New York City "Crisis" Scenario Is Test For U.S. Dictatorship

SPECIAL REPORT

The Carter Administration and spokesmen for the New York City financial community announced a series of moves this week to make New York City, the showpiece of the city banks' austerity program, the nation's model for the James Schlesinger conception of a "crisis management" austerity dictatorship.

The moves, taken to ensure that the city was unable to meet a Feb. 3 state court deadline to produce a plan for payment of $1 billion in short-term notes held in moratorium since 1975, have set in motion a "crisis" scenario that is intended to produce a level of austerity and service cutbacks which will make New York City a test case for Schlesinger's goal of reducing nationwide energy consumption by 40 per cent. Such austerity is considered vital to the efforts of leading Rockefeller-connected New York financiers to avoid bankruptcy court.

Herbert Tanschburg, a spokesman for the New York bank's "watchdog" group, the Citizens Budget Commission, told a reporter Jan. 30, "If the federal government asked for $700 to $900 million in cuts, we could make them. We may have to call in the national guard to do it, but we'd do it. We'd handle the situation." Making sure that his point was clear, Ranschburg stated, "(New York) Governor Carey is going to go after blood."

Added a spokesman for Lazard Freres the investment bank, in a Feb. 2 conversation with a reporter, "I foresee the Guard being used when all the policemen and sanitation men have been laid off to patrol the streets and move the garbage; the city is not going to put its house in order without doing that. The city should have gone bankrupt some time ago. What we're seeing is the beginning of the demise of the political patronage system in large U.S. cities."

The levels of austerity and cutbacks being sought were first outlined in 1976 by Roger Starr, a member of the board of directors of the New York Times, who stated in a Times article that New York City will be put through a "planned shrinkage," which will depopulate the city by 1.5 million people. Starr called for creating zones of the city, such as the South Bronx and the Bushwick section of the city, where essential services will be cut off altogether, thereby forcing areas to collapse and their populations to move out altogether.

This policy was restated Jan. 28, in a report released by Secretary of State Cyrus Vance's private "Business-Labor Working Group," which centered around the establishment of an Urban Development Bank. The bank, according to its authors, will issue Mefo-bill type equities — first devised by Hitler's finance minister Hjalmar Schacht — to buttress the New York banks and finance labor-intensive jobs programs in New York City. This is a foot-in-the-door to the immediate spread of these programs to the entire Northeastern U.S. corridor.

The Banks' Scenario

The crisis scenario was set in motion Jan. 31, with the announcement by Jimmy Carter's press secretary Jody Powell that "we're not making a long-term commitment to solve a short-term extension. Short-term arrangements have to be worked out locally." With the refusal of federal aid to help meet the Feb. 3 note deadline, Carter — who attempted to make campaign hay in New York with assurances that he would aid the city before the Nov. 3 election — delivered an unambiguous message to the New York City population: drop dead.

Carter's statement — the "midwife to a constitutional crisis," according to one banker — coupled with the announcement by Senate Banking Committee chairman Sen. William Proxmire (D-Wisc.) that there was no chance for an extension of federal loans to the city, set up the crisis by forcing the entire burden of the court-ordered repayment directly onto the city.

In the next phase of the crisis, Gene Kaylin, executive director of the Municipal Assistance Corp. (Big MAC), told the New York State Court of Appeals Feb. 3 that, as a result of the lack of federal funds, the city is unable to come up with any funding plan. The Appeals Court is expected to order that the N.Y. case be remitted to a lower court, the New York State Supreme Court.

The Supreme Court will either issue a further ruling on the case, or, more likely, the case will end up under the supervision of New York's Southern District Federal Court, a Rockefeller fiefdom where Wall Street may put New York City through bankruptcy proceedings. Simon Rifkind, a member of the CIA-connected Wall Street law firm of Paul, Weiss, Rifkind, Wharton and Garrison (which includes Ted Sorenson as one of its members and which represents Big MAC) pointed out this week that either federal or state court will be free to appoint a "master" — a federal financial dictator who will manage the bankruptcy proceedings and strip away all the city's elective sovereignty.

The goal of the plan was spelled out precisely at a Jan.

19 meeting of the chairmen of the boards of the largest New York banks — David Rockefeller of Chase Manhattan, Elmore 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. There the bankers laid out plans for a three member local finance Commission, with broad subpoena powers, which would control and monitor the city's finances for the next twenty years.

"Carey is Going After Blood"

The express aim of the crisis management government is twofold: more austerity cuts, focused on ending the city's public hospital system, and the creation of a federally backed Urban Development Bank.

