14

The New York City Fiscal Crisis

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The New York City fiscal crisis which began in the mid-1970s is conventionally attributed to greedy bankers, corrupt politicians, selfish municipal unions, and malingering welfare recipients. Such explanations of social causation are essentially misleading. They personalize and, in so doing, seriously obscure the larger social processes at work. At the same time apportioning blame correctly helps focus policy options when the larger economic and national urban context is taken as given.

A careful look at the data shows New York City's municipal unions and its welfare population are not the "cause" of the city's problems. Compared with those in other large cities in the United States, their costs are not out of line. These costs appear sizable only against the background of severe overall economic downturn and a long-term loss of employment that is found not only in New York City but also in much of the Northeast, Mid-Atlantic, and industrial Midwest. The movement of capital, and thus of jobs, lies at the heart of the crisis of most older industrial cities. The attempt to transform New York City into the world corporate capital has imposed a higher cost structure on the city. Overextension of borrowing by shortsighted and opportunistic politicians was the immediate trigger to the crisis, but the extent of city borrowing itself cannot be explained away without full consideration of this restructuring process.

This continuing crisis was caused by decisions based on private profit calculations and the failure of society through the political process to place social needs ahead of the imperatives of the market. The present trend is not inevitable but results from forces that can be subjected to conscious democratic control.

Incorrect explanations are the rationale for centralization of decision-making and the seizure of power by the city's financial community, which has been instrumental in causing the crisis and has been administering its own solution. The "solution," however, is iatrogenic, the very cure creates the disease. When this is understood, far different cures are called for, and indeed the dismissal of the discredited "doctors" is demanded.

Beyond the individual actors lies a second level of cause-blame categories: social forces–for example, migration of capital, jobs, people, the way technological change in production and transportation impact on where and how economic activity take place, and of course the political and institutional contexts that mediate such shifts in the mode of production.

In contextualizing the New York City fiscal crisis in these terms, we are able to distinguish the key actors–individuals, interest groups, strata within the working class and the capitalist classes; and at the second level of analysis–social forces within our economic and political system.

The traditional "explanations" are dealt with first. Considering them in some detail is important because they are the rationales for present urban policies. Almost all analysts are now willing to admit that New York City's fiscal problem is rooted in the loss of jobs and the failure to generate sufficient new ones to employ the city's work force and support its municipal services.[1] The tasks are to explain the erosion of the city's economic base and to discuss the issue of whether New York is unique, and if not, as I shall argue, then why has the city's crisis been so dramatic?

FISCAL IRRESPONSIBILITY

To date the New York City fiscal crisis from the default of the Urban Development Corporation (UDC) in early 1975, as most analysts would do, is to define the crisis in terms of the specter of default. The temporary failure of the UDC, an agency of the state of New York, focused attention on the fiscal situation of other agencies and jurisdictions in the state. A review of New York City's debt structure led to a decision by the banks to stop purchasing New York City obligations and to sell many of the bonds they held.

With the problem defined as the insecurity of New York City's financial capacity, the solution to the crisis was to create new agencies which would creditably raise funds by offering satisfactory security to lenders. In the same manner, the state of New York attempted to prevent default by the city, which would mean the city would be unable to pay wage, welfare, and other obligations. Such an event could destroy for years to come the City's ability to borrow, with obvious implications for the state. Most elected officials in New York believed default had to be prevented at almost any cost. The Municipal Assistance Corporation (MAC) was consequently created in mid-1975, empowered by the state legislature to offer investors guarantees on repayment with secured tax revenues earmarked exclusively for the bonds MAC issued.

MAC soon proved inadequate. The next step was to create another governmental agency with more clout. In the Financial Emergency Act and the Emergency Moratorium Act, the former creating the Emergency Financial Control Board (EFCB), the latter mandating a stretch-out for repayment of existing debt, the state of New York acted to provide fiscal security for the city and financial guarantees to investors. The adoption of a financial plan subject to EFCB approval, review, audit, and EFCB control over the disbursement of city funds was seen as guaranteeing sound budgeting practices for the city that had chosen to be fiscally irresponsible. The EMCB, a tough watchdog agency with full powers to demand model behavior, would see to it that strict accounting principles were followed.

The powers of the EFCB amounted to control of the governance of New York City.[2] This was thought to be a good thing since the board could force city officials to impose the painful austerity which elected representatives would find unpopular and so difficult to carry out. Democracy was thus protected from itself by a healthy dose of authoritarian control. Stated in these terms, the city fiscal crisis was created, in terms used in wider context by Samuel Hunnington, from "an excess of democracy." This lesson (that politicians wishing to be popular will appropriate funds beyond responsible program levels unless discipline can be imposed) is the one Ronald Reagan drew from the history of twenty years of federal deficits. By the early eighties the national government was dismantling key elements of welfare state policy that had been in place for half a century. The New York City fiscal crisis and how its causes and solution were popularly understood initially played a part in gaining acceptance for the Reagan initiatives. In the mid-seventies, however, those favoring austerity in domestic social policy areas asserted that New York, unique among American cities, had spent more on wages for its municipal workers and welfare programs for its poor than other local government. It had practiced socialism in one city and had painfully learned the cost of good intentions, that the streets were not paved with gold. To judge this uniqueness requires a closer examination of the history of New York's fall.[3]

RETELLING THE STORY

In the late 1960s Dick Netzer, who later was to join the Municipal Assistance Corporation board, wrote of the city's fiscal problem: "The City on its own has a very limited ability to solve the problem. The City government must devise a program which will maximize the probability that the fiscal problem will in fact be solved from without, by higher levels of government" (p. 653). New York, like almost all older industrial cities, was suffering from no growth. Its aging physical plant housed a growing lower-income population. Job loss was a serious problem, and tax revenues lagged behind rising expenditure levels. Urban financial experts had come to the decision that "there are few, if any, untapped revenue sources of any quantitative consequence." Since taxes on New Yorkers were already "higher than elsewhere in the nation by wide margins," and since there were "few business activities indeed that would not substantially reduce their total tax liabilities by leaving New York City" (Netzer, pp. 673–74), increasing taxes seemed to make little sense. New York's higher personal tax levels also created incentives to individuals to migrate to suburbia. Unable to raise taxes further while refused more aid by the federal and state governments, city officials turned to chicanery.

