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NEW YORK CITY AND THE URBAN FISCAL PREDICAMENT

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By J. Ward Wright

The midst of a crisis is a poor time to ascertain its dimensions. It will doubtlessly be a number of years before the complete facts in their proper proportions are set forth. Policy makers cannot afford the luxury of time available to scholars, and circumstances force decisions on the basis of the facts available. The failure of New York City in the bond market has created unprecedented interest in the fiscal plight of America's old, large, central cities. The attention is ten to twenty years overdue, and decisions must be reached.

It is not the intention of this paper to dissect the fiscal affairs of New York City. Such a report would clearly be large and complex, and, in any event, the raw data is not available to this writer. It is the intention of this paper to glean from the surfacing information those features and trends of the New York City financial situation which portend problems of national proportions for our old, central cities. It is the position of this report that most of the adversities with which New York has had to contend are common to others, and that the present predicament of our largest city is a clear harbinger of disaster unless there is forthcoming in the near future a national urban policy which places the fiscal circumstances of large, center cities in the perspective of the purposes they have come to serve for the nation at large. Because of this emphasis, the role of the national government in creating and helping to solve the crisis in New York is given special attention.

This subject will be discussed in three main parts:

I. The Crisis. An attempt will be made to identify the significant factors which have led to the city's failure in the bond market.

II. American Cities. An analysis will be made of those features of all old, central cities which have found their dramatic denouement in New York.

III. Solutions. Some of the recommended approaches by leading authorities will be reviewed, and an effort will be made to identify the general features any program must include.

Heavy reliance has had to be placed on the media for much of the information used herein. Where quantitative data is concerned, these are notoriously poor sources; however, every effort has been made to relate critical figures to other, more reliable sources for confirmation.

I. THE MAKING OF A FINANCIAL CRISIS

New York City's special problem with the bond market has made public factors which deserve public attention many years ago. Unfortunately, credit and cash flow problems are obscuring other serious financial problems which are of much more importance in the long run. Many cities have these serious problems even though they might not yet have had to go to the market or are not yet experiencing cash flow problems serious enough to attract attention. What these problems are (both in New York and elsewhere) are fairly clear and should be explored. They include basic
demographic shifts in populations, national economic trends, employee militancy, and the shifting premises on which national assistance has been provided over the years.

Overview. In November, 1965, the Temporary Commission on City Finances, City of New York, opened its Second Interim Report in the following manner:

New York City is approaching a fiscal crisis, stemming from nationwide social changes and aggravated by expediency in financing its growing municipal activities. Expenditures exceed revenues by a wide margin. Budgets have been met only by excessive reliance on reserves and borrowings. Yet the fundamental economic strength of the City is unquestioned and growing.¹

It is interesting that a "fiscal crisis" could be foreseen ten years ago in spite of the "economic strength of the City" which was "unquestioned." In fact, it was noted after this statement that "Mrs. Hoffman and Mr. Coleman view the financial situation as difficult but not approaching a crisis." They consider that this characterization belies the City's basic economic strength." In October, 1975, the New York Times would report that "the crisis began last winter when the city had difficulty obtaining the hundreds of millions of dollars it needed to borrow each month to meet expenses."² Clearly, the city's "excessively growing municipal activities" about which the Commission had warned had caught up with New York in spite of whatever "basic economic strength" it had.

Looking over the fiscal plight of "the old industrial cities," George E. Peterson of the Urban Institute reported in September, 1975, that the general situation was due to the following factors:

- Revenue-raising capacity impaired by slow economic growth,
- Local tax collections tied to a property tax base,
- Expenditures being "allowed" to rise at record rates,
- Reliance on intergovernmental assistance for most of the additional money required,
- The abrupt slowdown in intergovernmental aid in 1974 which forced these cities back upon their own resources,
- The decline of these local resources because of the recession.³

As will be seen, virtually all of these factors (with the exception of excessive reliance on the property tax base) have been present in New York City and help explain the nature of the immediate problem. However, the really important questions of causation are not answered by a diagnosis in this form.

Socio-Economic Problems. The fact that many of our older central cities are losing their middle-class population and having problems with their economy has become a truism. Consequently, these factors are too often taken for granted. But when considering the plight of New York and similar cities, we must look hard at just what has happened in this respect.

