A Big MAC for every city?

Stephen Parsons examines three urban centers and the financial manipulations bearing down on them.

Pick up any major urban newspaper these days and you are almost sure to be barraged with headlines trumpeting the latest horror story in municipal and state finances: mass layoffs of public employees; cutbacks in police and fire protection; school boards running out of funds and threatening to padlock their doors; and mass transit systems collapsing or shutting down as budgets are exhausted.

While it is generally acknowledged that the extreme fiscal straits of municipal and state governments are a product of the national economic downturn, rampant inflation, and recession-induced revenue shortfalls, local officials are under intense pressure to come up with solutions. For the most part in recent years, these officials have fought to maintain at least a status quo in essential services, relying increasingly on federal and state revenue-sharing contributions as local property taxes stagnate and fall in real dollar terms.

In many cities, public employees have received wage and benefit increases that, if not overcoming the ravages of inflation, have at least mitigated its onslaught. And increasingly, de facto deficit financing, or carrying yearly budget shortfalls into the next fiscal year, have been used to paper things over until an economic upswing arrives.

But with Volcker's policies intensifying the recession, these band-aid maneuvers are no longer feasible. Governments face devastating cutbacks on every level of service and employment.

This is generating heated political infighting in localities throughout the nation, as one constituency group after another scraps for the crumbs from an ever-shrinking budget. Some of our largest cities are on the verge of government paralysis, with the media driving home the frustration of the population, as well as the supposed malfeasance and incompetence of public officials.

In this atmosphere, the same financial institutions that have advocated and benefited the most from Volcker's policies of high interest rates and fiscal austerity—policies that are strangling the cities—are demanding "accountability," "realism," and "sound business practices" by local governments. Citing the fraudulent success of Felix Rohatyn's "Big MAC" (Municipal Assistance Corporation) and Emergency Financial Control Board (EFCB) in "solving" the New York City fiscal crisis, these institutions are demanding—and are increasingly getting—similar power to dictate financial terms to other cities.

New York results

Make no mistake about it: the MAC/EFCB solution has been an unmitigated disaster for New York City, media plaudits and Wall Street accolades notwithstanding. In six years under the thumb of Felix the Fixer, New York has become an almost uninhabitable, crime-ridden hellhole for all except a wealthy elite who have made a killing off the huge tax breaks for real estate and other forms of speculation.

New York's services have been decimated. City departments are now functioning with 25-50 percent fewer employees than in 1975, with budgets that have been pared beyond the point of dysfunction. In particular, fire and police response time has fallen drastically, with morale increasingly low.

Large areas of New York resemble Dresden after the World War II bombing, while its once unparalleled cultural offerings have dissipated into the trash of mindless musicals, pornography, homosexuality, and open drug dealing. Hundreds of industries and small manufacturing firms throughout the metropolitan area have gone out of business, replaced by droves of "service industry" employees prone to degenerate "alternative lifestyles." Schools are being shut down, and those that remain are often little more than detention centers and drug dealerships. New York's world-renowned health care system has been so triaged that many potentially curable patients never make it out of the hospital. And the greatest mass transit system in the United States is now on the verge of breakdown after six years of "deferred maintenance."

It is not the case that this is the penalty New York has had to pay for years of profligate spending and phony budget maneuvers. A competent Chapter 11-type reorganization would have aimed to regenerate the industry and municipal services infrastructure already in bad shape by 1975. Instead, Rohatyn and company now trumpet the big lie of fiscal solvency, as the city moves to the edge of total collapse.

And that is their prescription—and their incompetent goal—for every other American city.

The MAC push

There are Big MAC-style institutions already in existence or proposed for several cities. Detroit, for example, has a Budget Stabilization Committee comprised of the financial elite from the auto companies, major banks, and so forth, like real-estate speculator Max Fisher. Chicago has an "independent" School Finance Authority headed by Jerome Van Gorkom, chairman of Trans-Union Corporation, one of the largest speculative outfits specializing in rail car leasing.

As in New York City, the Chicago School Finance Authority was created after the bond rating services, Moody's and Standard & Poor's, lowered the Board of Education's bond rating to below investment grade. As its first act, the authority floated a $573 million bond issue to finance several years of operating deficits by the Board of Education.

In exchange, the school system has been forced to institute cutbacks of nearly 10 percent by the end of fiscal 1981, 25 percent in real dollar terms; grant the authority veto power over the budget; and channel property taxes toward debt-service payments on the bonds, for a total of more than 300 percent of the principal.

The bottom line is that while schools continue to function in the short term, these and future cuts will assure a confrontation with the Chicago Teachers Union and the destruction of what remains of public education.

The creation of the Budget Stabilization Committee in Detroit coincided with the hiring of Rohatyn's Lazard Frères investment firm as the city's financial consultant, with former MAC executive director Eugene Keilin serving as Lazard's point man. As *EIR* detailed in our March 10 issue, the last thing Rohatyn has in mind for Detroit is restoration of automobile manufacturing and heavy industry employment. Instead, he is promoting policies that can only eliminate Detroit as an urban center.

