Who profits from the criminalization of New York City?

by Leif Johnson

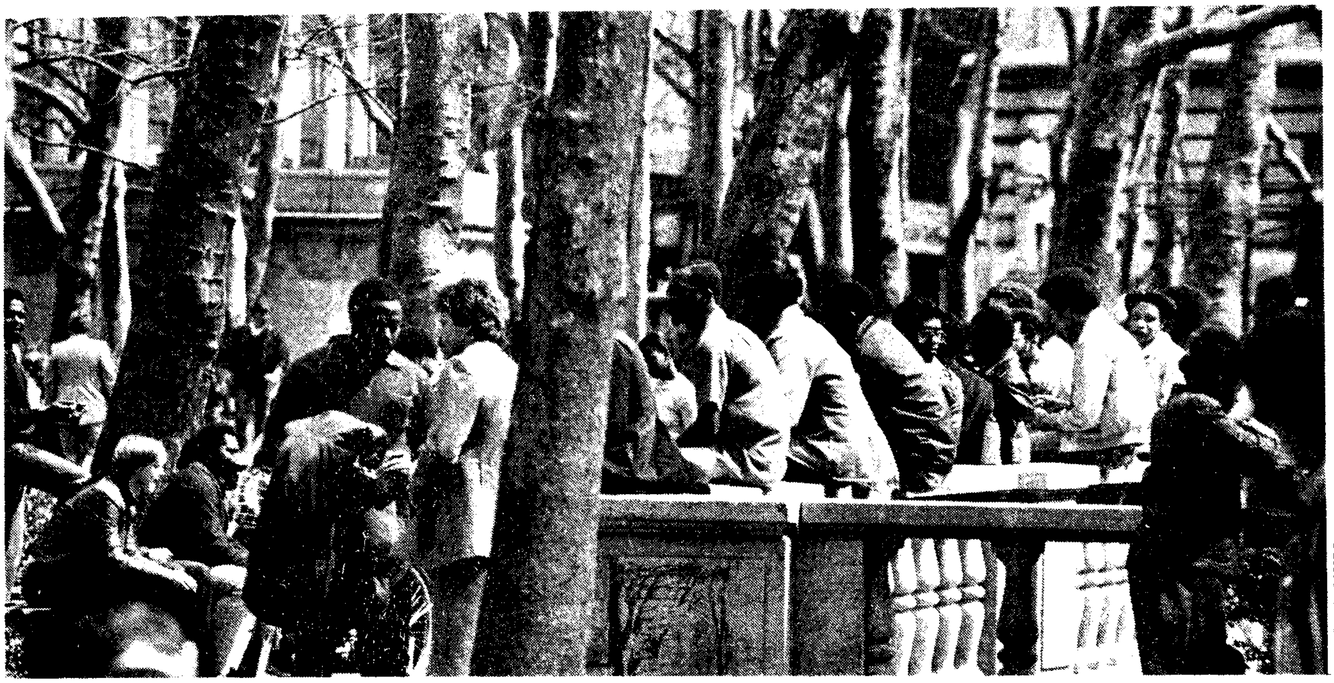
The 1975 fiscal crisis that nearly put New York City into bankruptcy was not a case of financial mismanagement or recession strains. On the contrary, it was the culmination of a decade-long pilot project for the planned shrinkage of America's leading city—the prototype for deurbanization and population policies that are now being applied to cities across the country.

As this report will document, the daily atrocities experienced by the citizens of New York—the crime and drug epidemic, the dismantling of public services, the erosion of housing and of manufacturing employment—represent the deliberate policy of the banks, insurance, and real-estate companies who control the city's government. Their policy, otherwise known as "Thatcherization" or "Hong Kong West," is to divert capital from developing technological and human resources into speculative profits, underwritten by tax subsidies and by the de facto decriminalization of the narcotics and related traffic that provides much of their cash flow.

The 1975 New York "financial crisis" was a massive banking raid on the public treasury that zoomed the city's debt to over $13 billion, attaching a debt-service bill of over $2 billion each year—a figure larger than the total budgets of all but a handful of American cities and half the states of the nation (see Figure 1). In 1976, the city paid one-third of a billion dollars in interest charges on its short-term debt alone.

The city was targeted by the most destructive urban real-estate crimes the nation had ever suffered. One and a half billion dollars in real-estate taxes remain unpaid every year as the Manhattan office-building speculative spiral accelerates; the present market value of commercial buildings south of 59th Street in Manhattan itself totals $50 billion. The city assesses this property at $7.7 billion; the tax loss amounts to $1.5 billion a year.

The city was the victim, and the major tool, in the drug war against the United States. With 50 percent of the nation's half-million heroin addicts located in the five New York boroughs, the largest cash flow in the nation pouring through the clearing-house banks, and a real-estate spiral churning money around are in geometrically expanding circles, hundreds of billions of



Stuart Lewis/NSIPS

Drug-dealing in Manhattan's Bryant Park, located behind the once-unequalled New York Public Library.

dollars each year is currently laundered through the city—with at least $30 billion from drugs alone. The cost to municipal government from the underground economy is immense; the cost to the citizenry is impossible to calculate.

