Big MAC: How a bankers' dictatorship was imposed on New York City

by L. Wolfe

Twenty-two years ago this month, New York City, the nation's largest city, hovered at the edge of bankruptcy and default. Already under the first stages of a bankers' dictatorship that had usurped constitutional power from elected officials over the city's financial affairs, and had begun to decimate city services and infrastructure, Wall Street and London were now demanding that the Federal government step in and guarantee the debt to be paid to the banks.

One month later, after some resistance, President Gerald Ford and Treasury Secretary William Simon capitulated to a modified form of the demanded bailout. Today, after two decades of the fascist control of New York, the city is a husk of what it was in the 1970s. More than $35 billion has been looted from a combination of sources, including workers' pension funds, underfunding of capital projects, reduction of urban services and fire and police protection; the funds have been transferred to the New York banks' coffers for payment of debt.

By 1975, four years after London and Wall Street had dismantled the Bretton Woods monetary system in favor of the free-market casino that has evolved, the world financial system was bankrupt. New York City's long- and short-term debt was approximately $14 billion, exceeded nationally only by that of the U.S. Treasury. By comparison, the largest national debtor at the time, Brazil, had a national debt of only $18 billion. Between 1969 and 1974, the banks had staved off crisis by converting long-term debt into short-term obligations, with anywhere from three-month to three-year "fuses" on repayment; in so doing, the short-term debt due in 1974-75 had ballooned to over $6 billion.

But in 1974, the New York banks, led by the Rockefellers' Chase Manhattan, found themselves unable to roll over the New York City debt, which amounted to 20% of the entire tax-exempt bond market. Should there be a default, the forced writedowns of book assets threatened to trigger bank collapses. In London and New York, bankers reported that a New York City default, given the instability in the international financial markets, might lead to the collapse of the entire $5 trillion speculative bubble.

To make matters worse, from the bankers' standpoint, there was a growing movement, both in the United States and internationally, supporting a proposal for orderly debt moratoria that would wipe out the debt and initiate the process of creating a new world monetary system, based not on speculation, but on real production and global development. The author of this proposal was Lyndon LaRouche, and his international political movement had carried it into the annual conference of the Non-Aligned Movement, where it was to be embraced by several nations' leaders, as well as into the center of the New York City debt fight, where several city and state legislators and trade union leaders had put forward the proposal as their only defense against the demands of the bankers. Had they not blinked in the final confrontation, and had the LaRouche proposal for orderly debt moratoria become policy in the New York crisis, not only would New York been saved from the bankers' dictatorship, but the world would be a far different and better place today.

The first blows

Up until the mid-1960s, New York, despite some obvious problems with its extensive infrastructure, had functioned pretty well. Its politics were dominated by a Franklin Roosevelt-style alliance of Democratic political machines, some liberal Republicans, ethnic and civil rights leaders, and labor unions. They had battled the power of Wall Street's financial capital to the point that there was an uneasy balance of power; the bankers appeared happy with this arrangement, as long as the city was willing to fork over a sizable portion of tax revenue for profitable bond financing for capital and other projects, and as long as it was willing to honor the usurious notes on the New York City subway system, many of them more than 70 years old, and whose principal had been paid many times over.

With the mid-1960s international shift toward post-industrialism, the bankers moved to overturn the political chessboard in New York. They inserted one of their own, Mayor John Lindsay, whose family held an interest in Bankers Trust, and, using blueprints from the RAND Corp. and the Ford Foundation, launched a many-front war on the constituencies that ran the city. This included a wrecking

Big MAC Chairman Felix "The Fixer" Rohatyn (left) rammed the bankers' austerity program down the throat of New York City Mayor Abe Beame (right)—a diminutive man, who appeared to grow shorter by the day, during the showdown over the city's threatened default on its debt in 1975.

job against the Police Department around alleged corruption; the provoking of transit, sanitation, and teachers strikes; attacks on the public housing system; the attempted dismantling of the public school system through "local control" conflicts among artificially created constituencies; the promotion of real estate development boondoggles; and, overall cutbacks in city services, in the name of "fiscal responsibility." He operated in coordination with the bankers and their elite "City Club," the secretive group through which they coordinated policy.

