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Beware Rohatyn Reminiscing: A Coast-to-Coast 'Big MAC'?

by Marcia Merry Baker

Felix Rohatyn—the Lazard Frères investment banker who grabbed dictatorial powers in New York City's 1975 financial crisis, drastically reduced its workforce, froze its unions' wages while grabbing their pension funds to buy city bonds, and imposed brutal austerity on the city's services—proposed such a financial dictatorship for the United States as a whole on April 15, writing "offshore" in the London *Financial Times.* Rohatyn's influence on the Democratic National Committee and Sen. John Kerry's economic policy makes the column—in which he joined Alan Greenspan in calling for cuts in Social Security, for example—the more ominous. He is proposing bankers' dictatorship at a time when cities throughout the Midwest and Northeast, and states elsewhere in the country, are so broke that they are losing control of their fiscal situation completely.

Rohatyn is also a leading operative of synarchist political networks (he is the current power behind the Democratic Leadership Council).

Pittsburgh is currently the most prominent of a slew of other cities, throughout Pennsylvania, the Midwest, and nationally, in which the economic erosion process has reached the point where even minimal government services are threatened with shutdown. The very impact of recent years of denial and budget-cutting is further compounding their economic breakdown. In January, Pittsburgh, facing a $40 million budget deficit, was declared a financially "distressed" city under Act 47 of a 1987 state law; dozens more Pennsylvania towns are facing the same designation. In Ohio, some 60 municipalities have come under a special 1980s classification of "fiscal emergency." In New York, Buffalo is under a state control board.

At present, Pittsburgh faces a line-up of experts preparing variations of the 1975 "Big MAC" austerity plan imposed on New York City, calling for massive services cuts and new kinds of taxes. Some of the scheming is a farce—for example, haggling over whether Pittsburgh should put a 31% or 50% tax on parking garage fees! Or whether or not to have a commuter tax. But what is dead serious, is that Pittsburgh, the former world steel center, has completely lost its economic base; its very population count is falling drastically. The problem is not a "budget" problem, but one of *the city's existence.*

Yet in the countdown to the April 27 Pennsylvania primary election for party Presidential contenders, both President Bush and Kerry have come to Pittsburgh, de facto endorsing a re-play of Big MAC, by either lying, ignoring the crisis, or babbling about "fiscal responsibility."

On April 19, Bush appeared in Pittsburgh with Sen. Arlen Specter (R), and said, "The steel industry is strong. Business investment is rising. Disposable income rising. Inflation is low and home ownership is at an historic high. The tax relief we passed is working." On April 17, Kerry spoke at a University of Pittsburgh rally, delivering his "New Democrat" message, that "fiscal responsibility" by government will save the day.

Both Bush and Kerry are deferring to the Rohatyn axioms: that in crisis, the interests of bankers holding city and state debt will be served, not those of populations or employees. The phony argument is that, if governments just downsize and make cuts, then budgets will balance and "creditworthiness" in the eyes of the financial markets will resume. That was bad enough in the 1970s; but in today's world financial breakdown crisis, it spells death for cities and citizens. Already, 25% of Pittsburgh's budget goes to annual debt payment, about $90 million a year. And many municipal goverments have backed into borrowing for operating—not for capital improvement—purposes, over recent years.

Lyndon LaRouche, on the ballot in Pennsylvania's Democratic Party Presidential primary April 27, directly warned against Rohatyn fascism. Speaking at events in the Capitol building in Harrisburg on March 29, LaRouche stressed the

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urgency of taking an "FDR-type approach" to the local, national, and even international crisis: Ice unpayable debt, rev up economic activity, and maintain and expand key government functions—public health, transportation, medical care, water, power, etc.

Crisis Across the Midwest

Whatever the terminology—"financial distress," "fiscal emergency," or outright bankruptcy and receivership—the plight of Pittsburgh typifies the generalized pattern of local governments now at the end of the line, under the combined impact of a failing economy, loss of revenue, no funds for essential services, and—most important—lies and denial from Washington.

All the former steelmill towns outside Pittsburgh are in the same emergency condition. On April 7, the City Comptroller of McKeesport, the former U.S. Steel "tube city" on the Monongahela River southeast of Pittsburgh, said it does not have enough money to meet its payroll for the last three months of the fiscal year through June. Now also facing "Act 47 distress" status, McKeesport's revenues fell short of expenses last year by $680,000. The hole still exists, and City Comptroller Raymond Malinchak said the week of April 12 that McKeesport lacks even the minimum to pay for firefighters, police, and other basics. On April 14, in Glassport, a neighboring former mill town, Council vice president James Uziel said the town will be meeting with state officials on the possibility of filing for Act 47 distressed status. Nearby Clairton and Duquesne have done so.