Peterson points out that "the most salient fact about central cities is that, on balance, people are moving out of them."⁴ He explains further that the rate of loss is increasing—between 1960 and 1970 central cities lost 345,000 per year through net out-migration and between 1970 and 1974 they lost 1,401,000 persons per year, or more than four times as much. In fact, Peterson says: "Cities such as Buffalo, Cleveland, Pittsburgh and St. Louis lost more than one-fifth of their total population in the 13 years, 1960-73." Looking at the results of these trends, Peterson observes that "the remaining population tends to become less well educated, have lower incomes, and be disproportionately non-white."⁵

These types of factors must be kept in mind while reading news stories about public expenditures and problems with the bond market. Characterizing New York City as "the nation's leading ghetto" when the magazine Challenge goes on to explain that "in 1970, 56 percent of New York's population lived below the deprivation level and 14.6 percent lived below the poverty level..." This is a situation not confined to New York City. In fact, as the Congressional Budget Office (hereafter referred to as the CBO) explains, when referring to the nation as a whole and north-central states: "These cities have been called upon to assimilate a new wave of rural migrants into the industrial economy just when the industries offering employment opportunities are shifting their bases of operation out of the cities."⁶

Pettengill and Uppal cite Hirsch to show that the main cause for the increases in per capita spending "has been the rising percentage of the poor and nonwhites in central cities."⁷ But this leaves the question of why they have migrated. The answers are not hard to find. For example, Fortune recently pointed out that in 1950, when the wave of rural migrants started moving toward New York and similar cities, an average family on welfare in Mississippi got $27.11 a month, while a similar family in San Juan received no assistance at all. In New York the average family could collect $101.41 a month in welfare payments."⁸ And it was not only the poor who were attracted. The CBO found that "between 1950 and 1970 the fraction of the city's population over 65 years of age has gone from 8.0 to 12.1."⁹ Thus, we find increasingly a trend in New York City toward a largely dependent population. In fact, during
the past 25 years, a massive displacement of populations has taken place. "Since 1950, the number of poor blacks and Hispanics living here has increased by two million while an equal number of middle-class whites has moved out."11

While New York City once could employ migrants from the rural areas, this situation has changed drastically. Citing trends since 1959, the New York Times notes that "the number of jobs here peaked at 3,644,000 in June, 1969, and then fell rapidly to 3,342,200 by this [1975] July, the lowest level since the job count began in January, 1950..."12 This is an astounding 500,000 jobs! It is hard to imagine any other city in the United States absorbing this type of economic setback and remaining economically viable. As will be shown, give the sensitivity of the City's revenues to local economic conditions, this loss was bound to have catastrophic implications for the city government.

Economic-Fiscal Relationships. Only 43 percent of New York City revenue came from the property tax in 1972-73 (compared to 62 percent for governments in other metropolitan areas). "New York City's revenue system is highly responsive to economic conditions because it relies heavily on cyclically sensitive sales and income taxes..."13 As a result, New York City was very vulnerable to the recession.

Various studies have been made to measure the impact of changes in employment and sales on the City's revenues. A study by New York City's own analysts shows the following types of jobs produce the indicated amounts of sales and income tax revenues:

- $6,500 blue-collar worker = $320
- $10,000 clerical worker = $532
- $17,500 entry-level professional = $950

A team from Syracuse University estimated from $651 to $1,035 in revenues from various types of jobs in New York City. On the basis of this data, the New York Times reports: "These and other estimates suggest that if the whole spectrum of revenues is considered, the city would be realizing $1.5 billion a year more if it had retained the 470,000 jobs that have been lost since 1969."14 These trends have placed New York City in the situation where despite a 9.3 percent increase in consumer prices in the year ending June 30, 1975, the volume of taxable sales in the city rose by only 1.7 percent.15

Not only are the losses of jobs in the private sector a drag on revenue, they also create pressures on the city to pick up the slack. In the Urban Institute report cited earlier, Peterson notes that "in many old cities, government has been virtually the sole source of new jobs over the last decade."16 For example, between 1970 and 1973, New York lost 7.2 percent of its jobs in the private sector and increased public employment by 8.4 percent. As Peterson explains: "It is difficult to reduce public employment wage levels, but the pressure to retain public sector jobs is doubly great when a city is suffering private-sector job loss..."17

Another expense attendant on job losses is the increased pressure on welfare rolls. In New York City, during the past 5 years, while the overall city budget has tripled, welfare costs have nearly quintupled.18 In addition, the city's share of Medicaid costs is now greater than what it pays for welfare.19

All of these circumstances converge to show a city laboring under the twin impacts of a population increasingly unable to support itself within the private sector and a revenue base constantly eroding. As will be shown, lagging federal aid has also combined with a recession to place unprecedented demands on the city government for services exactly when resources are at their lowest ebb.

Employee Demands. It is reported that nearly 60 percent of New York City's $12.3 billion budget goes to pay for its approximately 300,000 employees—a price tag of about $7.3 billion.20 Trends in salary increases alarmed the Temporary Commission on City Finances in 1965 when it found that city personnel costs had increased fivefold between 1945 and 1965, during which time these costs climbed from $415 million to $2.2 billion. "This growth reflected an increase of nearly 80 percent in the number of City employees and a tripling in average salaries and benefits per employee."21

The Temporary Commission also explained that this trend was not peculiar to New York City, and it expressed the belief that employment levels in 1965 were not out of line with those of other American cities. In addition, "city salaries are on balance no higher than those paid by private employers and by other public employers."22 Peterson too explains that from 1964 through 1974, "public sector wages first caught up with and then surpassed earnings in the private sector."23 He also emphasizes that the greatest gains in this respect were at the lower levels of skills.