Yet despite Lindsay's wrecking operations, a secret 1974 report prepared by RAND operatives for the City Club found that too much of the power of the old political establishment remained intact. It was further assessed that elected officials, if left to their own devices, would never summon the will required to impose the level of austerity needed to pay the worthless New York debt. The report, whose authors remain unknown, argued that new mechanisms of control must be put in place that *superseded or eliminated* the power of elected officials who might want to oppose severe austerity measures.

The crisis begins

By 1974, no one other than the New York-based banks was buying New York City securities. Through this arrangement, those New York banks, led by Chase Manhattan, were receiving hefty interest payments. Some time in October, or slightly before, the decision was made to shut down lending to the city at reasonable or market interest rates; accompanying this move, which came without warning to the city's political leaders, was the demand from the lenders that before there would be any future lending, the city had to make appreciable gains toward a balanced budget. When the city offered its bonds in November, there were no takers at reasonable and normal interest rates; they were finally sold at a new record rate of 8.4%.

Abe Beame, the city's mayor at that time, was a man diminutive in both physical and intellectual stature. A somewhat inept machine politician, there is reason to believe that he was allowed to become mayor because no one else wanted the job. At first, Beame balked at the demands for austerity so severe that even he knew it would destroy the city's social and political fabric. But, Beame was told by his advisers, many of them linked to the RAND Corp., including the city's Comptroller, Harrison Goldin, that the city government had no choice but to go along. Beame prepared the first in a series of draconian budget-cutting measures; as the bond interest rates rose in November, he prepared another plan.

The brainwashing pattern was thus established: The banks would demand blood; Beame and the city's political establishment would accommodate; the markets would appear to reject these offerings as insufficient, and a new plan with deeper cuts would be offered; it, too, would be rejected; and then on to a new plan, of even deeper cuts.

The next month, the city went back into the bond market with a $800 million offering. Goldin, in consultation with the Technical Debt Advisory Committee, a select group of representatives from the Wall Street banks, announced the day before the bond offering that Beame had vastly underestimated the coming year's budget deficit; the announcement forced interest rates on the bonds up to an all-time record.

Beame offered yet another budget plan, with more than 7,500 layoffs, closing of some fire and police stations, and discussion of a transit fare hike. To help sell this, the bankers and Beame enlisted the help of Victor Gotbaum, the head of District Council 37 of the American Federation of State, County, and Municipal Employees, the largest of the city's municipal unions. "Bumgut," as he became known, was accurately described by Lyndon LaRouche as a "professional rape victim," who screamed for the right to make the decisions about who would be triaged.

But Gotbaum did not control all the city's unions, and there was considerable resistance to the austerity plans, especially from Albert Shanker's United Federation of Teachers, the firefighters, and the police and transit unions, all of which had fought rearguard battles against Lindsay. Moreover, several City Council members and local political figures, seeing the cuts threaten their constituents, showed signs of fight.

The LaRouche debt moratorium fight

It was into this ferment that the LaRouche movement began political agitation for an orderly debt moratorium and cancellation of usurious bank debt. LaRouche organizers, led by U.S. Senate candidate Elijah Boyd, linked the fight in New York with that taking place against the banks and the International Monetary Fund (IMF) in the developing sector. They urged New Yorkers to join in that fight, and, along with other municipalities, such as Boston, Newark, and Detroit, which were also under the bankers' axe, strike a blow for a new world monetary system.

By January 1975, City Councilman Luis Olmedo was verbally supporting the LaRouche proposal. The idea of the moratorium was also a hot topic in the state capital in Albany, where Gov. Hugh Carey was carrying the ball for Wall Street, refusing to allow Beame or the city off the bankers' hook. On April 17, Firefighters President Richard Vizzini issued a call for a six-month moratorium on all debt to banks.

LaRouche's U.S. Labor Party (USLP) saturated the city with leaflets featuring Vizzini's call, as well as national and international support for debt moratorium. In May, the USLP circulated a brief on legal precedents for municipal debt moratoria. The brief was prepared, in part, to counter the terror campaign conducted by the banks and their agents, that said that any public official or union leader who supported a debt moratorium would be thrown in jail. The legal argument rests soundly on the "General Welfare" clause of the U.S. Constitution, which puts the protection of the health, safety, and welfare of citizens as a responsibility of government, above any debt obligation. Various statutes were cited that gave the city government specific authority to declare a debt moratorium. The brief was followed by a memorandum that outlined the steps for an orderly debt moratorium. Both the brief and memorandum were widely circulated to city and state officials, and trade union leaders, as well as members of Congress. The main features of the reports were further distributed in leaflet form throughout the city.