In the spring of 1974, Mayor Abraham Beame presented the usual kind of city budget—one that mislabeled nearly three-quarters of a billion dollars in expenditures so that they could be construed as part of the capital budget. (The cost of constructing schools and bridges may be included in the capital budget and amortized bond issues; pencils, wages and other day-to-day expenses should go in the operating budget, paid out of current tax revenue.) Beame created a Stability Reserve Corporation to facilitate borrowing a half billion dollars to be repaid over the years. In an intricate juggling of books, he arranged the estimates of anticipated revenues, dates of tax collections, and expenditures so as to "balance the city's budget." In the previous year, the last Lindsay budget had done much the same. In it, $564 million of current expenditures had been placed into the capital budget (double the amount for the previous year). By postponing payment on previous debts, still new obligations could be and were contracted. The city budget was widely considered by those with even a casual acquaintance with such matters as nigh unto fraud.

Answering the charge before a Senate Committee that New York's fiscal crisis was "caused" by the irresponsible borrowing of irresponsible politicians, Mayor Beame excused his own actions by saying:

> I have long acknowledged that the City was resorting to undesirable budgeting practices to meet its responsibilities to the public—practices which have already been known to the underwriters. But, those sophisti-

> cated in city finances recognized that the borrowing and the gimmickry were the product of common consent of all concerned—by all political leaders—and by all levels of government, and with the full knowledge of the financial community, in recognition of the very special and enormous burdens which the City of New York must bear.
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> When I assumed office in January 1974, I publicly recommended programs to eliminate it. Yet, financial institutions which had provided the City with credit when they knew of this large gap have become reluctant to loan money in the very face of reforms and economies already underway. (U.S. Senate, p. 5)

The Mayor's statement is, I submit, essentially correct. The question then becomes: Why was such a course taken? And *did* everyone "co-operate"? The City's legal overborrowing required the state's approval. The person who extended this permission through his hold on the legislature was the New York State Governor Nelson Rockefeller. Under his aegis, the state itself went heavily into debt. To exceed constitutional borrowing limits, Mr. Rockefeller asked the help of a friend, a Wall Street lawyer and bond expert, later to become the law-and-order Attorney General indicted in the Watergate burglaries, John Mitchell. He invented the "moral-obligation bond," which allowed New York State to borrow beyond constitutional limits (and to avoid the possibility of rejection in a public referendum). The legality of these bonds—certainly their financial soundness—has been questioned by many, including the then Secretary of the Treasury William Simon, who, in refusing help to New York, said its own irresponsible borrowing was to blame. But when Simon was the ace bond salesperson for Salomon Brothers, he enthusiastically sold many of these very questionable debt instruments. These "innocents" very clearly knew what they were doing.

In the six-month period between October 1974 and March 1975, the city's large banks bailed out of the New York bond market, selling \$2.3 billion in city securities. Then, realizing that their loans in the past had overextended New York's obligations, they rushed to pull out fast, before others saw how serious the situation was becoming. In so doing, they pulled the rug out from under the city, which was attempting to roll over \$3 billion of its short-term debt. As one report recounts (Newfield and DuBrul, p. 11), "This sudden avalanche of New York City bonds and notes set off a panic among municipal investors. As a result, the City was barred from capital markets—perhaps for decades. New York City didn't jump; it was pushed."

The New York bankers sold heavily, dumping city obligations, and then claimed, after they themselves had saturated the market by unloading their portfolios, that the city could no longer borrow and that first

MAC and then EFCB needed to be created to run the city. Once the market for New York City's securities collapsed and interest rates rose to record levels, the banks returned to the market. This led many observers to blame the banks for the city's painful suffering, saying they caused the panic and then took control of the city to ensure they would profit from the solution of the crisis.

The bankers had chosen which loans they preferred to call in. They did not choose the least viable. To the bankers, it made sense to keep rolling over the billions upon billions in real estate loans. New York City's six largest banks held $3.6 billion in face-value loans backed by bankrupt condominiums, hotel developments, and unsold second-home and retirement villages. This $3.6 billion was far less secure in a real sense than the $1.7 billion these banks held in city securities. The city was an amateur in shoddy budgeting and gimmickry compared with the Real Estate Investment Trust entrepreneurs who pyramided loans and leveraged their accounts by four dollars for every dollar they may have had. Cases abound such as the one in which, in a declining market, an $8.5 million hotel is magically (and for a mere $50,000 fee) revalued at $26 million.

As President Ford was giving his "Drop Dead" speech (from the *Daily News* headline of October 30, 1975: "FORD TO CITY: DROP DEAD"), Chase Manhattan Mortgage and Realty Trust was negotiating with its forty-one creditor banks to reduce the interest on its more than three-quarter billion dollar debt–from 9.75 percent to 2 percent. But the banks did not scale down their loans to the city; indeed, they raised interest rates. By 1977, 20 percent of New York's budget went to interest payments–the largest and fastest-growing item. Bank self-interest imposed a suden chilling austerity on the city instead of the longer, gradual readjustment banks extended to other borrowers.

