U.S. bankers circle bleeding cities

by Steve Parsons

During the last week of 1990, the nation was awash with news of surging budgets deficits and stringent austerity measures by cities and and states throughout the nation. Gov. Douglas Wilder of Virginia, for example, announced $250 million more in cuts, slashing agency budgets another 7.5% on top of earlier excisions between 5 and 10%. On the same day, Gov. William Donald Schaefer of Maryland ripped another $243 million from this year's budget, and proposed laying off 5% of the state's work force.

The depth of the depression collapse is inciting demands for austerity so severe that several cities are being readied for bankers' dictatorships.

Leading the way, as usual, is New York City. In late December, the David Dinkins administration announced a $2.4 billion cut in the first four years of the city's preliminary 10-year capital spending plan. This 14.4% cut will not merely slow construction projects dramatically, like new schools, but will particularly hit basic maintenance programs involving roads, bridges, parks, shelters, and city institutions of every kind.

For the Parks Department, capital spending will be cut 38%; for libraries, 26%; and for the Transportation Department, a whopping 50%. Scores of New York City bridges, already on the verge of collapse, will go untended until "sometime after 1995," as funds for bridge reconstruction and repair will be cut an additional $22 million over the next five years, on top of $252 million already slashed in November. The city is also considering a further $2 million cut in its preventive maintenance budget, which has already been slashed 38%—from $9.4 to $5.8 million—for 1991. The $2 million cut would eliminate a program to remove loose concrete from the underdecks of bridges—begun in 1989 after a man was killed when a falling slab struck his car.

This will hardly save money: Many bridges will suffer major structural damage if left to deteriorate further.

The last time such a "deferred maintenance" program was enforced was during the years of direct austerity rule in the late 1970s by Wall Street's Financial Control Board (FCB) and Municipal Assistance Corp.—"Big MAC." That period "blew out" New York, turning it into a crime-ridden drug haven and destroying what remained of its productive economy.

Then, as now, debt service costs were spiraling, and the bankers demanded the marrow from the city's population and infrastructure to preserve their usury collections. The current level of debt service is projected to *double* by fiscal year 1994. Wall Street wants to reduce the budget, as well as capital spending, even further, all the while demanding higher interest rates on loans because of their added "risk."

For example, a Dec. 12 bond issue for $1.1 billion was sold only after the city agreed to exorbitant interest rates that will cost $161 million more than two previous issues just months ago. That extra interest alone is more than 10% of what the city will be loaned by "investors."

Big MAC threatens New York, Philadelphia

Big MAC and the FCB are now hovering over New York City, ready to seize direct control, as in 1975, if the cuts they mandate are not severe enough. On Dec. 26, New York State Gov. Mario Cuomo warned Mayor Dinkins that unless the city cracks down with even more vicious austerity, and gives up any illusions of more state aid from the similarly bankrupt state, the FCB will usurp power in the city once again.

At the same time, Cuomo "cleverly" ratified a 5.5% pay raise won by New York City teachers earlier this year. Cuomo was hardly being a bleeding-heart liberal. First, the deal sanctions a precedent whereby 2.5% of that wage hike is to be de facto paid *by the teachers' pension fund:* That is, instead of paying mandated funds into the teachers' pension fund, the city will pay wages, thus underfunding the pension fund.

Meanwhile, the balance of the pay increase is to come from the money that neither the city nor the state has. And this puts the city on an even faster track for Rohatyn's Big MAC and Financial Control Board to take over the city.

Cuomo's threat comes at the same time that banks in Philadelphia are insisting on a similar control board before lending the city a nickel toward a $150 million loan desperately needed to avoid running out of cash. On Dec. 27, Mayor Wilson Goode caved in by endorsing the creation of an FCB-style state "intergovernmental cooperation authority," which would have the power to review the city's budget and revenue projections, and to abrogate city government measures it deemed insufficient to finance the budget and debt.

City Councilman David Cohen castigated the proposal. It "eliminates entirely the power of the city government of Philadelphia with respect to financial matters," he said. "It totally violates the Home Rule Charter."

Meanwhile, in Washington, D.C., Franklin D. Raines, the chairman of newly inaugurated Mayor Sharon Pratt Dixon's Transition Financial Management Committee, is charging that the city's budget deficit will be $300 million this year. This is 50% more than previously anticipated, due to collapsing revenues.

Raines just happens to be a Lazard Frères investment bank partner of Felix Rohatyn, the chairman of Big MAC! "Drastic actions" must be taken immediately, Raines demanded. It doesn't take a genius to see what he has in mind.