Boasting of the banks' ability to impose any and all levels of cuts, Citizens Budget Commission spokesman Ranschburg declared that New York City should "get out of the hospital system" by eliminating all public hospital in-patient service. "Let them go to the private hospitals," he stated. Indicating that the attack on the hospital system is just the beginning, Ranschburg claimed that Gov. Carey's attempt to dismember the Health and Hospital Corp., "was necessary. Somebody has to have the guts to say, 'you ain't going to get anymore.' "

The other side of the scenario was unveiled on Jan. 28, when Carter's Secretary of State, Cyrus Vance, author of the 1968 "Garden Plot" scenario for federal military occupation of cities, and his private "Business-Labor Working Group" released their official report.

The centerpiece of the Vance scheme is an Urban Development Bank, according to Chase Manhattan vice president Jack Davies, who coordinated Vance's BLWG. "We want a federal urban development bank," Davies stated. "This is not stated in the report, but it is what we all have in mind."

The bank concept was originated by the Institute for Policy Studies' Gar Alperovitz. The plans for the bank, as outlined in the report, call for development of slave-labor industrial parks to be built in the gutted and depopulated sections of Brooklyn and Manhattan.

Nevertheless, the real matter still remains not New York City's financial crisis, but the financial crisis of the New York banking majors, who are attempting to unload their insolvency onto the city's population. The Securities and Exchange Commission, which oversees the regulation of stocks and bonds, is in fact now investigating this situation, focusing on the fact that several New York banks, led by Chase Manhattan, engaged in illegal dumping of New York City securities in order to bring in badly needed cash. Admitted the CBC's Ranschburg, "The SEC investigation is forcing a lot of people to dance around the bush on the question of loans to New York City. It they break the full story there will be a lot slack faces around here, a lot of sick faces."

Bond Markets Weaken, U.S. Gluts Feared

The U.S. bond market, the Eurobond market and the West German domestic bond market continued their January downturn this week. U.S. Treasury's trading is suffering from a lack of foreign interest, while a glut has built up in U.S. state and local paper. The West German market, where foreigners are backing off as well, is suffering price losses, while the general flow of international investment away from the mark has unfavorable repercussions for deutsche mark issues in the Eurobond sector.

In the wake of the news that the narrowly defined U.S. money supply had declined $1.9 billion in the week to Jan. 26, a development accompanied by a "prudent" public posture on the part of Federal Reserve chairman Arthur Burns, prices rose yesterday on the U.S. bond market, counter to the steady 1977 sag, with 8 per cent Treasury notes up by more than one point. The Pickwickian situation of the American bond market is now such that only a drop in the dollar — inducing foreign central banks to rechannel their "hot money" dollar inflows into Treasuries—or a drop in the economy of the sort corresponding to the MM-1 growth contraction, or both, will save the market from the slump induced by fears of inflation and lack of foreign interest. Major bond dealers in West Germany and Luxembourg polled this week were shocked to hear reports of a planned sale of New York's Municipal Assistance Corporation paper in the Luxembourg market under another name; they not only called New York City debt a "disaster area" they would never touch, but reaffirmed their diffidence toward Treasury obligations.

The U.S. Treasury market as a whole showed a decline of six points ($60 per $1,000 face value) so far this year. Dealer inventories of Treasury paper were over $14 billion at the end of December; in January, the Federal Reserve had to buy $1.2 billion in bills and $1.2 billion in long-term coupons. The $6 billion sale of new Treasury issues this week proceeded at depressed levels until the pick-up late yesterday. At the moment there is only $260 million in new issues of state and local debt instruments, but almost $1 billion in old ones are being traded interdealer, reports the Wall Street Journal, and this month a total of $1.6 billion in new issues is slated.

On the federal level, the squeeze is represented by an expanded budget deficit plus the absence of foreign purchase of Treasuries can best be situated with reference to the $5 billion in non-marketable Treasuries accumulated by European central banks from November through January. In effect these central banks—chiefly the Swiss, West German, and British—were using the excess dollar reserves, accumulated due to speculative flights out of U.S. holdings, to help finance the U.S. budget deficit. Ironically the recent short-term stabilization of the dollar cuts this inflow, while a compensatory private foreign interest in Treasuries and tax-exempts has yet to manifest itself.

U.S. banks, meanwhile, which had stocked up on Treasuries during the bond-market upswing of December, have liquidated $700 million in one- to five-year notes this year, but still possess uncomfortably fat