The key point is that the interests of the banks and those of most of the city's residents and workers were in sharp conflict. Indeed, the banks turned crisis to profitable advantage. Since the bankers have some influence on making the rules and the ways they are enforced, "suffering" has not been spread evenly. The key bankers' meetings to decide whether to extend the city credit were held in bank offices at 23 Wall Street, a building on which real estate taxes were reduced that year by a quarter of a million dollars. The Stock Exchange building's taxes were reduced by a similar amount (on top of other reductions the two previous years). When Dun and Bradstreet pondered the rating to be given the "irresponsible" city, they themselves pled poverty and obtained a $200,000 reduction in the property-tax assessment for their building at 99 Church Street.

Nearby stood the tax-exempt World Trade Center, which the Port Authority could build by dubbing it a "port facility." If the Trade Center were regarded as private, the city would have received about $50 million in property taxes in the mid-1970s. Instead, taxpayers were (1) paying interest to the banks for the money lent to build the structure, (2) paying its operating deficit, (3) paying higher taxes to the state, which are turned over to the World Trade Center for the high-cost office facilities, and (4) forcing the tax reductions granted to other office buildings with vacant space due to offices moving to the World Trade Center. The details of how David Rockefeller as head of the Lower Manhattan Association prevailed upon his brother, the then Governor Nelson Rockefeller, to appropriate the taxpayer's money in the four ways mentioned above would only be one small chapter in the story of how banks both cause fiscal problems and profit from their "resolution." The Trade Center example is not untypical of how the large banks and real estate interests use city government.

In periods of financial stress (there have been twenty such business cycles in the United States since the Civil War), restructuring is carried out by the largest banking houses and corporations at the expense of smaller firms and of workers, who have less bargaining power at the trough of the cycle. In the cities, this takes the form of an unwillingness of business to reinvest and the intensification of their search for new low-wage areas at home and abroad upon which to base the next period of growth. In the twentieth century, these cycles create a surplus work force in the older centers, and deprive the cities of the tax revenues needed to meet the cost of maintaining this swollen reserve army of now-redundant workers—workers who will be absorbed only at the peak of the cycle.

In the history of New York City, there have been many similar cycles. In an expanding economy, expenditures rise to meet the needs of citizens for services as well as the needs of politicians for patronage jobs, contractor's contributions, and votes at election time. Special-interest groups swarm, each trying to get as much of the sweet pork barrel as possible. In an economy prone to business cycles, optimistic projections of growth give way (after overexpansion in the upturn) to talk of the need for austerity and responsible government (Boss Tweed was elected to throw the rascals out). If the crisis is a severe one, a coalition of "good-government" activists backed by the banks, large real estate interests, and major downtown retailers may take a very direct role in guiding local politics. In the two most recent disaster periods—the Great Depression and the current period (the worst economic debacle since the 1930s)—bankers have directly assumed management of the city over the opposition of elected officials.

The extent of the economic upswing of the 1960s is a rare occurrence in U.S. history. The most recent parallel to it is the 1920s. In both of these decades of sustained expansion, New York City experienced a major boom in office construction. Each ended with a glutted market. In both instances, the city optimistically projected growth rates in a period of affluence, then became overextended and went into receivership. The 1935 Bankers Agreement abdicating power to the financiers was a less disguised transfer of power than the creation of the Emergency Financial Control Board.[4]

Unless the current New York City fiscal situation is seen in the historical context of cyclical crisis and structural transformation, the role of the bankers can be given too volunteerist a cast. While the names and faces change, the process is part of the normal working of our political economy. It is a systemic fault and that makes it difficult to really resolve crises brought about either by the normal business cycles or by the long waves of urban restructuring described by David Gordon earlier in this book. We need to combine an understanding of these larger economic forces with a keener awareness that solutions proposed are almost always class based.

The city's fiscal crisis has been about defaulting on the service needs of citizens to bail out the banks. The strategy has been accepted because it was accompanied by a shifting of blame to those who suffered most from the fiscal crisis, the municipal workers and the service recipients, especially the poor. The "solution" served those who profited most, the bankers, developers, and gentrifiers. Our first step in correcting widely held misconceptions of causation is to begin with the erroneous nature of this conventional scapegoating.

BLAMING THE VICTIM

The conventional explanations for the New York City fiscal crisis assert that excessive municipal wages and exorbitant welfare payments caused the increased tax squeeze; that the proper solution was to "bite the bullet" by reducing these expenditures. But does the hard data really proclaim the guilt of city workers and welfare recipients? The answer depends, of course, on how comparisons are made.

Arguing against assisting New York City, then Treasury Secretary William Simon said: "New York spends in excess of three times more per capita than any [other] city with a population over 1,000,000." He proffered a comparison that turns out to be exceedingly misleading: "Looking at the payroll, Census Bureau data shows that New York employs some 49 employees per 1,000 residents. The payrolls of most other major cities range from 30 to 35 employees per 1,000 inhabitants." The fault lies in Simon's comparing apples and oranges.

The U.S. Congressional Budget Office, a high-caliber non-partisan agency, made a serious effort to calculate comparative costs. It found that New York City has not spent far more. Many of the services that in New York are provided by the city government are in other cities provided by state, county, school-board, special-district, and other non-municipal jurisdictions. A truly comparable estimate must be based only on standard city functions: elementary and secondary education, roads, police, fire, sanitation, parks, and general and financial administration. In 1974, New York's actual per capita expenditure for all city functions was $1,224 a year, as compared with the highs of $858 for Boston and $806 for Baltimore, and with the lows of $248 for Los Angeles and $267 for Chicago. But when we compare standard city functions only, the figure for New York City is less than that for many large older cities (New York, $435; Boston, $441; Baltimore, $470; San Francisco, $448), and only slightly higher than that for Los Angeles ($408). From this view it is clear that New York's per capita expenditures were not out of line (p. 146).

When the same standard-functions adjustment is made for comparability with other older cities, we find that Philadelphia, Newark, and Baltimore each has more employees per capita. The Scott Commission study found that expenditures by the New York City government for "common municipal functions" during the pre-crisis period (1965–72), measured by both per capita level and growth rate, appear relatively "normal" (pp. III–ii).

