

provision will allot a certain portion of the CETA jobs — hitherto designated for those on the unemployment rolls — to welfare recipients, setting the unemployed “who want to work” against the welfare people “who don’t want to work.”

The day after the budget was passed, Victor Gotbaum, head of the AFSCME District Council in New York City, protested that his union was “losing the CETA jobs to the welfare bums,” and announced that he would fight tooth-and-nail to get those jobs — which pay far below the union wage scale!

But the CETA jobs are merely one small portion of the forced work program. Under the rubric of “developing alternative energy resources,” the New York banks are planning to implement huge labor-intensive work projects. A member of the advisory panel to the Conference of Northeast Governors (CONEG) proposed exactly that in an interview last week (see page 5). The CONEG advisors, who met last week in Boston, will release their policy proposals for coordinated energy development schemes by this summer. The cornerstone is a Regional

Energy Development Corporation — a giant Big Mac operation, with federally guaranteed bonds for financing.

The so-called energy development projects will be instrumental in removing New York City’s “unproductive” population — a call recently trumpeted in a *New York Times* editorial and first pronounced by Roger Starr, a *Times* editor and former head of New York City’s Housing Development Administration. The other side of the GAO program is the creation of an “Urban Reconstruction Bank,” a proposal first floated at CONEG’s inaugural meeting at Saratoga Springs in November. Last week, the Trilateral Commission’s U.S. Treasury Secretary, W. Michael Blumenthal, revamped the proposal in consultation with editors and reporters of the *New York Times*. The proposal is nothing more than a retreat of the New Deal’s Reconstruction Finance Corporation, which guaranteed debt service to the Rockefeller banks by guaranteeing loot from slave-labor projects.

## State Probe Shows New York Banks, Not City, Bankrupt

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### SPECIAL REPORT

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#### Haddad’s Statement

*Testimony last week before a New York State legislative subcommittee by William Haddad, director of the Office of Legislative Oversight of the State Assembly, substantially corroborates charges by the U.S. Labor Party that the bankrupt New York clearinghouse banks rigged the so-called New York City fiscal crisis, in part through wholly illegal manipulations of the credit markets, to protect their illiquid international debt position. The result, Mr. Haddad charged, was a de facto seizure of political power within the city by these banks and forcing of the people of the City and State of New York to cover banks’ bad loan positions through service cutbacks and other austerity measures enacted under the guise of imposing fiscal responsibility on the nation’s largest metropolis.*

*Haddad points out that the New York banks are no longer cooperating with his investigation. He requested and received subpoena powers from the committee to obtain relevant, secret bank records.*

*The information in the testimony excerpted below is of the type that warrants an immediate investigation, not only by Haddad and the New York State legislature but by the relevant committees of the Congress. In all likelihood such an investigation would lead to criminal indictments of the officers of the New York clearinghouse banks. In a press conference last week, which like his testimony was blacked out of the East Coast press, Haddad stated that what “we have here is only the beginning of a very nasty picture.”*

Mr. Chairman, it is the purpose of this report to outline the persuasive evidence my office has collected to date supporting allegations that several New York banks quietly dumped two to 2.5 billion dollars in municipal holdings after privately learning of the city’s pending default.

This divestiture of municipal securities aggravated a growing crisis of confidence in the city’s ability to repay its debts. For many institutional purchasers, this was the coup de grace, the final shot in the head for a dying securities market.

With the market saturated to a standstill by these secret actions, the banks turned to the city and the state for help, which was forthcoming in the form of new institutions guaranteeing the repayment of new and “rolled over” investments by the banks. No such protection was provided for those who, trusting the banks, and relying on the integrity of the securities marketplace, purchased the securities being quietly dumped by the banks.

Some of our evidence comes from our review of minutes of the confidential deliberations of two committees.\* A small, closed circle of twenty-five men — representatives of the city and the financial community — were not only members of these committees, but served as the decision-makers for the banks and other financial institutions concerned with the crisis...

