Political Economy by Dave Goldman

Simon: Banks Need Moratorium

Oct. 5 (IPS) — Following a week in which the New York situation was only one of the financial hot spots sending panic through leading capitalist circles, Treasury Secretary Simon proposed Oct. 4 that the banks declare a debt moratorium on interest payments from the city to head off a sudden, uncontrollable default. He stipulated that such a moratorium be tied to a "credible" plan for balancing the city's budget and the temporary imposition of a state sales tax to aid the city.

The bankruptcy of New York's banks, especially Chase Manhattan and other Rockefeller institutions, has forced the issue of debt moratorium out into the open — an opening that will not be ignored by the Third World and other Rockefeller satrapies. Simon's call for a debt moratorium, strictly on bankers' terms, was born of the recognition that the financial panic unleashed by a municipal default or a major corporate or financial bankruptcy could topple the entire fragile U.S. banking system at any time and that top capitalists themselves must be in control of the inevitable collapse.

In the weeks ahead a major political battle will be fought over who sets the terms of the debt moratorium, the banks or the working class.

In the midst of the financial panic last week, Rockefeller agents in New York, led by Governor Hugh Carey, moved to bail out the faltering Rockefeller financial institutions by making plans to loot nearly $5 billion from state and city pension funds this fiscal year to prop up state city debt.

Austerity Plans

Besides the plan to "borrow" almost $5 billion from workers' retirement funds — a sum far exceeding what Nazi Finance Minister Hjalmar Schacht looted from German workers' pensions — the Rockefeller forces are utilizing the atmosphere of financial crisis to renew an all-out assault on living standards in the city:

*Following up the move by the Emergency Financial Control Board to reopen the teachers' contract at the beginning of the week, the Board of Education announced that 900 teachers will be laid off on the grounds that the local boards do not want to spend the money saved during the strike to rehire teachers.

*This week the city administration must submit a three-year austerity plan for approval by the control board, the real city government. Carey, who sits on the control board, is demanding that more than $200 million be axed from the current $12.3 billion expense budget, if the city is to convince the financial community and Washington that it is making an effort to balance its budget. In the long-run, Carey is advising the city to eliminate 46,000 from its payroll by fiscal 1977-78. But given the depth of the financial crisis at this moment, it is inevitable that the control board recommend that the three-year plan be compressed into about three months in the interests of restoring investor confidence in the city.

The possibility of a New York City default became immediate at the beginning of last week when the $2.3 billion rescue package started to bust apart, and then was temporarily averted by a plan to soak up even more of the pension funds to keep the city liquid. Sate Controller Arthur Levitt, who at the beginning of the week refused to bear the responsibility of voluntarily investing $125 million of state pension funds in Big MAC bonds, had been convinced by Thursday to use pension funds to buy $250 million of state notes to be issued on behalf of the city on Oct. 15. This move means that the banks transfer funds they hold on pension accounts to their own assets — thus wiping out the ability of others to collect their retirement funds.

Levitt rationalized that the state notes are less of a risk than MAC bonds, however, bookkeeper Levitt was undoubtedly warned that the default of the city, the state, and ultimately the collapse of the international monetary system would be pinned on him for not releasing his funds.

In addition, the trustees of another state pension fund are about to pledge another $250 million in the state issue November 15. Governor Carey meanwhile has proposed that $4 billion in city pension funds be utilized to tide the city over December through June.

In a new stroke of ingenuity, the Carey administration in Albany made plans to rewrite state law to unlock all the independent state funds for daily cash expenses, now that the state has been barred from the credit market along with the city. A top aide to the governor pointed out that the plan would also have the virtue of "straightening out the state's finances" once and for all. State officials say that if it works, the plan could change the face of municipal financing nationally, making states and municipalities "independent" of the bond market — and triaging all their operations.