In a metropolis where $83 billion in checking deposits turns over twice each business day, 16 times faster than it did two decades ago; where the average daily trading on the New York Stock Exchange in July 1981 was $1.5 billion; and where the clearing-house banks report a yearly cash flow of $50 trillion, it is impossible to imagine that the city's government could not afford $150 million to restore police strength to "pre-crisis" levels, or $40 million to keep its libraries open five or six days a week.

Instead of the city taxing the massive cash flows of the world's financial capital, however, the city's own cash revenues were attached for the profit of ground-rent finance (see Figure 2). The loss was extraordinary: 66,000 city employees were laid off or bumped into retirement without replacement. As arson engulfed stretches of New York larger than the total area of most other American cities, 2,000 firefighters were dismissed or retired without replacement, and 35 fire companies were disbanded or relocated—most from high-incidence areas.

Fully one-quarter of all the hospital beds in the city were lost, putting the metropolitan region—once the possessor of the finest public health care system in the nation—20 percent behind the U.S. average in beds per capita. Emergency visits to city hospitals sank by 17 percent; street sweeping declined by 25 percent; and at current rates, the city's aged sewers will be replaced every three hundred years.

The city was declared ungovernable. Roger Starr, a leading social-democratic spokesman and an editor of the *New York Times*, declared the policy of "planned shrinkage," a program of driving out the citizens who could not or would not pay the costs of the real-estate spiral and the increased income and homeowner taxation, or who would not tolerate the avalanche of crime, the officially sponsored dosing of their children with drugs in the public schools and the addiction of their children outside the schools.

All control over the city's finances by elected public officials was abolished in 1976. The Financial Control Board, directed and staffed by New York's oligarchic elite, is empowered to review and control all municipal finances through July 1, 2008. The city's elected officials—the mayor, comptroller, the Board of Estimate, and the City Council—are either rubber stamps or willing operatives in the game.

New York has literally been a victim of the same Strategic Bombing Survey method that destroyed urban populations and industrial centers throughout Germany at the end of World War II, a method adopted by the financiers behind Federal Reserve Chairman Paul Volcker's interest-rate strangulation of the U.S. economy as a whole.

An immense sociological profile of the city has been established on computer banks. All buildings, vacant and occupied, their ownership, tax arrears, and sales, are on magnetic tapes classified by neighborhoods. Utility-company records, telephone company records, health, mental health, school, and income-tax records, criminal and traffic-ticket records, family court records, personal data from credit files, small business records, welfare records, state police files, Off-Track Betting stubs, medical, life, auto, and property insurance records, are maintained by the banks and insurance companies in conjunction with their allies in the city government.

Using such a calibrated profile of local areas, race-riot potential can be measured; drug-absorption capability is known; and specific triggers for forcing out a target population—like burglaries, muggings, and arson—can be introduced.

The financial crisis

There was nothing about New York City's normal operations that required the orgy of debt creation of the 1970s. On the contrary, the city was led into the bankers' maw by Gov. Nelson Rockefeller (1958-1974) and by Mayors John Lindsay (1966-73), Abraham Beame (1974-77), and current Mayor Edward Koch.

In 1960, the city's budget was $2.52 billion, well within the municipal government's ability to finance. But the refusal to assess mid-Manhattan and Wall Street real estate was already costing the city a half-billion dollar tax loss. Despite the accelerating New York real-estate boom, which had persisted ever since World War II, the Empire State Building, for example, had just had its assessment increased—to the level of its 1935 assessment, when it stood less than half occupied in the midst of the Depression.

While the city was bilked out of hundreds of millions of dollars in tax revenues, after 1960 Rockefeller and the state legislature passed various bills allowing—and encouraging—the city to float debt to pay for operating costs, especially short-term notes of every kind imaginable. In 1965, for example, a state law passed eight days before the end of the city's fiscal year permitted the issuance of Revenue Anticipation Notes (RANs)—stipulating that they need not be tied to actual revenue! By June 20, 1976, the banks had burdened the city with no less than $2.6 billion of these notes, plus $3 billion more in other short-term debt.

In 1976, the city floated $8.4 billion worth of short-term debt, on which it delivered the banks a third of a billion dollars in interest payments alone. Total debt service exceeded $2 billion per year, or 71 percent of that year's real-estate tax levy. Meanwhile, underassessment of Manhattan's speculative office property was losing the city nearly $1 billion a year.

The result was the takeover of the city government and its budget by the same financiers who had been draining its treasury. Both the Municipal Assistance Corporation and the Emergency Financial Control Board were created in 1975, and within two years had slashed the municipal workforce by 20 percent and dramatically cut every city service.

Since then, crime and arson have soared, mass transit has ground to a crawl, and whole neighborhoods like the South Bronx and East New York have been systematically depopulated. Today, MAC and the FCB have dictatorial, unconstitutional mandates to seize city revenues, veto the budget, and abrogate labor contracts.