The economic base of the former world-class steel center of Pittsburgh has been shut down over the recent decades of free trade, outsourcing, and speculation. U.S. Steel, Jones & Laughlin, and other famous-name mills, as well as smaller fabricating shops, have contracted drastically, or closed altogether. Pittsburgh lost 45% of its population between 1960 and 2000, from 604,332 people to 334,563, as heavy industry closed down or contracted throughout Allegheny County and Western Pennsylvania.

Overall, in just the past four years, the state of Pennsylvania has lost 16% of its manufacturing jobs, with some 135,900 eliminated from 1999-2003. The follow-on effects of this—loss of related jobs—has devastated large areas. For example,

Lazard: Cut Entitlements, Cut Everything

Felix Rohatyn—Lazard Frères investment banker, Democratic Party power broker, who was chairman of New York's draconian Municipal Assistance Corporation ('Big MAC') in the 1970s, wrote the column excerpted here in the London Financial Times *on April 15, entitled, "America: Like New York in the 1970s, But Worse."*

America's out-of-control Federal budget deficit, rapidly growing domestic and foreign debt, and off-the-books social security and Medicare liabilities look eerily similar to the fiscal situation that faced New York nearly 30 years ago. The crisis came to the city in May 1975 when the markets shut down on the city's bonds, as they were inevitably bound to do. The U.S. and the dollar could face an equivalent financial crisis for similar reasons. The difference is that none of the elements that enabled New York to overcome the crisis is available. . . .

So far, the willingness of the central banks of China, South-east Asia, Japan, and Europe to finance U.S. deficits has allowed the administration of George W. Bush and the Federal Reserve to pursue a policy of cheap money, low taxes, large deficits and reliance on a speculative stock market and property bubble to create economic growth. This may not last forever, and either the willingness of the foreign central banks to carry U.S. debt—or their capacity to do so—could be impaired. Some time before that moment is reached, the markets would begin to react: the dollar could fall further precipitously, interest rates would shoot up, and we would have to deal with a national crisis, which could develop into a global crisis. . . .

Many of the U.S.'s financial leaders believe there is only a low risk of this happening. But the deterioration in U.S. public sector finances has been accompanied by an equally sharp deterioration in the private sector. Alan Greenspan, chairman of the Federal Reserve, said recently that the huge rise in consumer debt in America posed no risk, as it had been matched by a rise in the value of property and stock portfolios. However, those are just the circumstances that brought about the speculative bubble of the late 1990s and the stock market collapse that followed. The U.S., at that time, was in a much stronger financial condition than it is in today. America was running huge budget surpluses instead of the current deficits; its sovereign debt was declining instead of soaring; the currency was strengthening not weakening.

To pre-empt a financial crisis, bi-partisanship, fairness and transparency will have to return to national politics. There will have to be agreement on a multi-annual plan to cut the budget deficit to a manageable level; to reform entitlement programmes; to increase national savings, reducing dependence on foreign capital; and to improve energy conservation to reduce U.S. reliance on foreign natural resources. There is little reason for optimism that such a process will take place.

Earthlink is moving 400 call center jobs out of its Harrisburg facility (located in a former Olivetti-Underwood typewriter factory) to India and the Philippines. *U.S. News & World Report,* in its April 5 election coverage, focussed on the Pennsylvania job loss issue as the leading factor in the April 27 primary, and for next November. It singled out Central Pennsylvania as a traditionally Republican area which perhaps is so no more.

Midwestern cities are in the same boat: Knee-jerk budget-cutting and the search for "new" taxes persist. On April 12, while AFSCME union representatives demonstrated outside, Detroit Mayor Kwame Kilpatrick announced that his new budget (for 2004-05) will cut 640 jobs, including laying off 377 workers. Overall, the cuts will decrease the city workforce of 19,702 by 5%. Detroit had a $69 million deficit in 2002-03, and faces a $264 million shortfall for next year; it is $333 million in the red. In Indianapolis, city and county together face a $100 million shortfall for police, fire, and corrections in 2004-05—nearly 12% of their combined budgets.

