Our urban system is based on the theory of taking the peasant and turning him into an industrial worker. Now there are no industrial jobs. Why not keep him a peasant?"

EIRNS/Stuart Lewis

Felix Rohatyn became the dictator of New York City after that city's financial crisis in 1975. Here he is addressing a meeting of the Emergency Financial Control Board, which controlled the city's finances, in 1980, while Mayor Ed Koch (far left) and another admirer look on.

Starr's "philosophy" was not original, but only a working-out of the outlook that came from the higher level of Lazard Frères investment bank and Felix Rohatyn. While the oligarchy was creating the Big MAC and FCB in 1975, Führer Felix looked straight into the television cameras, and summarized the plan which Starr would detail: "The pain is just beginning. New York will now have to undergo the most brutal kind of financial and fiscal exercise that any community in the country will ever have to face.". . .

Big MAC

The first stage of the dictatorship was the Municipal Assistance Corp., dubbed "Big MAC," established in June 1975, and soon run by Rohatyn.

The powers delegated to Big MAC were:

- It would monitor the city's financial position;
- It would protect new as well as old creditors;
- It could restructure the city's debt.

The corporation could issue MAC bonds, up to the sum of $3 billion. The June 10 law demanded that the following city income streams be "earmarked" to pay the interest and principal on the MAC bonds: the city's 4% sales tax revenues, the city's stock and transfer tax receipts, and per-capita aid paid by the state. *The law mandated that only after the city paid off its bondholders—MAC bondholders and others—could it use the remainder of its revenues to pay city workers or essential services.*

In early July, MAC issued a $1 billion bond issue, at a 9.5% interest rate. In mid-July, MAC issued its second billion-dollar bond issue—but this one had trouble selling. By mid-August, the value of existing MAC bonds started to fall. The money that MAC received for the bonds, it doled out drop by drop to the city, keeping the city on a tight leash.

The MAC board began instituting austerity programs against the city—shutting down city programs, laying off workers, cutting wages—to squeeze out wealth to back up the bonds. But this method reduced the functioning of the city's economy further, making it even more difficult to support the bonds. The conclusion that should have been drawn is that the method of life-threatening austerity was a failure.

But Lazard and Rohatyn drew an opposite conclusion: that the level of austerity had to be increased. Rohatyn believed that a major limitation was that the MAC board still had to obey civilized standards, and did not have enough power to loot the population, institute fascist economics, and crush popular organizations. He sought a dictatorship that had all the power it needed, and would not flinch at inflicting pain.

Creating the Financial Control Board

Rohatyn then drafted a 111-page report that sought harsher austerity and a stronger institution that could enforce it. In September 1975, new legislation, arising from Rohatyn's report, was introduced into the New York State legislature. The legislation was called the Financial Emergency Act. In the early hours of Sept. 6, 1975, after the legislators had been kept up for hours, the legislation was rammed through by a close vote. The key feature of the act is contained in the summary of it in the New York State Laws 1975 (chapter 868, Sec. 1): The situation in New York City "is a disaster and creates a state of emergency. To end this disaster, to bring the emergency under control and to respond to the overriding state concern . . . the state must undertake an extraordinary exercise of its police and emergency powers under the state constitution, and exercise controls and supervision over the financial affairs of the City of New York."

The Rohatyn-drafted act specifically announced a "state of disaster" and "emergency" to exist, which it said, required "undertak[ing] . . . extraordinary police and emergency powers." These sweeping powers, normally reserved for a state of insurrection, were to be used to issue diktats for an artificially created financial crisis. This was a reprise of what Hitler and the Nazis had done in Germany in March 1933, after the staged Reichstag fire.

To effect his coup, Rohatyn had the act instantly create an Emergency Financial Control Board (EFCB), and in 1978, the term "Emergency" was dropped. The way Rohatyn interpreted the act, and the way it was used, the FCB had "the extraordinary police and emergency powers." The powers of the New York City Council and the Mayor were overridden.

The EFCB was a dictatorship. According to one summary account, the "EFCB [was placed] as trustee over all city accounts in all banks," that is, it had control over the city bank accounts, and further, "the EFCB was granted powers . . . over investment and disbursement." Thus, the EFCB controlled all of New York City's money flows. Moreover, the payment of debt was enshrined in the act: "the act created a debt service account . . . to ensure that debt service would be given first priority." The EFCB had the power to draw on every one of New York City's revenue streams to pay the debt.

