SPECIAL REPORT

N.Y. Default Will Trigger Chain Of State And Municipal Bankruptcies

Between now and the end of this month, an uncontrollable chain reaction of bankruptcies and defaults will occur on portions of the $225 billion in outstanding state and municipal debt — a figure more that $50 billion larger than the **total** Third World debt.

New York City and state are once again on the verge of bankruptcy and default as the patchwork quilt of so-called rescue packages begins to unravel. A major default could come as soon as next Friday when $480 million in state agency debt comes due. A chain reaction of defaults by municipalities and school districts across the state would quickly follow.

Since the December 1974 outbreak of the New York City debt crisis, Wall Street has forced the elimination of some 35,000 jobs in the city alone — 10 per cent of the total municipal workforce — while slashing more than 1 billion from city services. The application of the bankers "austerity solution" has already created health emergency conditions in the present flu epidemic. It has in no way solved the fiscal crisis: the city's deficit is now $1.2-2 billion or triple what it was when the bankers of Big MAC started running things.

Bankers' Labor Policy

Wall Street has only one solution to the municipal debt crisis: Big MAC-style austerity. A Wall Street Journal editorial two days ago reiterated and extended it to the private sectors as well. The economy is being bled dry by "income transfers to non-producers, by labor contracts constraints on productivity ... there will have to be some crowding out ..." New York state and city are singled out by the Wall Street Journal editors as having to "struggle harder to cut their fiscal imbalances ... The New Yorks can never restore fiscal soundness by postponing budget cuts ... "

In other words, the axe must fall on the "useless eaters" — the welfare "bums" and the unemployed, the old, the sick, — as existing labor contracts are ripped up to increase speed-up. With the current debt crisis occurring simultaneously with the contracts negotiations in the municipal sector, this latter point is the bankers' current bargaining position against municipal and other workers who are demanding "catch up wage increases." They must be met with an equally intransigent working-class bargaining position: debt moratorium.

The crisis facing New York is now spreading across the country as city after city and state after state moves toward bankruptcy and default.

* In Philadelphia — The city has admitted a $85 million cit and is running a deficit of at least a $125 million. Said Budget Director Leonard Moak at a closed meeting, "If people knew how much this city was really in debt, they'd be out in the streets and all hell would break loose."

* In Connecticut — Moody's Investor Service has lowered the ratings on the State bonds because Governor Ella Grasso's austerity measures were not implemented fast enough. The state's debt is now 13 per cent of its expense budget.

* In Boston — The size of the city's deficit is probably close to $85 million — although it has yet to be made public. Despite several hundred millions in cuts from the Massachusetts State budget, on March 15 several of its departments will run out of money.

* In Detroit — The Michigan Municipal Finance Commission has given Detroit "permission to borrow $40 million in short-term, high-interest notes leaving at least a $20 million deficit on its payroll account to be dealt with through layoffs. The State of Michigan is running a $300 million deficit in its current budget.

* In Illinois — Gov. Dan Walker last week unveiled a $9.9 billion austerity budget for next year featuring $900 million in cuts.

* In St. Louis — the city must draw up a budget that eliminates a $10 million deficit. And so on across the country.

Linchpin

But it is New York State and city that has Wall Street most worried.

"The state damn well better get its money. If it doesn't, then the whole house of cards will come down." One bond trader said this week, "There'll be a domino kind of effect." If the state does not get its money it will default on tax anticipation notes equal to the state's deficit at the close of the fiscal year on March 31 — between $400 and $600 million. The failure of the state to make state aid payments starting April 1 will set off a wave of bankruptcies across the state. Bankers are panicked about defaults on debt obligations, some recently contracted in anticipation of receiving state aid.

Buffalo has been unable to raise all but a few million of the $35 million in short-term money it needs to tide it over between now and June 25 when it is supposed to receive state aid in that amount. On March 9 the city treasury will be out of cash.

Yonkers faces a more pressing payments crisis on March 16 when it has another $16.5 milliin to raise to pay off notes.

New York City is also counting on $400 million from the state in April — plus another $200 million in May and $185 million in June. Otherwise it will be in the throes of another cash-flow crisis.

However, there is ample evidence that a crisis is brewing independent of the state aid variable. Last Monday following a visit by the Big MAC to City Hall, MAC chairman Felix Rohatyn mentioned that the board was considering offering holders of the $1.1 billion notes under moratorium another chance to swap their notes for long-term MAC bonds,

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probably to relieve the city from paying interest costs on those notes. Rohatyn commented that holders of the notes wouldn't live long enough to see them redeemed.

Wall Street's mouthpiece, the New York Times, is in a state of panic about New York City's galloping budget crisis and Mayor Beame's announced intention to wait until the third year of the three year austerity plan to eliminate the major portion of the city's deficit, now estimated as high as $2 billion by Rohatyn. Half admitting the impossibility of closing the deficit as debt service costs spiral upwards, the Times wailed on Thursday, "Perhaps that will prove impossible as the debts continue to grow; but it is no excuse for not trying." The next day, the Times freaked out over the possibility that the end of the month contract negotiations between the MTA and city's bus and subway employees could blow apart the three-year wage freeze.