EXCLUSIVE

New York: Banks Demand Financial Control of New York City

SPECIAL REPORT

New York City's banking majors — led by Chase Manhattan Bank and Banker's Trust — announced this week that they will try to unload their imminent bankruptcy onto New York's population in a new austerity plan that will be administered by a three member banker-run board — the Local Finance Commission. The banks will overrule New York City's sovereignty with final budget decisions, auditing of New York's books to be placed in the hands of the new commission.

The bankers' new demands have prompted a level of protest greater than at any time since the city's "fiscal crisis" was provoked in 1975. Leading the opposition is New York State Assembly Speaker Stanley Steingut, who stated Jan. 21, "The dictates of a handful of bankers, operating behind the doors of locked boardrooms, can never be accepted as the substitute for democracy. The time has come to pull back the clandestine curtain that has obscured public scrutiny and debate the crucial decision-making by a tightly-knit group of money-lenders."

Steingut's press aide stated Jan. 26 that the Assembly Speaker's special investigator, Phillip Haddad, is also looking into reports that the Federal Reserve is questioning the solvency of Chase Manhattan and Banker's Trust banks. When asked whether the banks might be moving hastily to set up their Local Finance Commission because of their impending insolvency, the Steingut aide added, "That's a conclusion you could easily reach."

Background to the Crisis

Collectively, the 11 New York banking majors have gorged themselves on $5 billion of MAC (Municipal Assistance Corporation) and New York City notes, which they bought up in record amounts in the late 1960s and 1970s. However, as the mounting burden of debt refinancing crippled the city's ability to maintain a balanced budget or essential social services New York City was barred from the credit market early in 1975. The banks' $5 billion holdings in city securities suddenly turned to sand. The banks' notes are frozen, blocked in the banks vaults without a viable secondary market to turn the notes into cash badly needed by the banks, most of them regarded as "troubled" banks by the banking industry.

In the words of Wall Street's financial analysts, for New York's banks to re-open the market in city notes — MAC or otherwise — New York City must reestablish its creditworthiness by demonstrating its ability to ram through levels of austerity sufficient to meet all its outstanding debt obligations.

This was spelled out precisely at a meeting Jan. 19 of the chairmen of the boards of the largest New York banks — David Rockefeller of Chase Manhattan, Ellmore Patterson of Morgan Guaranty, Alfred Brittain III of Banker's Trust and Walter Wriston of Citibank — with Gov. Carey and Stephen Berger, chairman of the Emergency Financial Control Board (EFCB). There the plans for a Local Finance Commission were propounded: the commission, with subpoena power, would control and monitor the city's finances for the next 20 years. The plan called for eventually taking over New York State's finances as well, according to a seven page working memorandum in which the bankers wrote, "Hopefully, the Commission would in time monitor and control the budgeting and financing of all subdivisions within the state, although not necessarily with the same blunt restrictions" as stipulated for New York City.

Moreover, the banks threatened, if New York State, which nominally oversees the finances of New York City, did not accede to the full package of banks' demand, the banks would not finance the State's $4 billion spring borrowing, which will be floated after April 1.

Carey Budget

In his Jan. 18 budget message, Carey called for more than $350 million in state budget cuts, to fall almost completely on welfare, education and medicaid. Under the $200 million in proposed welfare cuts, single persons and married couples able to work will be thrown off the rolls after 45 days on relief, in direct violation — acknowledged by the governor — of the New York State Constitution, Article 17, Section 1, which mandates that, "the aid and care and support of the needy are public concerns and shall be provided by the state."This would affect 45-50,000 people. Secondly, rent payments for welfare victims will be reduced in some cases by as much as 13 per cent.

In parallel moves, the Emergency Financial Control Board announced Jan. 25 that it was nullifying the wage contract completed last month between the city and 54,000 teachers and other school employees after a year and one half of negotiating. Meanwhile, in a stormy meeting on Jan. 28, the EFCB took effective control over the city's Health and Hospitals Corporation, throwing out the single, publicly recognized resistor to the austerity programs among top city agency officials — Dr. John Holloman, a leading member of New York's black political machine. Holloman was replaced by Dr. Pascal Imperato, the head of New York State's Public Health Administration.According to the *New York Times*, Imperato was regarded as the "ax man" because he had succeeded in cutting New York State's health system by 18 per cent and its personnel by 25 per cent.