Figure 1

The real-estate raid on New York's treasury

(in millions of current dollars)

Fiscal year	Total debt	Total debt service	Debt service as % of real-estate taxes levied
1963	$ 4,100	$ 478	34.4%
1969	5,550	721	38.1
1975	12,313	1,896	67.2
1979	12,122	1,838	74.0

The transit drain

From the 1960s on, culminating with the establishment of MAC and the EFCB, an increasing horde of fiscal "whiz kids," computer specialists, efficiency experts, and financial inside men have run the municipal government side of the bank plundering, with a City Planning Commission "Master Plan" detailing the neighborhoods that would receive "major action" (see map, page 27).

While Lindsay opened the public treasury and computer-profiled the city's neighborhoods and citizens, in 1967 the Rockefellers reorganized the transit system into a "quasi-public" holding company to float additional billions in interest-free municipal bonded debt. The resulting Metropolitan Transportation Authority, presided over by Rockefeller subordinates, some of whom later turned up on the Emergency Financial Control Board, brought the notorious New York transit crisis full circle.

Having 60 years earlier floated the municipal bonds for the original subways while garnering the operating profits, the Rockefeller-Whitney-Morgan-Belmont group "sold" the subways back to the taxpayers for $315 million in 1939, handing the unfortunate citizenry the cost of replacing the tattered trolley and subway cars.

In 1953, the Rockefellers took the subways from the control of elected officials, obtained the right to raise the fare indefinitely, and invented the mechanism for floating an additional $10 billion new tax-free debt without any obligation to make improvements, extensions, or replacements of the world's largest, now-ruined, transit system.

The 1967 Metropolitan Transportation Authority was the creation of a classic holding company draining its subordinate operating companies, which now included the Long Island Rail Road, the suburban Conrail lines, and the Triborough Bridge and Tunnel Authority.

The real-estate siphon

The Pan Am building, a large office tower that sits astride Grand Central Station on Manhattan's East Side, was sold in 1980 to the Metropolitan Life Insurance Company for $400 million. It had been assessed for, and had paid real-estate taxes on, $80 million. Embarrassed public officials were forced to revise the assessment after the sale to $179 million.

The total office space in Manhattan south of 59th Street is 275 million square feet. At an average rental of $30 per square foot and using a minimum standard multiplier of 5 times yearly rental income to arrive at an estimate of market value, the total value, conservatively judged, is $41.25 billion. It is currently assessed at $7.7 billion, a sum the city claims is 60 percent of full market value, which would make the properties worth, although not taxed for, a total of $12.3 billion—easily less than a third of present speculative market worth.

When one realizes that the flagrant tax underpayment, so meagerly compensated for by overtaxation of individual incomes, sales, and homeowners, continues every year, it becomes clear that the sum lost to the city since World War II approaches $15 to $20 billion.

The city's loss in the current year is at least $1.5 billion. That annual figure is large enough to restore all the basic services eviscerated during the 1975-77 "emergency" and its Koch sequels—to restore full transit service, replace the 10,000 teachers lost, reestablish health and sanitation services, and properly fund law enforcement, as *EIR* will elaborate in a future sequel to this report.

Figure 2
Major expenditures as percentage of total budget

Fiscal year	Labor	Social welfare	Debt service
1970	51.5%	22.3%	10.5%
1975	46.1	22.8	14.5
1978	41.5	22.8	15.1
% change 1970-78	**−19.5%**	**+ 0.2%**	**43.8%**

The Crime Record

Behind New York's drug and arson wave

by Stephen Parsons

Crime in New York is neither random nor inherently uncontrollable. On the contrary, the vast bulk of crime is very tightly *organized;* it is an integral component of the planned shrinkage program and the simultaneous diversion of capital flows into the underground economy. The benefactors are the same bankers who bled the city's treasury in fomenting the fiscal crisis in 1975—a crisis which has been used to cut uniformed police officers 25 percent in six years.

The key is illicit drugs.

The major New York commercial banks launder hundreds of billions of dollars every year in "hot" money, funds that are then deposited and redeposited in unregulated foreign banks and their branches in the Caribbean, London, Switzerland, and Hong Kong, and eventually return to the United States as "venture capital" for real-estate, money-market, and similar investment. The source of the funds is organized crime: narcotics, prostitution, gambling, and the like. In New York City the drug market alone accounts for at least $30 billion of this cash flow every year, with organized crime as a whole earning something in the order of magnitude of $100 billion annually.

Estimates of the heroin addict population in New York City vary from 168,000 to 275,000. Studies conclude that 90 percent of heroin addicts' income is derived from crime, with an addict averaging 200-300 felonies per year, ranging from prostitution and drug retailing to muggings and murder. The total heroin addict income level is estimated at $20 billion annually, or $100 per day per addict.

All this has many implications. Even if heroin addicts commit only 25 felonies per year (about 10 percent of probable levels), their crimes alone would surpass the total U.S. felonies in the FBI's official crime index. One hundred and fifty thousand addicts in New York City committing only 25 crimes a year would surpass the 625,000 crimes reported in the city for 1980. This means that an enormous number of crimes go unreported and uncounted; most important, it indicates that most in one form or another relate to drugs and associated kinds of organized crime.

Street heroin payouts in New York City add up to $5-