The LaRouche movement also released documentary evidence that the banks had not only rigged the city's fiscal crisis, but that property taxes on one-third of all the city's residential and commercial real estate had gone unpaid.

The LaRouche movement's agitation caused a representative of Chase Manhattan Bank to comment that the USLP had built a movement against the banks, which represented a danger to the "orderly" management of the crisis.

Resistance from Washington

Rockefeller and his City Club crowd were already too far into the game to call it off. Any sign of weakness might embolden other cities, such as Boston, where LaRouche addressed the City Council on debt moratorium, or the developing sector, where nations were calling for a new monetary system, and support was building for the replacement of the IMF, with LaRouche's International Development Bank. Beame was told directly by David Rockefeller that no more money would be lent to the city unless he were willing to impose drastic budget cuts to close a $641 million budget gap. Beame responded that this would mean 30,000 additional layoffs and unacceptable reductions in services; he charged that the banks were conspiring "in a concerted effort to make the city an object lesson." With no help coming from Albany, Beame was told to plead his case with Treasury Secretary Simon.

Here, our story gets somewhat complicated. David Rockefeller, whose brother, Nelson, was vice president, made public noises supporting a Federal bailout of the city. In private, Rockefeller sought assurances from Federal Reserve Chairman Arthur Burns that, should the banks be forced to push New York into default, the Fed would step in and bail out the banks. Failure to do so, he told Washington, would lead to an international crash and a run on the dollar. While the Fed—which is a creature of the private banks, and is an unconstitutional power unto itself—gave Rockefeller some assurances, Treasury Secretary Simon remained steadfastly opposed to any bailout of the banks, disguised as a bailout of the city. There is some evidence that the treasury secretary was cooperating with a faction of Chicago bankers, who wanted to leverage the New York City crisis to weaken the power of the New York (and allied, London) banking interests, including possible support for a trade- and development-based new monetary system.

The banks and their operatives now turned to fashioning a rescue package of their own—one that would impose fascist austerity on the city, while recycling its short-term debt. The key source of untapped loot was the multibillion-dollar pension funds of the city's municipal workers. The trick was to get the unions to buy the worthless new issues of debt, while still having them accept almost unthinkable levels of austerity. To do that, they set up Beame as the "hard cop." The mayor, whom aides said appeared to be growing shorter by the day, was reportedly told that, should the city default, he would be thrown in jail. He was also given a psychological controller, the powerful general partner of the Lazard Frères banking house, Felix Rohatyn, "The Fixer," as the bankers' began to call him.

The Big MAC scheme

On May 29, 1975, Beame submitted a budget that would eliminate a total of 67,000 jobs, including cuts in schools, and closing hospitals, fire, and police stations. Beame denounced the banks and the Federal government for forcing him to do this. Having had Beame put out this extreme scenario, the bankers now found it possible to try to sell both Beame and frightened city and state officials a slightly more palatable—but equally destructive—plan, which would secure the bankers' debt and slash services, over a longer period of time. The centerpiece of the scheme was an agency to be created by the state, called the Municipal Assistance Corporation, more commonly known as "Big MAC." Under the plan, Big MAC would be allowed to float $3 billion in 10- and 15-year MAC bonds to investors; they would then take the proceeds of those sales to buy up the short-term city debt as it came due. In that way, the short-term paper would be converted to long-term paper, and a default would be avoided. Big MAC could request additional bond authority, and could continue in operation until the city again became creditworthy. The banks themselves had no desire to buy up the MAC bonds, regardless of their nominal backing from New York State, which was only slightly more creditworthy than the city; instead, it was their intention that a goodly portion of the bonds be "eaten" by the workers' pension funds.