Labor costs, a focus of growing concern in all cities, also do not appear "abnormal" in New York City as compared with these other cities. Both the rates of city government employees per city resident and the average level of wages appear well within the range experienced by most large cities (p. 37).

In another careful study of the data, Professor Charles Brecher concluded:

> Once allowance is made for the variations in functions, New York's rate of increase in expenditure is typical of large cities. Among the 10 largest cities, New York ranked seventh in rate of increase in per capita expenditures for functions common to all cities, and for those cities with responsibilities similar to New York's, there was little variation in rate of expenditure growth. (p. 3)

Between 1965 and 1972, 31 percent of the city's increased labor cost was due to increased work force, 46 percent to increased prices, and 23 percent represented higher real wages for city employees. Interestingly, with respect to increases in retirement costs, 33 percent was due to more workers covered, 50 percent to price increases, 4 percent to increases in contribution rates, and only 12 percent to real-wage increase. While city expenditures in this period had increased by over 150 percent, labor costs rose by about 90 percent and retirement costs even less. These were the years of the alleged "giveaways" (see Scott Commission).

The data on common municipal functions shows that between 1966 and 1973 average salaries fell in New York relative to other large cities. Percentage increase for New York over this period was ninth lowest out of the ten largest cities. After adjusting for cost of living, New York's workers ranked sixth out of the ten in 1973. New York was also not the most generous in pension benefits; fringe benefits are more difficult to compare, but it is doubtful that they made up for relative lower standing in basic pay. After 1975 New York City's workers' wages have increased at half the rate of inflation.

Similarly, while New York City's welfare levels are said to be "generous," in real terms they are lower than those of Chicago, Detroit, Philadelphia, and even Milwaukee. In February 1975, average monthly public-assistance payments per person in the city were $94 (hardly a munificent sum). The 973,000 persons receiving such payments constituted 12.6 percent of the population. New York City was far from having the highest incidence of welfare recipients. In Baltimore the proportion of the population on welfare was 16.8 percent, in St. Louis 16.4 percent, Boston 17.0 percent, Washington, D.C., 14.9 percent.

Of New York City's city and state welfare expenditures, two thirds are Medicaid payments to doctors, pharmacists, nursing homes, and hospitals—not cash payments to the poor. A proper investigation of where the welfare dollar goes, of who benefits from "welfare abuse," of who the "chiselers" are, would not focus on the poor. Almost 10 percent of the city's population receive Medicaid benefits, at an average cost per recipient of $2,000 per year. The city, with its disproportionate share of the metropolitan area's aged poor, pays one fourth of these staggering costs. Indeed, the fastest-growing cost in city government is not wages or welfare; it is the costs of Medicaid. Medicaid costs had risen by 25 percent each year between 1971 and 1976.

Furthermore most errors are not caused by client malfeasance. More recipients are harassed off welfare or have their cases closed by fiat than cheat the government. This is evidenced by the findings that half the appeals brought by recipients against city agency actions are accepted by the state, and that in another 30 percent of the cases appealed, the city concedes prior to decision. Clearly, thousands of recipients do not contest unfair decisions. Many do not know they can appeal, and others believe that they cannot "fight City Hall." In the early 1980s the New York solution to alleged fraud, waste, and abuse in the welfare system had been adopted by the Reagan Administration which cut billions of dollars from income transfer programs.

If, as we have demonstrated, New York City's wages and welfare were not seriously out of line with other large cities as critics charged, what accounted for the city's brush with insolvency? The most important real causes fall into two categories. The first is the erosion of the city's economic base. The loss of jobs and tax revenues was central. Second, the consequence of overextension of public debt and the dramatic 1974–75 business-cycle downturn left the city more vulnerable than other cities, also suffering a loss of jobs and tax revenues, that had not borrowed so heavily.

THE MATERIAL BASE OF THE CRISIS

New York City's loss of 542,000 jobs between 1969 and 1976 lies at the root of the city's fiscal crisis. In 1975 the rate of job loss was twice the average for the preceding seven-year period. The city lost 61,000 public-sector jobs in 1975, bringing the number of government employees to the lowest level since 1966. In addition, another 25,000 manufacturing jobs were lost. That was nothing new: close to half the jobs lost since 1969 had been in factory employment, making the factory work force nearly a third lower at the end of the period than at the beginning. These figures can also be compared with 1950–69, when the city lost an average of 11,000 factory jobs a year, and with 1969–75, when losses averaged 43,000 a year (U.S. Bureau of Labor Statistics).

Job loss is inevitably followed by tax-revenue loss. Economists at the Maxwell School, Syracuse University, estimated that the city lost from $651 to $1,035 in tax revenues, depending on wage level and job category, for each job lost. The city's Finance Administration estimates were lower but still sizable: the loss of a $6500 blue-collar job resulted in a loss in sales- and income-tax collection of $320 a year; a $10,500 clerical job, of $532; and a $15,500 professional job, of $950. If the half million jobs that disappeared between 1969 and 1975 were today providing income for New Yorkers, the city would be receiving $1.5 billion more in tax revenues.

The dramatic job loss is itself an effect, not a basic cause. The origin of the problem lies in the cyclical nature of our economy and in secular trends brought about by private and public decision structures, which minimize private costs and ignore externalities, specifically the social costs of development patterns. The results are, of course, felt not only in New York City. Geographic mobility of capital and privatized decision-making result in the growth and then the decay of cities and, increasingly, in their troubled older suburbs. It can be predicted that the same pattern will take place in the now-growing parts of the country, the so-called "Sunbelt" in the South and Southwest, in the decades to come.

