SPECIAL REPORT

MAC's Shortlived History Speaks for Itself

Feb. 21 (IPS) — Proposals put forward this week by Wall Street financiers to refinance Third World and European debt using the "Big MAC" (debt refinancing and austerity) formula used to "solve" the New York City crisis will meet with nothing but derisive laughter from those familar with the history of the New York Municipal Assistance Corporation. From its inception, Big MAC and its successor Big MAC II has wreaked financial, political, and social havoc in New York City, bringing the city to the brink of physical disintegration.

Big MAC's History

With the June 30 international debt rollover crisis fixed clearly in their minds, New York's bankers closed their doors to city bond salesmen in late May and moved for the establishment of a corporatist mechanism to insure refinancing of the city's short-term debt, a default on which would detonate the international monetary system. The Municipal Assistance Corporation scheme was conceived on May 22 by a special "blue ribbon" panel of "non-politician" experts, appointed by New York Gov. Carey.

In the early hours of June 11, following a night of arm-twisting by blue ribbon panelist Democratic Party lawyer Simon Rifkind and investment banker Felix Rohatyn, Big MAC was voted into law by the New York State Legislature, rescuing the city from defaulting on $792 million in short term notes due by midnight June 11. Its job was to convert a total of $3 billion in short term city notes due over the next three months into long-term MAC bonds, ending the continuing problem of refinancing short term city debt and cheapening interest costs to the city. Leading a summer long campaign behind the debt moratorium resolution of New York City Councilman Luis Olmedo, the U.S. Labor Party warned that the failure to declare a moratorium on city debt and the implementation of the MAC scheme would bring New York to the brink of economic and health holocaust. Immediate moves by Big MAC's financial directorate to "restore investor confidence" in the city with a round of budget cuts equal to the expected $640 million deficit in the 1976 budget began the now-spiralling cycle of decay.

The initial round of budget cuts failed to insure the sale of Big MAC bonds to more cautious bankers. On July 21, when MAC's first $1 billion bond issue was traded, the bonds plummeted 10 per cent on the market, despite 9 per cent offered yields. The MAC directorate ordered more drastic budget cuts, and were backed by a July 24 letter from Chase Manhattan Bank President David Rockefeller to Mayor Beame demanding a detailed austerity blueprint for the city.

By the end of July, MAC had given up plans to market its remaining $2 billion in bonds. With the threat of another default hovering over the city, MAC personnel and city officials successfully concluded negotiations with New York's municipal unions for an across the board wage freeze — an essential element in overall austerity planning.

With Beame's announcement on Aug. 6 of more layoffs, MAC proclaimed its confidence that the city would avoid default. "We've achieved our monthly miracle," said Rohatyn. Three weeks later, however, Rohatyn announced a "shocking" $3.3 billion accumulated budget deficit, and proposed the elimination of 46,000 city jobs to close it.

The Control Board

With its conspicuous successes in the past, Big MAC's legislative fiat expired on Sept. 9 and the apparatus was replaced by the Emergency Financial Control Board after a second all-night emergency session of the state legislature. To continue the task of refinancing for another three months, the EFCB ordered a three-year extension of the wage freeze and three successive cuts in the annual city budget to eliminate an anticipated $724 million deficit. In addition, Mayor Beame announced that 8,000 more layoffs would follow the 21,000 already in effect.

Despite these efforts, buyers for EFCB guaranteed bonds could not be found. A wholesale looting of state and city union pension funds to purchase New York City's worthless paper was undertaken, but failed to achieve to necessary rapid results. By Oct. 4, a visiting West German Chancellor Helmut Schmidt said what everyone in the financial community was already thinking — New York City was again on the verge of default. In a pinch made all the more desperate by identical payments crises across the globe, the bankers secured a $2.3 billion guaranteed federal loan from President Ford, tied, of course, to the demand for more stringent budget-balancing austerity measures.

Mayor Beame's Feb. 13 announcement that the city deficit stands at an appalling $1.21 billion, not counting an estimated $400 million annual loss to the city through cuts in federal and state aid, speaks for the soundness of the control board measures. Wall Street bankers, still intent on collecting the debt have mooted that the growing deficit can only be eliminated by twice the amount of austerity implemented thus far.

While Wall Street floated their plan for a global "Big MAC," this week Felix Rohatyn, MAC chairman, was making a defacto announcement that the enterprise that he had created and helped run at the behest of the New York bankers was a failure. Speaking at the City Club Feb. 19, Rohatyn told the representatives of the New York City business community that the city budget deficit "could be almost anything." It is probably somewhere between $1.5 and $2 billion," said Rohatyn, who is also known among bankers as "Felix the Fixer." In other words, the budget deficit is now **at least three** times the amount it was when Rohatyn and the bankers started fixing things.