The Big MAC deal offered to the city by Rohatyn (who was reputed to be its author), carried some additional strings: The city sales tax and stock transfer taxes, then more than $1 billion a year, would be transferred to MAC directly, to guarantee debt repayments; MAC would set the upper limit and must approve all city borrowing; MAC auditors would have dictatorial control over the city's books and financial policy decisions; and, if MAC disapproved of any city action, it had unspecified legal recourse.

During a two-week process, the Big MAC scheme was sold to all relevant authorities. Unionists who might have opposed it were threatened with "extreme measures"; they were told the lie that it was the only way to guarantee payment of workers' salaries and some modicum of services; others, like "Bumgut" Gotbaum, extolled the alleged virtues of the new plan.

With a possible default looming on June 11, the legislature in Albany met in all-night session June 10-11, and the MAC enabling legislation was passed. As one assemblyman stated, "We have no choice. The knife is to our throats."

Only a day earlier, Councilman Luis Olmedo finally filed a resolution calling for an 18-month debt moratorium on all debt service to banks; now, with the City Council standing on call until 2 a.m., awaiting the outcome in Albany, the pressure was brought to bear on him and other potential supporters. Olmedo and anyone who supported a debt moratorium and opposed MAC were called "communists," and were threatened with being driven from office, or worse. Olmedo voted for Big MAC.

The next morning, the banks agreed to the purchase of some $100 million in short-term, 90-day notes, and another $280 million in tax anticipation notes, while the city came up with the rest of the $800 million due, from tax revenues and other sources.

Sitting on the MAC board, along with other bankers' operatives, was its soon-to-be-elected chairman, Rohatyn. In a late-night session in Gracie Mansion, the mayor's residence, before the Albany vote, a nervous Mayor Beame had wondered whether what was being proposed was legal; Rohatyn told him not to worry: "You've done this many times before."

MAC II and the EFCB

The MAC plan, as passed, was only the beginning of the bankers' fascist rule—there was a need for more permanent structures that would have power beyond the immediate crisis. And, there was still no direct commitment from the unions to eat the MAC bonds.

By mid-July, MAC had only sold $1 billion of its bonds, and the city faced a new default crisis in August. In order to obtain more power and the long-desired Federal bailout, the banks and their media machine let it be known that the city would face a default crisis *every* month, even if the August crisis could somehow be stemmed.

The LaRouche movement sounded the alarm that MAC was a fascist bankers' dictatorship, and that Rohatyn modelled himself on Nazi Economics Minister Hjalmar Schacht; MAC bonds were as worthless as Schacht's "MEFO bills." On July 22, an ad hoc committee of 12 state legislators and two City Councilmen, including Olmedo, issued a call for a 12-month debt moratorium. They denounced, as an "anti-people policy," the capitulation of Beame, the City Council, and Board of Estimate to demands from MAC to fire thousands of additional city workers, to freeze or cut wages for the rest, charge tuition at City University, and hike subway fares.

David Rockefeller now personally demanded that the city officials stand firm behind Rohatyn and MAC, and support an austerity package. He repeated the need to seek Federal bailout monies to meet the debt crisis. The hysteria around the pending default in August prompted the unions to make their first sizable "donation" of pension monies, $250 million, over the objection of City Council President and pension trustee Paul O'Dwyer.

With Beame agreeing to additional deep cuts in the budget, and with Treasury still unwilling to provide loan guarantees or a bailout, Rockefeller was forced to order the bank consortia to purchase remaining MAC bonds required, in order to avert a default. Sources close to the banks indicated that the threat of a LaRouche movement-inspired debt moratorium had limited the banks' maneuvering room.

Rohatyn was already working on a new dictatorship plan, the so-called MAC II. It was introduced in early September, and involved the use of municipal union and state pension funds to purchase MAC bonds, as well as the creation of a new seven-member state Emergency Financial Control Board (EFCB), which would have the direct authority to cut the city's budget, to lay off workers, and to abrogate collective bargaining agreements.

It was pushed through the legislature, meeting in special session on Sept. 9, but not before attempts to have discussion of a LaRouche-inspired debt moratorium were gavelled down by the leadership and further debate cut off. The $2.3 billion emergency bailout package to avert defaults over the next months still required some $800 million from banking and/or Federal government sources. But, with the New York banks, including Chemical and Marine Midland, unable to market their own debt, there was little chance that they would come up with additional cash.