The attack on the hospital system, in combination with the slashing of welfare payments, is the sine qua non to forcing unemployed out of New York City into slave-labor jobs. In the words of one banker interviewed this week, New York City's population, "will be given the democratic choice of starving to death in New York or moving to labor-intensive work projects" elsewhere in the country.

Feb. 3 Note Deadline

The tempo of budget-cutting was expected to be further increased by the city government's deadline to finance $1 billion to repay short-term city notes previously held in moratorium, but declared payable by the city in a State Court of Appeals ruling late last year. The city must come up with the $1 billion by Feb. 3.

Banking forces were hoping to obtain an extension of the $2.3 billion federal loan to New York, which comes due June 30, 1978, for an additional five years. This, argued several banks, would provide the collateral guarantees for New York City to issue notes to repay the $1 billion due Feb. 3.

However, according to the office of Senator William Proxmire (D-Wis.), chairman of the Senate Banking Committee, the chances of an extension of the federal loan to New York City for another five years may not be good. "In 1975, many Republicans voted to approve the original loan to New York City only because a Republican president grudgingly agreed to support it. This time around, with a Democrat in the White House, Republicans may not vote for a loan extension."

Meanwhile, the Treasury is withholding any action to bail out New York, to let the full impact of the crisis hit the city. According to Mark Koehler, the Treasury official with oversight for New York City, "we have no plans to promise a loan extension to New York before Feb. 3. After that, we'll play it day by day."

In concert, at 11:00 am on Jan. 28, at the headquarters of the New York City Central Labor Council, the Business Labor Working Group (BLWG) — set up by David Rockefeller and Sen. Jacob Javits in January, 1975 — will announce the results of their year-long study on how to develop low-wage industries in the South Bronx and Brooklyn slums and grant tax incentives to businessmen to encourage them to stay in Manhattan and use local low-wage labor.

The Executive Committee of the BLWG includes Secretary of State Cyrus Vance, former Federal Energy Administration chief John Sawhill (now president of New York University), *New York Times* publisher Arthur Sulzberger, Committee on the Present Danger member and International Ladies Garment Workers Union president Sol Chaikin and N.Y.C. Central chief, Harry Van Arsdale.

According to Chase Manhattan vice president Jack Davies, who coordinated the group, "we want a federal urban development bank. This is not stated in the report, but it is what we all have in mind. "Such a bank would provide a federal guarantee for the securities, similar to MEFO bills issued by the Nazi German government, to fund the "industrial development" projects the group advocates.

Behind The Dollar's Stability

FOREIGN EXCHANGE

Though the most fundamental shifts in Western Europe's economic policy and industrial activity show merely a partial and gradual reflection in this week's foreign exchange developments, certain trends are manifest. The dollar — which began declining again vis-a-vis the deutsche mark and other Western European currencies in midweek, and picked up again this morning — has been bolstered by currency flows which express its actual weakness.

The strength of the pound is a major factor helping the dollar, as the New York financial press frankly stressed Jan. 26 (since buyers moving out of marks and Swiss francs into sterling do so via dollar purchases). The strength of the pound, in turn, involves the shift of petrodollar use from New York bank deposits to credit and investment outside the U.S. or U.S.-prompted debt refinancing. The dollar's strong points are thus contingent ones inseparable from its handicaps; this paradox subsumes the rise in short-term U.S. interest rates basically caused by fears of inflation and by bond-market shakiness as a glut of Treasury issues builds up. By the same token, the 1.6 per cent increase in leading economic indicators for December, cited by some traders as a help to the dollar today, expresses (seasonal factors apart) an increase in durable goods orders to keep ahead of price hikes.

The dollar may well continue to be stabilized for a while on the basis of the pound's strength and the increase in interest rates — this depends on how soon Western Eurpean governments formalize their policy of consolidating investment and trade priorities with OPEC and the socialist sector through new financing structures outside dollar channels.