In Buffalo, New York on April 15, City Finance Commissioner James B. Millroy released new estimates of the city budget gap, which could be as high as $50.6 million in the fiscal year starting July 1. Buffalo is already under the dictates of a state-appointed control board, which is advocating outright elimination of the Parks Department, the fire investigations and prevention programs of the Fire Department, etc. Trash-collection user fees are to go up 24%. William C. Travis, representing 1,500 blue-collar employees in the city, school district, and Municipal Housing Authority, said, "The control board is killing us. . . . They're destroying the city, but nobody wants to challenge them."

Two groups are now at work on master plans to make massive cuts in Pittsburgh municipal functions and increase taxes. On April 14, the state Department of Economic and Community Development signed contracts with two companies, the Pittsburgh-based law firm Eckert Seamans Cherin & Mellott, and the Philadelphia-based Public Financial Management, Inc. (PFM), to produce a plan within 90 days on cuts and new taxes. PFM is the largest such urban "restructuring" firm in the nation, specializing in imposing austerity for "creditworthiness." It has intervened in hundreds of localities, and consulted on the disastrous Financial Control Board wrecking of Washington, D.C.

In tandem with this "Act 47 distress" process, in February the Pennsylvania Legislature passed authorization for its own oversight board for Pittsburgh. On April 12, a 21-page preliminary report on Pittsburgh's plight was issued by a new Intergovernmental Cooperation Authority (ICA), appointed by Gov. Ed Rendell. This group is also working on proposed cuts and new taxes.

Apart from the proposals for Pittsburgh, the latest general buzzword among these circling buzzards, is "metro-merger," referring to the idea that bankrupt cities and counties should merge their health, parks, law enforcement, and other functions. The purpose is to implement *downsizing of the combined services and staff.* In Buffalo, for example, Erie County Executive Giambra is calling for a "New Greater Buffalo" of merged operations with the city, given that, he says, their traditional structures are no longer viable.

Target: Tax and Squeeze Hospitals

Among the most brutal proposals for new revenue in Pittsburgh, is taxes on hospitals—a recourse now being pushed by the Big MAC-type urban de-structuring experts nationwide. The report of the Rendell-appointed ICA for Pittsburgh, discussed this in Rohatyn-jargon. The report noted that, "The current tax structure is antiquated and counterproductive"; and, in the case of hospitals, universities, and other institutions, "It is essential for the nonprofit community to participate in a meaningful way to the overall recovery of the city"—meaning paying property taxes or other assessments.

This kind of tax-the-hospitals proposal is right now being contested in the national "paradigm city," Washington, D.C. In the District of Columbia in 2001, a Rohatyn-type Financial Control Board forced the closure of D.C. General Hospital, a pre-eminent, full-service public institution, in operation since 1806, with close to 500 beds. Greater Southeast Hospital, supposed to "replace" D.C. General, is in bankruptcy and drastically shrunken. Now, a new proposal from the same crowd, is to impose new "health provider" taxes on the remaining hospitals. D.C. Mayor Anthony Williams has issued the threat, that if the D.C. Council and hospitals refuse to comply, he will drastically cut Medicaid payments to them. Representatives of the D.C. Hospital Association said April 18, in a letter to the editor of the *Washington Post,* "More than half the acute-care hospitals in the District operate in the red. The provider tax—about $25 million a year—will exacerbate that situation. For some D.C. hospitals, the tax could be the last straw."

In Pittsburgh, and throughout Pennsylvania, financial pressure has already forced a rapid reduction in the medical and public health delivery system in recent years. Over just the seven-year period 1994-2001, the number of licensed hospital beds per 1,000 people in Pennsylvania has dropped from 3.7 to 2.8. This is far below the standard of modern care spelled out in the 1946 Hill-Burton Act—the Hospital Survey and Construction Act, which built up medical infrastructure from the 1950s through the 1970s. Of Pennsylvania's 67 counties, 45 have fewer than three beds per 1,000 population; and 27 counties have fewer than two beds per thousand, as compared with 19 counties in the category in 1994.

In Pittsburgh, the ratio of beds-per-thousand appears to be higher—in Allegheny County, the level fell from 5.6 to 4.3 over 1994-2001. But like other metropolitan centers, Pittsburgh is home to many teaching and research facilities, serving an interstate, and international clientele. This is even more true in Philadelphia, home to the very first public hospital in the country. In either city, "hospital tax" looting would be fatal to patient care.