The situation was complicated by what threatened to become a political strike against the bankers' dictatorship led by Al Shanker and his teachers; they had struck, in open defiance of MAC, for a new contract, just as the legislature met on the MAC II package. But Shanker, under pressure from the other unions and Gotbaum, backed down, settling for a paltry contract in early October; the new EFCB immediately announced its intention to rip it up. Later, Shanker threatened to block his union's use of pension fund monies for MAC bond purchases, but on this, too, he backed down.

The Federal bailout

As MAC bonds dropped to below 75% of their face value, and with Nelson and David Rockefeller, and Fed chairman Burns, putting pressure on Treasury Secretary Simon for a New York bailout or loan guarantees, Simon on Oct. 4 said that the banks should accept a debt moratorium, and, in fact, declare one themselves. As with his previous statements on the New York crisis, he spoke of the need for austerity measures to put the city's house in order, belying his own monetarist thinking. However, Simon's statement fueled a panic in international financial circles, where there was already talk of a 1931-style credit collapse.

The response in Europe and Japan was an orchestrated run on the dollar, to try to force Simon's hand. But while he made no further statements about the need for a unilateral debt moratorium, Simon continued to oppose Burns's and others' call for a Federal bailout of the bankers' New York debt. The LaRouche movement internationally, meanwhile, made the important distinction that for any debt moratorium to be effective, it must freeze the parasitical debt titles for the purpose of restarting production and productive investment: It must not be aimed at guaranteeing the most cents on a dollar for creditors.

Attention now turned to Congressional hearings, pushed by Rockefeller's stooges in Congress, such as Sen. Jacob Javits (R-N.Y.), on a proposed Federal bailout package. The idea was to show that there was support for a bailout from all quarters, isolating the opposition from the White House and Simon. But, while the hearings in the House and Senate banking committees produced the usual suspects, talking about the dire consequences of a default for the credit of the nation and for an already troubled economy, it also revealed the existence of a Chicago-based financial faction adamantly opposed to a bailout of the New York banks.

At one point in the Senate hearings, Illinois Sen. Adlai Stevenson (D) shot back at a New York banker who was lecturing the committee about the "dishonor of default": "If there is any dishonor, it is in the people who put New York in this situation [i.e., the banks], and I don't want to help them avoid any dishonor." Stevenson said that all the bailout proposals would do nothing to help the citizens of New York; he instead proposed that the banks cancel portions of the huge city debt load, and that the remaining debt be restructured at lower interest rates.

The leading spokesman for the Chicago interests, A. Robert Abboud, the chairman of the First National Bank of Chicago, further elaborated on the Stevenson debt restructuring proposal. The city, he told the Senate Banking Committee on Oct. 25, should undergo a Chapter 11 bankruptcy reorganization; this action—one of the options presented in the USLP legal brief on moratorium—would allow its leaders to reject the demands of the bankers to slash services beyond acceptable levels. Abboud stated that making extreme cuts, as had been proposed, was counterproductive and would drive revenue from the city—a prediction amply borne out over the following 20 years. Abboud also proposed that the Treasury offer a 90-day low-interest loan to help maintain services. Finally, Abboud proposed a 15-20% outright cancellation of all outstanding debt.

With MAC bonds trading at 40% or less of their face value, and with a mid-November city default on the horizon, on Oct. 29 President Gerald Ford delivered a speech, reportedly prepared by Simon with the help of the Chicago crowd, which excoriated the New York banks for creating the New

York crisis. Stating that he would veto any Federal bailout of the bankers' debt, Ford proposed emergency measures to suspend all debt payments and guarantee essential services. The *Daily News,* covering for the bankers, ran its famous headline: "Ford to NYC: Drop Dead." But, it was really the New York banks that he was telling to "drop dead," and according to several sources, if the President had stuck to his guns, four banks—Chase, Bankers Trust, Marine Midland, and Chemical—would have gone down for the count, in the wake of a city default.