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\*The Comptroller’s Debt Management Committee and the so-called “Patterson Committee,” an offshoot of the Debt Management Committee, and named for its chairman, Ellmore C. Patterson, Chairman of the Board of Morgan Guarantee Trust Co. Minutes of the Debt Management Committee are available; discussions of the Patterson Committee can be reconstructed from recollections and individual notes.

It was this conflict between private obligation and public responsibility which created the banks' dilemma and hastened the collapse of the city's securities market. From the records we have seen, and from what we have learned, it is clear that many banks decided to secretly sell their city securities as the *only* viable option for them, a statement which will be detailed later in this report. The banks bailed out in three ways:

(1) They sold extraordinary amounts of municipal securities from their own portfolios; we do not have information about how they handled the portfolios of their trust accounts;

(2) They did not replace matured out municipal securities, a reversal of their previous practices; and

(3) They sold, for the first time, new and older city securities to non-institutional and non-professional investors without disclosing the risk they foresaw.

The banks third step is the focus of my testimony today. Precisely, the banks sold New York City securities to small, individual investors and they did so without disclosing their inside information as to the City's fiscal condition.

In October, 1974 the underwriting banking syndicate, led by the Chase Manhattan Bank, could not market all of the issue's \$475 million in bonds, causing substantial losses of having the securities recorded at their market value as contrasted to their offering price. This signaled the collapse of the market, although the banks, of necessity, continued to assist the city in raising capital, but at increasing rates of interest...

In fact, from the records of the Chase Bank, it is clear that some banks had already begun to act on this and other related information. In the November 20, 1974 minutes of Chase's Dealers Planning Committee was the statement carrying out the earlier decision of their Portfolio Strategy Committee. We are, he revealed, "continuing to sell New York City obligations at every opportunity." The strategy decision called for sales even if a loss was sustained.

If the banks had decided to sell and there was no ready market with other institutions, where could they turn? The answer is found in the suggestion by the Comptroller at the November 12 meeting of the Debt Management Committee to dramatically reduce the denomination of city notes to \$10,000, to enable smaller investors to take advantage of the tax exemptions and high interest rates. The members of the Committee agreed this was a good

idea. Thus, the stage was set for sale of almost a half a billion dollars in ten thousand dollar notes to non-professional investors...

From testimony we have reviewed, it is clear investors turned to the banks as a matter of confidence and trust. They were convinced that the banks would tell them the truth, the whole truth and nothing but the truth. In one classic situation, a doctor, who had recently sold her cooperative apartment for \$100,000 went to a bank rather than her broker to invest the money. And what happened? She was sold securities the bank was unloading because of knowledge of the impending fiscal crisis. Yet the bank never disclosed this fact to her...

There is a classic irony in all this. Recently the court decreed the moratorium invalid instructing the city to repay a billion dollars to note holders, many of them small investors. The city turned to the banks for help. The banks responded in their righteous self interest by making hard management demands to control the flow of city revenues, an action the mayor and union investors believed would strip the city of its sovereignty. *Yet it is the banks who benefit most from this repayment.* Class actions are pending against the banks by note and bond holders which, if successful, would have required the banks to repay these monies on the grounds of misrepresentation at the time of sale. The city's repayment, once again, takes the banks off the hook.

Earlier the banks had been taken off one hook by permitting sales to non-professionals. Then came the moratorium and new institutions to guarantee that the banks would be repaid.

There is one consideration which cannot be overlooked, one with serious national and international consequences. Some of the banks were required to unload their portfolios because their poor investments in REITS, tankers and underdeveloped countries had placed them in a financially precarious position. Had they been forced to suffer the added book losses of default or moratorium, some may have been pulled across the line of stable institutions. What would have happened then? Not only to the nation, but to the world economy? In one sense, therefore, New Yorkers are paying the price of the banks' poor management policies. It ill behooves these institutions who have been living in glass houses to throw the first bricks at the city's management policies.

Mr. Chairman, we still do not know the full story. The banks are closeting important records...