The act replayed the Nazis' practice of looting workers' pension funds to support worthless financial paper, in this case, dictating quotas to the pension funds of New York State and City, for the amount of Big MAC bonds they had to buy—the state pension funds had to buy $225 million, the city Employees' Retirement System had to buy $225 million, the Teachers Retirement System had to buy $200 million; and so forth—all told, more than three-quarters of a billion dollars.

The EFCB could either "accept or reject any contract entered into by the city." It promptly ripped up most labor agreements.

Finally, the bankers made their dictatorship explicit, by writing, with matchless contempt for elected government, that they were the Supreme Power, to which all officials and citizens must bow down. "Violations of the emergency act or the EFCB's policies included misdemeanor charges and, upon vote, removal from office. The mayor was not excluded from these potential penalties." Whoever failed or refused to implement the EFCB's policies, including the Mayor, could be removed.

Whatever power the Big MAC had lacked, the EFCB now had. They acted together as a unified dictatorship. . . .

Gutting the City

Rohatyn gutted city services. Garbage was left to rot in the streets. Preventive maintenance was ended in the public transportation system, and all capital expenditures halted. Subway train breakdowns doubled. By 1980, nearly a quarter of the city's bus fleet was out of service every day.

Enrollment in the City University fell 40%, and tuition fees were imposed.

One out of four uniformed police officers were laid off. Police were told to limit arrests to serious crimes, to lower costs. Street patrols were cut, and the Organized Crime Bureau, which had narcotics oversight, was reduced from 1600 men to 439, as drug-dealing exploded.

Over the next two decades, five out of the 17 public hospitals in New York City were shut down, and now other public hospitals are threatened with closure. The attack on the public hospitals was the wedge-end to shut down New York's hospital system, private, non-profit, and public. In 1960, New York City had 154 hospitals; by 1990, that was slashed to 79.

Starting 1975, the FCB/Big MAC vastly expanded the arson policy started earlier by Mayor Lindsay, by making deeper cuts from an already-depleted Fire Department. As a result, in constant dollar terms, the 1980s budget for the Fire Department was slashed 35% below that of 1975. Many fire stations were shut down. Between 1976 and 1979, residential inspections had been cut by more than 30%, on top of the two-thirds cut in the number of inspections over 1966-76. Between June 30, 1975 and April 30, 1981, an additional 10% of the city's firefighters were laid off.

The arson policy was one of the earliest and most "effective" forms of urban renewal, from the criminal standpoint of the oligarchy and real estate interests. The real estate moguls hired arsonists to do their dirty work, a fact that was known to everyone in the city, including the Fire Department. In a study, "Fire Service in New York City, 1972-86," researchers Rodrick and Deborah Wallace gave a graphic example of how the urban renewal through arson worked:

"The [New York] Planning Commission informed the Fire Department that certain sectors of the Rockaway Peninsula [in Brooklyn] were to undergo urban renewal and that fewer fire units would be needed. . . . After elimination of one of the [fire] engine companies, large areas of that sector were cleared by [arsonists'] fire for redevelopment without the city having to spend time and money for legal urban renewal work."

The financier-real estate elites in New York got two bonuses with the arson. First, they were fully compensated for burnt properties through their insurance policies (that they were not indicted, bespeaks something about how this operation worked). Further, they also could deduct losses on their tax filings. Second, they could either leave the ground fallow—as per Roger Starr's recommendations—or they could retain the land or sell it to a new landlord for development. This meant urban renewal/gentrification. An entire area could be designated to become an apartment area for high-income, predominantly white tenants. Not only could the landlords collect rents as much as ten times what they had collected from the previous poor tenants, but from New York City they got special tax abatements and exemptions. Thus, the landlord/real estate interests made profits several times over.

But as a result of this process, if a family could manage to continue to live in the same area of the city, its rent shot up relative to its income. A study conducted by Columbia University found that in 1975, there were approximately 225,000 housing units in the South Bronx area, one of the nation's poorest neighborhoods, which charged $150 or less per month. Already, as a result of economic decline, the white population had begun leaving the South Bronx in the early 1970s. After the FCB/Big MAC-supervised real estate transformation, by 1978, the study found that there were only approximately 115,000 units that rented for $150 per month or less, a loss of half of the 1975 level. In the intervening three years, 46,000 were "upgraded" into more expensive units, and another 60,000 had been abandoned outright.

Roger Starr had the South Bronx as one of the areas in mind when he stated in his Nov. 14, 1976 *New York Times* piece that the place should be left to die, and "services cut off."

Even back then, Rohatyn's most feared opponent was Lyndon LaRouche, but the reader is directed to Richard Freeman's original, complete 12-page article for the circumstances of the struggle between them.