NEW YORK IS NOT ALONE

New York City's problems are part of a larger trend. In almost all of the older manufacturing cities, the same problems are encountered. To avoid the burdens imposed by the decline in central cities that are occasioned by corporate investment policies, upper-income residents move to exclusive and excluding suburbs. Free choice in the private sector leads mobile capital to move to low-wage areas, leaving behind urban social problems requiring increased taxation from a dwindling tax base.

If, as headline writers suggested in the mid-1970s, the New York economy was crumbling, then the city was not going downhill alone. Between 1965 and 1972, while New York City lost nearly 16 percent of its jobs, Philadelphia lost 17 percent and New Orleans nearly 20 percent. The recessions of the mid-1970s and early 1980s had dire effects on most of the nation's older cities, particularly in New England and the Middle Atlantic regions. The economic epidemic has been characterized by a decline in the old manufacturing areas, and by growth in some parts of the Sunbelt and the Northwest. The decline in the quality of life in the older central cities is spreading to their suburbs; the rot of a deteriorating infrastructure and housing stock and the curtailment of public services are metastasizing.

The Advisory Commission on Intergovernmental Relations issued a report entitled "City Financial Emergencies" two years before the highly publicized fiscal crisis in New York. The commission had focused on the "incredible and seemingly insoluble array of financial difficulties" facing urban governments due to a wide spectrum of deep structural problems: outmoded capital facilities, inability to increase the tax base, and irreversible soaring demands of public services. Debt ceilings, taxpayer rebellion, and competition with other jurisdictions placed limits on the cities' ability to raise funds—despite the fact that the basic needs of the citizenry were not even then being adequately met. The "general inability to make the revenue sources stretch to fit the expenditures mandated by the state and demanded by the people" had reached, in the commission's view, emergency proportions (pp. 2–4).

In the cities of almost all of the older industrial states of the northern Midwest and Northeast, stringent cutbacks in municipal services were made. A national survey in 1975 by the Joint Economic Committee found state and local governments eliminating some 140,000 jobs, raising taxes by \$3.6 billion, cutting services by \$3.3 billion, and canceling or deferring some \$1 billion in construction projects. A similar study in 1980 showed service cuts in an overwhelming majority of U.S. cities. In the mid-1970s, even while New York filled the headlines other cities were in serious trouble.

In Chicago, Cook County Hospital had to borrow \$1.5 million every two weeks in order to meet its \$4 million payroll; in 1975, the County Board decreased the hospital allocation by \$8.8 million and, as a result, matching funds were lost. In Detroit, museums were open only on alternate weekends. Police were forced to take off two weeks without pay. When Detroit firemen refused a similar package, hundreds were laid off. Bumper stickers and billboards sprouted with pictures of Detroit burning, captioned "What if you had a fire and nobody came?" Small businessmen in the northwest, a middle-class part of the city, talked of seceding from Detroit on the grounds that the city has failed to meet its obligations to the community. Cleveland has actually defaulted on its outstanding bonds. It would be difficult to find a city in the Northeast or the industrial Midwest that is not experiencing serious financial problems and cutting service levels.

INDUSTRIAL DECLINE

New York was typical in another important way as well. When we look at the people who were working in New York City during the sixties, we find the number of commuters rising by 29 percent (150,000 jobs), and the proportion of city-resident workers falling by 5 percent (or 170,000 jobs). The commuters held the better jobs and earned more: in 1969, despite the higher cost of living, the average Manhattan worker living in New York City earned only \$6,719—half of what commuters earned (\$13,862 for Westchester residents working in Manhattan; \$13,642 for Rockland County; \$13,614 for Nassau). City residents were twice as likely to be service workers, operatives, and laborers; half as likely to be clerical, professional, technical, and managerial employees. Among blue-collar jobs, commuters were twice as likely to be craftsmen and foremen as operatives.

The job mix in the mid- to late-1960s translates increasingly into one labor market for the poor and another separate one for the better paid professionals. In 1968, over a fifth of all jobs in the city paid less than \$80 a week; at that time a wage of \$75 per week, 50 weeks a year, was at the poverty threshold for a family of four. The office-headquarters labor market for professional workers in finance, insurance, communications, law, advertising, and the nonprofit foundations was large and growing. Manhattan, which had only a quarter of the metropolitan area's employment, had close to half the jobs paying $25,000 or more.

With the decline in low-wage manufacturing and the need for more office workers with more substantial education, a large proportion of the students in New York City public schools were potentially unemployable in the local labor market. A study of the high school class of 1980 showed a dropout rate in New York City public schools approaching 50 percent. These youth could look forward to unemployment rates of nearly twice those of their peers who did graduate and almost three times the average unemployment rate. In 1981, the Bureau of Labor Statistics estimated that in New York City, of the 105,000 jobs opening each year through 1985, only 9000 would be open to high school dropouts.

Between the city's millions of unemployed welfare recipients and young people who were growing up to be unemployable in existing labor market conditions, social service costs on the one side and rising crime rates on the other led many to view the poor (of whom only a small proportion were criminals or welfare dependent) as the problem. The mismatch of jobs and jobless in New York gave rise to a new purpose in government policy: attempting to get rid of the poor and take away the better situated housing stock to reallocate to the workers who were needed by corporate New York. The emerging strategy of "planned shrinkage" calls for the dismantling of services to lower-income communities with the goal of pushing their residents out of the city. This is an integral part of the Emergency Financial Control Board's transformation strategy—get rid of the poor, break the power of the municipal unions, and reduce services, except to the business and upper-income areas.

PLANNED SHRINKAGE

Jay Forrester, a Massachusetts Institute of Technology professor, had used a computer-simulation "urban dynamics" model to work out the likely effect of various city policy options. The one that maximized a city's well-being called for tearing down poor people's homes. It is very simple. The computer coldly and logically spewed out its conclusion: if we destroy people's homes and they have nowhere to live in the city, they will have to leave. As a result, the average income of the city rises and the city's well-being increases. By concerning itself with the city instead of with its people, computers can come to such conclusions.

