

N.Y.C. Defeated By End Of First Quarter?

D-day for Felix Rohatyn's operation to gut New York City's vital services looms March 31, the expiration date of the transit and sanitation workers' contracts. As the *New York Times*, New York City Mayor Edward Koch, and Senate Banking Committee Chairman William Proxmire play their roles in the scenario, saner prodevelopment voices have been raised in the last week.

There are two levels at which the game is being played. Clearly Koch and his master, Lazard Freres' Rohatyn, want a budget cut of between one half to one billion dollars to protect the sagging Big MAC bonds, now at 85, but it is possible that Proxmire's end game is to drive the City straight into bankruptcy and enforce a major "reorganization" reaching into the entire U.S. credit System, possibly including William Miller's plan for credit allocation.

Giving notice of new budget cuts which will be directed at the two largest chunks of New York expenditures — hospitals and schools — Koch threatened to abolish the Civil Service system, and offered a Hobson's choice to city employees: no pay raises or 1,000 layoffs for every \$16 million in pay raises. The immediate target is the transit and sanitation workers, whose contract expiration precedes the Koch budget message by two weeks. A provoked strike, along the lines of former Mayor John Lindsay's 1966 New Year's Day strike, would be an excellent destabilization operation to force the cuts, but the real knifing will be in health and education.

Laying the basis for closing of several and possibly all city-run hospitals, once part of the finest public health system in the world, are the moves to "bring medical care to the poor." In the last two weeks, 100,000 of New York's poorest families have been given Hospital Insurance Plan coverage, which, despite the name, pays only physicians and laboratory fees. The Department of Health, Education, and Welfare is sending teams of doctors into the ghettos to establish "community-based" medicine along the lines of John Kennedy's Health Maintenance Organizations.

Simultaneously, complaints of insufficient teachers in the city's school system have been responded to by the Rupert Murdoch-run *New York Post* with demands that teacher tests be made less stringent. The City University, the largest such system in the world, is also being eyed for drastic trimming.

The possibility of a transit or sanitation strike was made explicit by *New York Daily News* columnist James Wieghart who, in a Jan. 27 column, demanded the "military occupation" of the City in the event of fiscal labor "chaos".

Municipal worker's union head Victor Gotbaum, whose union, the American Federation of State, County, and Municipal Employees, includes most of the city's hospital workers, will offer no resistance. In the words of one think-tanker dealing with city affairs, "He'll do all he can to get the unions to go along, despite his noises. He's just going to have to take it."

Meanwhile Koch has made a personal pilgrimage to Jimmy Carter to make it appear to New Yorkers that he's doing everything he can, but the tough guys are in Washington. The main "tough guy" is Senator William Proxmire, who has spurned Rohatyn's plan for a Federal guarantee for refinancing \$2.5 billions worth of New York City debt — at least so far. Proxmire's pitch is "Let's hear the pips squeak" and "I may change my mind."

Congressional conservatives are so befuddled by this operation that on Friday, Senator Howard H. Baker, Jr., Tennessee Republican leader, said sweetly, "I am sympathetic and want to do what I can; it's unthinkable to let New York go down the tube." He then proposed that what is done for New York should be done for every city.

Saner voices were heard in both the *Wall Street Journal* and the *Journal of Commerce*, in editorials appearing Feb. 1. Under the title "The Great Raid," the *Wall Street Journal's* editorial commends New York State Comptroller Arthur Levitt's refusal to yield to the "siege" against \$9 billion in state pension funds. The *Journal* specifically targetted Proxmire and Treasury Secretary Blumenthal as the raiders.

But the *Journal of Commerce* simply told the truth of the matter. The looting operations against New York, called "government restrictions" by the journal, had created "enormous costs and discomforts" for the Metropolitan area's productive enterprises, which "drives out a productive population and discourages business." The *Journal of Commerce* accused Koch of a "flight from reality" for refusing to "view the region that they are part of as an economic entity" of which the Port is the key to future growth.

The question now is what political muscle exists behind such otherwise true sentiments. What combination of labor, commerce, banking and industry will champion a high-technology export program, and infrastructural development around the New York Port, as the sine qua non of regional industrial expansion? And then will this pro-development political force take on the Koch-Rohatyn-Proxmire dismantling of New York City before March 31?

'New York's Attrition Game Is Over'

New York Times, Feb. 1

Future budgets, therefore, will be helped significantly only from the layoff of employees paid from the city's own funds...In sum, the city will be unable to balance its budget by attrition. Painful as it may be, Mr. Koch will have to determine which city services can be cut and which can be made to work with fewer people....

This is a poor time, of course, to talk about cutting payrolls; new contract talks lie ahead...The place to begin is with an explanation of where the advertised payroll savings will occur.

'Flight From Reality'

Journal of Commerce, Feb. 1

...What we're backing into here is New York City's flight from reality. It's not merely the accumulation of debt, which New York City's government rolled over again and again for years until the debt just wouldn't roll over any more in the capital markets. That's all been said.

It's New York City's current attitude, one that reflects the ingrown character of its leadership—even the mayor, it seems—that is of growing concern. New York seems to believe that someone else—the federal government, the state of New York and various pension funds, for example—should step in and save the city government from the latest insolvency threat...

We would advise New York City's elected officials—and we make a careful distinction here between those in government and those in private industry—to drop their ingrown ways, and to view the region they are part of as an economic entity...

More constructively, we would point out that cities are made by private individuals and institutions who gather and build for various reasons of gain. New York grew enormously because of the low cost of doing business here.

...It was only when government came along, imposing onerous and enormous costs and other discomforts to drive out a productive population and discourage businessmen that the city's economy went into a decline.

At that point its debt became unbearable and unacceptable to creditors, potential or other.

Reality demands that New York once again become a host, encouraging the private side of our society, thus enabling it to thrive.

'The Great Raid'

Wall Street Journal, Feb. 1

...Combined assets of state and local (pension) funds were recently estimated at \$110 billion. This is a tremendous temptation. As the trustees in New York have learned, the pressures for abuse are enormous...Egged on by Treasury Secretary Blumenthal and Sen. William Proxmire, New York City is laying siege to the funds, the last untapped state source for its desperate financing needs....

It is rough indeed to jeopardize the retirement benefits, and state workers can hardly be blamed if they don't feel they should run risks to keep New York City afloat....Moreover, New York is only the most extreme and massive example of a situation which could arise in any financially troubled jurisdiction in the country.

While this issue is of huge and enduring national moment, it comes to focus in New York's law voiding fiduciary responsibilities and in the political challenge to Mr. Levitt (the New York State Comptroller who has refused to buy city paper with state workers' pension funds—ed.). We hope that the courts, the voters, and opinion leaders in the city and the financial community see their duty as clearly as Mr. Levitt sees his.