Besides advocating doubling the city's income tax and busting the police and fire unions as the centerpiece in overcoming Detroit's combined $300 million deficit this year and next, the so-called Stabilization Committee is pushing a policy of creating labor-intensive, low-wage jobs to attract business into the Detroit area, which has an official unemployment rate hovering around 15 percent, with thousands more having dropped out of the labor force. One of their wackier ideas is to promote urban "fringe farming" around Detroit, as not only alternative employment to manufacturing, but as the local answer to keeping down the high energy costs of transporting food into Michigan from California.

The Boston paradigm

No major city in the nation is facing a more severe fiscal crisis than Boston. Under the Massachusetts constitution, municipalities are permitted to tax only property, and thus rely almost totally on this tax for their general fund revenue. In Boston, property taxes have stagnated for several years, with many homeowners driven out of the city as mill rates have risen to $272 per $1,000 assessed value, or an average 10 percent tax on full market value.

When a new law passed last year stipulating that assessments would be increased to 100 percent of market value, and therefore homeowner taxes would rise anywhere from 200 to 500 percent, taxpayers voted up "Proposition 2½," a November referendum issue that limits taxes to 2½ percent of market value. Prop 2½ mandates that municipal property tax collections be reduced 15 percent per year until the 2½ percent ceiling is reached.

What this will mean for Boston is an agonizing 65-70 percent cut in its $860 million general fund revenue over the next five years—when its revenues are *currently* insufficient to meet costs.

The local transit system has already been forced to cut back its budget by several million dollars, resulting in substantial service reductions and 340 transit employee layoffs. Layoffs have also claimed 100 policemen, 200 firemen, and 250 teachers, with all seven police precinct substations and 13 fire companies closed. By July 1, 3,500 to 4,000 of Boston's 12,000 employees are slated to get their pink slips, with most departments suffering 25 percent cutbacks at a minimum. On top of this, the state faces a deficit of more than $100 million in its budget, making additional aid to localities unlikely.

Given the scale of the crisis, Boston's elected officials as well as the Massachusetts state government are locked in tremendous fights over the apportionment of remaining funds. In this atmosphere, calls are rapidly multiplying for all kinds of MAC-style overseers to force the "tough decisions" the politicians are refusing to make.

Once again, as in the 1975 New York City crisis, Moody's and Standard & Poor's have dropped Boston's bond rating below investment grade, limiting any financing options to the Boston banks controlled by "The Vault"—the Brahmin elite allied with New York investment houses like Lazard Frères.

The immediate crisis impelling Boston toward some form of Big MAC is an impending shutdown of the Boston school system, which exhausted its $210 million budget on April 28 and needs between $30 and $38 million to complete the school year. As of April 30, the Boston City Council, the independent Boston School Committee, and Mayor Kevin White had deadlocked over financing proposals to keep the schools open—as mandated by court order.

The city council has passed a $75 million bond propsal and tax package that carries provisions for a voter recall of all city officials, including mayoral appointees, and for council veto power over the mayor's ability to transfer funds. The mayor, as expected, has vetoed this, and proposed to the council that he take control of the school budget and have a "special administrator" and then a school superintendent essentially take over the powers of the traditionalist, constituency-based School Committee.

White is also being urged by investment banks like Merrill Lynch to create a "business community advisory board"—an informal MAC/EFCB structure composed of both local *and* New York bankers—as a way to counter the intransigent city council. The council, on the other hand, is considering legislation establishing an "emergency finance board" that would sharply limit the mayor's budgetary power.

Meanwhile, state Education Commissioner Gregory Anrig has warned that he will ask the legislature to control the Boston school budget. Superior Court Judge Thomas Morse is preparing to put the school system in receivership if no solution is reached and says that in any event he would appoint an independent "monitor" to force the School Department to stay within its budget. Morse has already appointed Harvard Law School Professor Charles Haar as a "special master" to audit the department's books.

The situation was greatly exacerbated when the state Supreme Court ruled that the city had to pay over $30 million by June 30 in property tax abatements to business. Both White's and the city council's proposals for the schools included freeing some $18 million in tax abatement escrow funds. The abatement court case is being led by the Greater Boston Real Estate Board, which is dominated by The Vault, and it appears that the city will have to rebate to these firms $125 million in taxes.

These are the same interests that *EIR* has demonstrated owe the city at least $236 million in unpaid taxes for this year alone! (See *EIR*, March 3.) That amount is nearly equal to the entire school system budget, with the immediate $30 million rebate sufficient to cover this year's deficit.

But no one in Boston is willing yet to make this the issue because it means taking on the combined muscle of The Vault and the New York crowd. Instead, the politicians continue their squabbling, while the Big MAC meatgrinder prepares to chop them—and their city—into mincemeat.