Not only computers but also flesh-and-blood people can and do think this way. A most important recent development in the New York City fiscal crisis has been the public surfacing of just such a policy formulation. Roger Starr, the City's Housing and Development Administrator in early February 1976, sent up a trial balloon. He suggested, as an alternative to continued across-the-board cuts in city services, that the city "thin out services" in certain slum areas: that the city close fire and police stations and curtail public education as a way of accelerating population decline. Such action would make whole areas of the city uninhabitable, and then the land could be bulldozed. By offering "inducements" for people to move elsewhere (hopefully out of the city?), the "city" could be saved. The acceleration of housing abandonment emerges as a major strategy proposed by some conservative thinkers for solving the city's crisis. "We should not encourage people to stay where their job possibilities are daily becoming more remote," Starr asserts (p. 104). The city governments appears to have followed this approach. Indeed even as basic services to low-income residents were cut, funds were directed toward subsidizing corporate interests on a lavish scale.

SUBSIDIZING THE AFFLUENT

In 1968, New York State began a program to help small manufacturers create jobs in low-income urban areas. In response to its fiscal crisis of the mid-to-late 1970s the state increased its aid under this program, the State Commerce Department's Job Incentive Board, by granting hundreds of millions of dollars in tax credits, usually without discussion, to businesses, most of which would have made their investments without the aid. Investigative journalists found among other instances:

> Alien & Company, investment bankers. The company got an estimated $1.3 million, 10-year tax benefit by moving from Wall Street to new, larger offices in midtown Manhattan. The state gave it credit for creating six jobs and "retaining" 114 others.
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> WKBW-TV, an ABC affiliate in Buffalo. It built a $2.5 million studio, added five new employees and retained 98 others. It got an estimated $1.7 million, 10-year credit. "I found out about the program after we started the project," said Philip R. Beuth, the general manager. "It had nothing to do with our going ahead." (Fleetwood and McFadden, p. B4)

Other beneficiaries included the Long Island newspaper *Newsday* ($16.2 million), Lehman Brothers ($3.4 million), Morgan Stanley ($5.6 million), Procter & Gamble ($14 million), and Hooker Chemical Company ($40 million). State officials acknowledged that many of the recipients did not appear to need the ten-year tax credits. (Pressure has mounted to cut such giveaway programs, but they are at this writing still in place.)

The Industrial and Commercial Incentive Board is a mayoral body whose task it is to encourage economic development in New York City. In theory it offers tax abatement to projects that would not be realized without such assistance. In point of fact the Board also hands out millions of dollars to some of the largest corporations and well-connected campaign contributors. Subsidies to developers typically go to projects in the Wall Street and midtown areas that would be completed without such gifts. The head of the Board is the Deputy Mayor for Economic Development, who comes to the city job from a vice presidency for urban affairs at one of the city's largest banks.

Other subsidy programs were earmarked to underwrite gentrification. Tax abatements were given to those who would buy up decaying housing stock (low-cost apartments for low-income people) and refurbish it for a more affluent clientele. In a study of Columbia University political scientist Gerald Finch, compiled for City Council President Carol Bellamy in 1981, it was estimated that if this housing program (the J-51 program) were to be continued in its existing form and development proceeded at its present pace, by the end of 1984 the city will have given away $2 billion in tax revenues by the end of the century. (Under the program, taxes on a rehabilitated building are frozen for up to 20 years.) There is a huge incentive involved, one that has prompted many unscrupulous landlords to illegally harass the lower income and elderly tenants who occupy convertible apartments. Such use of public funds has prompted New York's Terrence Cardinal Cooke, in a rare public intervention in New York's politics, to criticize the J-51 program.

In cities where developers are anxious to put up major projects, it hardly seems necessary to pay them to do what they already see profit in doing. Indeed progressive city governments have learned to require certain benefits from the developers to defray costs to the taxpayer that a development may impose. For example, in Santa Monica, California, where a leftist coaliation is in power, a 1981 agreement with the Greenwood developers for 312,000 square feet of commercial office space included provisions calling for:

> 30 units of "very low, low, and moderate-income housing" to be ready within 18 months of completion of the office space, housing to be provided by the developer for 40 years or the life of the project (whichever is longer). The developer was also required to provide 1500 square feet of community room space, a free day-care center for apartment tenants' and office workers' young children, an affirmative action hiring program for construction workers, and a public park. (Lindorff, p. 20)

In New York City where a continuing mid-Manhattan building boom threatens to add 25 percent more workers (according to some projections) to the already overcrowded midtown area, burdening rush-hour commuting still further, Dave Lindorff asks:

> If the Santa Monica approach were taken, this picture would change. Clearly mid-Manhattan is a goldmine for office tower developers. What if the city were to demand housing in return for each profitable office they wanted to erect? A 1.3 million-square-foot tower like the Citicorp Building would require provision of 130 low-income housing units within walking distance if the same ratio were used as was applied to Greenwood Development.
>
> Of course, these are not magic numbers. If the relative attractiveness of mid-Manhattan were greater for developers than that of Santa Monica, even more housing, or funds for transit renewal and expansion, could be demanded. (p. 20)

In practice the rising tax dollars needed to pay for redevelopment impoverished the public sector further. The physical displacement of lower-income individuals makes them easier to ignore. As a group associated with the Indiana Christian Leadership Conference said in a careful study of Indianapolis:

> Initially, we must emphasize the misleading way in which the word revitalization is used by downtown development advocates. What they see under the heading turns out eventually to be the direct replacement of poor residents by new well-to-do residents. For us, a genuine revitalization can only by an improvement in the condition of existing residents. If there is to be any diversification, it should be limited to what can be done without uprooting current central-city residents. The integrity of the neighborhood should be preserved and enhanced, not undermined. (p. 43)

Tax policy, as Santa Monica has shown, can pursue such goals if local government is controlled by groups committed to progressive localism.