But a month later, Ford capitulated, and a modified bailout package was announced. There would be $2.3 billion in short-term, low-interest loans over the next three years. To his credit, Ford did not place the full faith and credit of the United States behind the bankers' debt. In fact, the package, which was also approved by the state legislature in Albany, did include a form of debt moratorium: a stretch-out of $1.6 billion of the bankers debt. A leading New York banker reported that the inclusion of the debt moratorium in the package had been caused by the LaRouche movement's agitation; but the legislators and others who had backed the LaRouche moratorium, had blinked, and had sold out for an almost meaningless readjustment of the terms of the bankers' debt. The EFCB-Big MAC dictatorship now firmly controlled the city, and under law, will do so until the year 2008.

What happened to Ford and Simon is a matter of conjecture. The New York banks had called his bluff, and the President of the United States backed down. Years later, a banking source told this reporter that the New York banks, and their agents such as Nelson Rockefeller and Henry Kissinger, had threatened "to burn down the whole damn system. They might have done it. Ford was not prepared to be 'Hooverized' or worse. He knew that these people play for keeps: Look at what happened to Kennedy. And besides, he didn't have a clue as to what to put in place of the old system."

The reign of Emperor Felix I

In early January 1976, for two nights running, dozens of serious fires blazed throughout the city; one firefighter was killed, and more than a score were sent to hospitals. Firefighters union head Michael Maye exploded in rage: The MAC-imposed budget cuts were killing citizens and his men, and were destroying the city. More than 11% of the firefighters had already been laid off, and more than a dozen fire companies had been closed. "We are losing whole blocks of the city every day," he said, and MAC doesn't care.

Under Rohatyn's reign, through four different mayors, the city has laid off a full 35% of its former workforce; in the first five years of his rule, spending on fire protection, police, sanitation, and education dropped by an average of about 30%. Rohatyn and his flunkies have closed several score fire companies, dozens of police stations, while they reduced staffing at others. Meanwhile, crime and murder rates have risen, and the number of serious fires has risen astronomically. The hospital system has been decimated by the reductions in hospital beds, and by hospital closings. Several score schools have been closed, while only a handful of new schools have been built. The city's water and sewer systems are in constant crisis, with major breakdowns of the 100-year-old mains and pipes occurring weekly. Much of the city's streets and neighborhoods are in a "bombed-out" condition: Streets should be repaved every five years, but spending levels for all but major thoroughfares now place them on a *200-year* replacement schedule. Yet, despite all these cuts, and despite Rohatyn's "management" of the city's fiscal policy, its per-capita debt is larger than it was in 1975, and its budget deficit is larger as well. Tax revenues have also fallen, when measured in constant terms. (One of the taxes that Rohatyn and MAC did away with, was the securities transfer tax.)

Service cuts have not been uniformly administered throughout the city. Instead, the cuts have been concentrated in the most economically deprived areas. What remains, are protected enclaves within Manhattan, in its financial and business districts, and in some of the better sections of the outlying boroughs; here, some services have been improved. It is to this that Rohatyn and his cronies point, when they speak of the "great success" of their experiment in bankers' fascism.

The genocidal content and program of what has taken place over the last 20 years in the city, was quite openly laid out in a Nov. 14, 1976 *New York Times Magazine* piece by *Times* editorial page writer Roger Starr. He offered a program to triage unwanted sections of the city and undesireable poor and ethnic populations, stating that the city had become too large for its own good. The way to do this, he stated, was through a policy of "planned shrinkage," where services to certain sections of the city would be cut off, in a deliberate effort to force out population. Eventually, the means of transit between the desired areas and the "unwanted" sections would be severed as well, as buses and subways would stop running to them. This policy, Starr said, is the only real way to reduce city expenditures and make it creditworthy again.

In an interview, Starr said that the problem with the city was the predominance of its "underclass . . . the urban poor" and programs that cater to them. Sounding very much like the world's current leading genocidalist, Britain's Prince Philip, Starr explained, "I know what we did with them 100 years ago: We gave them tuberculosis. Some of us thought they had found a way to extingush themselves with drugs, but unfortunately that has not happened on a large enough scale to achieve what I am talking about."

Before Big MAC, the population of New York was 8 million; as of 1995, it was 7.3 million, and shrinking.

Felix Rohatyn considered Roger Starr to be a "visionary." The policy in New York has not been some mistake, administered by incompetents; it has been one of calculated and deliberate genocide. And it didn't need to happen—if only some people hadn't flinched back in 1975, and had listened to Lyndon LaRouche.