

Rohatyn plots final solution for N.Y. City

by H. Graham Lowry

As New York City's economic collapse proceeds with the speed of an avalanche, it is just as swiftly being pushed to the brink of financial takeover by the state. The driving force is the same set of Wall Street investment bankers who have bled the city dry for decades, led by Felix Rohatyn of Lazard Frères. Still the chairman of Big MAC, the so-called Municipal Assistance Corp. created in 1975 to impose a stranglehold on city spending, Rohatyn is notorious for prescribing "pain and agony" as his fiscal "fix." With the city about to expire today as a result, he described the latest remedy as "extreme brutality," at a Big MAC board meeting on Feb. 6.

Caught between massive revenue losses and record cut-backs in state aid, the city now confronts a \$3 billion deficit for the coming year, according to Wall Street reckoning. That figure is nearly double the \$1.6 billion estimate presented by Mayor David Dinkins Jan. 17, when he ordered savage budget cuts including the elimination of 25,000 municipal jobs by the end of June 1992.

At the end of January, the projected deficit jumped by \$500 million, when New York Gov. Mario Cuomo eliminated that amount of revenue for the city as part of a \$4.5 billion budget cut for the state's next fiscal year, beginning April 1. Mayor Dinkins, under the gun of Wall Street's threat to lower the city's bond rating again, quickly presented a new austerity package totaling \$2.1 billion. City budget director Philip Michael announced Feb. 6, "We are already working on a plan that will accommodate the pain of about a \$500 million cut in state aid."

Scheme for financial dictatorship

At the Big MAC board meeting, Felix Rohatyn declared that New York City's worsening financial crisis could soon lead to a takeover of its finances by the state's Financial Control Board. Predicting a \$3 billion deficit for 1992, he warned that only "extreme brutality" could bring it into line. For starters, he mused, the measures required would include 30,000 more layoffs and \$1.5 billion in new taxes.

But Rohatyn also dusted off the same scheme he used to entrap the city into surrendering to financial dictatorship in the '70s. "At some point the tradeoff between balancing the

budget and the long-term social and economic harm may not make sense," he said. He then dangled the prospect that Big MAC could refinance the city's current interest payments on its bond debts over a number of years, to give it a one-shot infusion of several hundred million dollars next year.

That arrangement, however, "would have to be part of an overall city plan that involved the state," Rohatyn added. His master plan calls for legislation to extend the city's fiscal year past June 30, providing more time to impose the massive austerity envisioned, and force the municipal labor unions into a compact under the Financial Control Board and the bond rating agencies. Though the mayor's office initially rejected Rohatyn's suggestion, only one day later Dinkins said that, given the city's "very severe situation," stretching out the budget crisis might be the best alternative.

The city's final surrender is premised on Rohatyn's shutting off any further borrowing, while tax revenues continue to plunge far below any budget requirements. His plan to stretch out interest repayments would last only 18 to 24 months, with *no* extensions. By state law, the Financial Control Board may take over any time the city ends a fiscal year with a deficit over \$100 million. On Feb. 13, State Controller Edward Regan demanded a monthly accounting of the city's progress on reducing the \$2.1 billion deficit estimated by the mayor's office.

On Feb. 18, City Comptroller Elizabeth Holzman celebrated Washington's birthday by further pressing for the full pound of flesh, while announcing that her staff projects the city's revenues for fiscal 1992 at \$610 million less than the mayor has. "We think that most of the city's major revenue projections are overly optimistic," she declared. "It seems clear that difficult decisions will have to be made." She also charged that the city had underbudgeted expenses for the next 15 months by another \$300 million, particularly for debt service. Holzman put the overall deficit for 1992 at \$3.3 billion, thus lending official support for Rohatyn's figure.

Growing mood of revolt

There is clearly a growing mood of revolt against budget solutions which simply intensify the depression's effects on people's lives, especially among the suffering urban populations who will be most affected by massive cuts in human services. The mood is even reflected in Albany, the state capital, where the New York State legislature's Black and Hispanic Caucus issued a plan Feb. 17 to restore \$228 million in cuts for social services and \$108 million for education—and a total of \$500 million in all.

The caucus proposes to increase the upper-income tax rate by approximately 2%, as the centerpiece of a scheme to raise about \$2.8 billion in taxes on wealthier individuals and corporations. Attacking Cuomo's plan, State Assemblyman Arthur Eve (D-Buffalo) said, "This budget kills. This budget denies opportunities. This budget shatters hope. . . . We must tax those that can afford to be taxed."