CONCLUSIONS

The difficulties engendered by changes in the economic base, as David Gordon has shown (essay two), place strains on older cities which cannot easily adjust to their new functional role. The New York City fiscal crisis is a reflection of true costs of transformations. This argument is to be made in a number of steps: *first,* it is shown that job loss has been the cause of the fiscal crisis; *second,* that the situation is as serious in many other older cities (except that because they have not borrowed as much, their crisis does not outwardly appear as dramatic), and that a larger process of regional stagnation in the old industrial heartland of the nation is advancing at an alarming rate; *third,* that the solutions being offered by most politicians and urban experts are inflicting still greater pain and demanding more sacrifice from the cities' poor and working class; *fourth,* the problems of older cities and regional strife are reflective of an underlying contradiction between the interests of our giant corporations and the nation's citizens, both in their role as taxpayers and as workers; and *fifth,* local governments can, as Santa Monica has, pursue a pro-people urban policy. (In the final essay in this book such an alternative is developed.)

The overextension of New York City borrowing has been described in great detail because the very people and interest groups which encouraged the borrowing controlled and profited from the austerity-restructuring policies that "solved" the city's fiscal crisis. As we look to the future more austerity will be demanded not only of New Yorkers but most urban residents. The mismatch of needs and resources insures this.

Continuing to "solve" New York City's fiscal crisis is relatively easy. Someone must continue to pay. If the poor, the unionized workers, and the poorer neighborhoods accept mammoth reductions of all kinds, the problem goes on being solved.

Under this solution, what is in store for the city? Not one set of sacrifices, but continuing severe cutbacks in service and a cycling downward into further decay are to be expected—to be ended only when "planned shrinkage" gets rid of enough of the poor, and unionization among municipal workers has been adequately beaten back.

American social scientists are fond of denying that there is such a thing as class struggle. In the case of the New York fiscal crisis, they speak in value-neutral terms of increasing efficiency. Politicians urge us all to pull together, share the burden, bite the bullet. The perspective offered in the present analysis suggests that class conflict in fact lies at the heart of the problem—it explains why the crisis exists, why those in power choose the scapegoats they do, why they seek to impose the "solutions" they do. The fiscal crisis is in fact a form of class struggle. Alternative answers that do not require the poor and the workers to bear the burden of the crisis must begin with an analysis that does not blame them for the existence of the crisis. The conventional analyses, when subjected to scrutiny, have been found to be incorrect, misleading. The simplest of class analyses is strongly suggestive of which forces are, in fact, to blame and of how to conceptualize alternative answers to the crisis.

We can trace the problem then—not to welfare and wages, corruption and overborrowing, but to the loss of jobs and taxable resources, to the workings of the profit motive and the political system that has solved our economic problems by creating even more severe ones.[5] The increased mobility of capital, along with its ability to plan on a global basis, undercuts the power of workers as individuals. To the extent that workers have access to institutional representation in unions and local governments, the possibility of defensive action there is also undercut. The effect of workers in one area having to compete for jobs with those in another, and of jurisdictions being able to encourage plant location through tax give-aways and free services, mean lower wages and higher tax levels for working people in all areas.

As things now stand, disastrously high levels of unemployment blight the U.S., especially its older industrial cities. The failure of the private sector to create jobs leads not to rational planning of full employment policies but to demands by the corporate sector to still more tax give-aways. Neither at the local level, as the New York experience has shown, or at the national level, as the Reagan Administration appears bent on proving, can such policies deal adequately with our problems. The real answer, then, is in the social control of investment.

The New York crisis will spread, not just to other older cities (it is there already), but also to newer ones and their more affluent suburbs. As the Gross National Product rises, we become poorer in our quality of life. Instead of helping to offset social costs through progressive social programs—in health, housing, mass transit, income maintenance, and job creation—a planned-shrinkage policy is being advocated. We Americans are asked to be realistic about what government can do, and told that we should not throw money at problems. It is time to discuss the alternative to perpetual deterioration. That alternative is the social control of investment, which of necessity would include planned full employment and price controls. The distribution of jobs and resources is already a political issue. The central question is whether it will be decided under democratic control by consumers and workers, or by corporations and their politician friends who claim there is little they can do to meet social needs.

NOTES

1. The conventional wisdom seems ever to lag behind changing reality. The best expert opinion of the early 1970s was that New York was alive and well, and that it really had no serious problems. Consider the following:

   "The City's funded debt has not been increasing at all rapidly in recent years, as debt repayment more or less matches new borrowing. If this policy persists, debt service costs will grow only slowly in the years immediately ahead. There is no reason to expect the policy to change, unless the capacity of city agencies to actually consume larger Capital Budget allocations improves rapidly; even so, until the market for municipal bonds eases substantially, it is improbable that any administration would feel comfortable about an aggressively expanded new borrowing program" (Netzer, in Fitch, 1970, pp. 664–65).

Of the commonly accepted proposition that "New York City's economy is shrinking, the facts do not support this view of the local labor market." Another "currently accepted proposition is that the unique role of New York City as a stronghold of corporate headquarters is being eroded and that it is only a matter of time before this trend will lead to the decline of the City's economy. Again, a look at the facts will help set the record straight" (Ginsburg, 1973, pp. 70–71).

"Predictions of rapid decay for New York's economy are likely to be proved wrong. The City's employment base grew substantially over the last decade and at a rate equivalent to that of most similarities. Although the manufacturing sector has declined somewhat, this is true of manufacturing relative to total employment in every large city" (1973) (Friedlander and Brecher, p. 28).

2. The seven voting members of the EFCB were: the governor of New York, who was to chair the group, the state and city comptrollers, the mayor, and three public members appointed by the governor with the advice and consent of the state senate. City officials could be outvoted should the need arise.

The areas of EFCB responsibility were determining and estimating revenues for the city, consulting with the city in preparing a fiscal plan, prescribing the form and information required from the city and exercising the authority to approve, disapprove, or modify the plan. Control extended to detailed review of operations and of all contracts prior to their implementation. The city not only had to submit a copy of any contract to the EFCB with an analysis but also a certification that the contract would be in accordance with the financial plan. Any city official failing to comply with an order from the EFCB was subject to administrative discipline including suspension from duty without pay or removal from office. The FEA also subjected any person who "knowingly or willfully violate[d]" an order from the EFCB to criminal charges.

3. Professor Terry W. Clark and associates of the University of Chicago have sought to put the New York fiscal crisis in perspective through a comparison with a representative sample of places of residence of the U.S. urban population. Leading newspapers popularized their contention that "population size is associated with many variables affecting fiscal matters but has minimal direct effect on fiscal strain" (p. 5). This may be a misleading generalization, since it is drawn from an analysis of a sample of fifty-one cities that range in population from 50,000 to only 750,000, with which New York City, Chicago, and Los Angeles are compared.

Thomas Muller, comparing U.S. cities with populations of half a million or more, comes to somewhat different conclusions. The choice of samples reflects an underlying difference in approach. The Clark study sees the crucial comparison to be the amount New York spends per capita compared with the average of American cities. In a competitive economy, in this view, the relevant comparison is the urban average, for given freedom of movement, the affluent will relocate to avoid taxation.

Muller, on the other hand, is interested in comparing the fiscal status of growing and declining larger cities. Interestingly, public spending per capita in U.S. cities, arranged by population size, does not increase markedly up to cities of a half million (see table reproduced below). This is of significance in comparing the findings of the two studies.

Expenditure for Common Services Per Capita for U.S. Cities by Population Size

City Size	Dollars per Capita
50,000 to 99,999	129
100,000 to 199,999	157
200,000 to 299,999	180
300,000 to 499,999	177
500,000 to 999,999	232
1,000,000+	283

Source: City Government Finances in 1972–73 (Washington, D.C.: Bureau of the Census, 1974).

Muller's conclusion (that declining large cities in the North and industrial Midwest are in trouble compared wtih "Sunbelt" cities) is in Clark's view oversimplified. "The stereotypes," Clark writes, "are false, or at least misleading" (p. 5). Clark's more limited sample, weighted as it is to smaller cities, does not find the trend Muller observes. However, the expanded sample, and the more representative one, does in fact show the "stereotype" view to be supported. The excellent statistical work of both studies forms the basis of very different policy emphases.

Most decision-makers and the general public are exposed to such scholarly studies only in the simplified form in which they appear in newspaper accounts. The public may reach opinions, and decision-makers may act on the views, formed in this manner. It is important to explain why these different results come about—in this case because of different sample cities used for comparison.

4. The press for the most part treated the transfer of power with awe and respect for the banks, generally praising their willingness to get involved. The takeover was greeted with editorial assurance by the *New York Times:*

"The intricate series of maneuvers, commitments, and legislative action through which New York City has been rescued from the disaster of default provides much needed reassurance of democratic society's capacity to overcome partisanship and selfish interest in the face of crisis."

The *Times* sees not disfranchisement, but a boom to democracy. It also characterized the teachers' strike to preserve past gains in working conditions as a "shameful desertion" by teachers of their classrooms—while the governor and Big MAC are praised for their stand in opposition.

The only New York newspaper with any significant circulation to print a different position was the *Village Voice*. In its pages, Pete Hamill wrote of the banks:

"They managed their coup d'état with an extraordinary gift for the Big Con. They gave the impression that only New York was profligate, that only New York had trouble paying for its paper, that only New York was wasting money.

"The junta's bankers did not mention their own responsibilities in reducing New York to panhandler status: how they manipulated the huge office building boom of the '60s that has left us with 32 million empty feet of office space; redlined marginal neighborhoods that could have been saved with an infusion of private capital; recklessly shot craps in the stock market;

and exported New York capital to distant parts of the United States and the world.

"The central tactic of the Big Con is to place the blame elsewhere. The bankers have placed the blame for their own bottomless greed on New York. It is like the mugger blaming the victim for not having money" (1975, p. 7).

5. The inability of the U.S. capitalist economy to create full employment and the phenomenon of manufacturing leaving the industrial Northeast, on the one hand, and the militance of the working-class poor in the 1960s demanding humane levels of social-service benefits, on the other, set the terms of the urban fiscal crisis of the 1970s. The reformist achievements of the 1960s did not address the causes of the problem but rather sought to ameliorate conditions through expanded welfare measures. These benefits, while far from adequate, look relatively overgenerous in a period of economic crisis and retrenchment. The "right" to such services in a market economy can never be absolute, since it violates the very logic of the allocation process. Welfare in a market society is demeaning because it must be extended in a manner that does not interfere excessively with work incentives. It must perpetuate stratification and hierarchy by characterizing recipients not as victims of the economic system but as parasites on the social order. The demand for minimal income for the nonworking drives a wedge between them and overtaxed workers.

   Similarly, the demands of municipal workers are portrayed as coming at the expense of these same taxpayers. Price increases in the private sector, a far more important source of declining living standards, while disliked, are taken as inevitable. Further, the argument that unless profits are protected, "they" will not be able to create jobs for us, reflects an acceptance that the key decisions that affect our lives are beyond our control. The function of government may be to promote full employment, but the only acceptable way to do so is to bribe the corporations through higher profits. Textbook notions that ours is a pluralistic society in which contending interest groups vie for influence seem naive in the face of the power of capital.

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