Another major factor in the New York City financial situation, as will be explained in more detail subsequently, is the fact that salaries rose much higher in large cities during the 1960's than in smaller municipalities. For cities over a million in population, the increase was 117 percent as compared to 44 percent in the smallest cities.24 This increase is felt to be because of the strong and aggressive unions of civil service employees in the largest cities.

Among many observers of the urban scene, few things have been more alarming than public employee unions. In 1965, the Temporary Commission on City Finances expressed concern
that "wage and salary settlements from collective bargaining have become a quasi-budgetary procedure outside the established pattern of budget-making." The Commission felt it to be imperative that union settlements be more closely related to overall budgetary considerations. The report came late city officials were dealt what was probably their most devastating setback with respect to labor. On January 1, 1966, the transit workers struck. Admitting he knew little about labor negotiations, a new Mayor Lindsay struggled to contend with what were clearly demands of a new magnitude. However, as the magazine New York explains: "By the thirteenth day of the strike the public--tired, inconvenienced, their work and life patterns disrupted--was the party most ready to 'surrender.'" Finding in public impatience and intolerance a new ally, unions in New York City then began a string of almost uniform victories.

In no area of personnel costs have union victories been felt more strongly than with respect to pensions. The CBO feels that New York City "provides its employees with considerably more in the way of fringe benefits...than is offered the employees of other large cities." The New York Times agrees, explaining that "in addition to wages totaling $4.5 billion this year [1975], the city will spend another $2.8 billion on fringe benefits and pensions." By contrast, the fringe-pension package in private industry averages only 20 percent.

In the light of these trends, many have urged bankruptcy so that the City can renegotiate its pension arrangements; however, this will not be as easy as it looks. Article V, Section 7 of the Constitution of the State of New York is as follows:

After July first, nineteen hundred forty, membership in any pension or retirement system of the state or of a civil division thereof shall be a contractual relationship, the benefits of which shall not be diminished or impaired. (New. Adopted by Constitutional Convention, 1938 and approved by vote of the people, November 8, 1938.)

On the basis of this, the New York Times concludes that this means that nothing can be done about the half-pay pensions that almost all city workers are entitled to unless the Constitution is changed. Peterson too observes that "retirement payments will rise 8 to 9 percent per annum over the foreseeable future, no matter what the City does to reduce its current employment levels and wage rates." Federal Involvement. In all of this, the federal government was seldom an innocent bystander. The New York Times explains the federal role as follows:

Federal policies helped cause much of the City's welfare problem in the first place. When Federal farm subsidies made it economic for Southern farms to become larger and mechanized, black laborers moved off the land and many came here hoping for jobs. Likewise, Puerto Ricans came looking for work. As the Times adds: "Now the problem has been compounded by a national depression—which the city must look to national policies to cure." During all of this, the city finds one out of every eight citizens on welfare, and it must pay 30 percent of the welfare bill.

In looking at the demise of the South Bronx, one of the most devastated urban areas in the United States, Fortune says: "The virus that started the destruction of the South Bronx entered in 1943, when the federal government enacted the Emergency Price Control Act, which among other things froze rents at their March, 1943, levels." Once established, rent controls were retained by officials in a town where four times as many people rent as own their residences. As a result, as Fortune adds, "tenants came to regard low rents as a right, so New York politicians clung to local control, even after it became plain that the law was wrecking the entire city's stock of rental housing and undermining its tax base."

While these types of federal action laid much of the groundwork for what our large cities are today, later interventions based on the attractiveness of financial assistance laid the more immediate conditions for fiscal disaster. Peterson reports that between 1964 and 1974, two-thirds of all additional revenue to old, central cities was in the form of state and federal aid. In large part, these were the fruits of the Great Society programs and they strongly influenced the types of programs these cities undertook. As Peterson explains: "Studies of specific programs have confirmed that the subsidies written into federal grants in the 1960's were effective at directing local spending to areas where such grants and federal matching programs were most generous. City expenditures, in other words, responded to the inducements that had been deliberately created by federal programs." Federal aid to state and local government had grown from $7 billion in 1960 to $56 billion in 1975.

The high level of aid to cities over 1 million in population was the result largely of the rise in antipoverty measures during the sixties and the higher percentages of poor people in these cities. In the case of New York, the city came to anticipate that 40 to 45 percent of its budget would come from state and federal funds. In spite of this heavy reliance, however, as of 1970, the New York SMSA was still only the third highest in the nation in terms of state and federal aid as a percentage of total expenditures. For example, it received 43 percent as against the 52 percent received by Baltimore.
After 1973, a new period of funding began. Some feel that in hindsight we probably will come to see the period 1964-1973 as the peak period of federal municipal assistance. The rate of increase annually of federal aid to state and local governments has fallen from 29.1 percent in 1973 to 8.2 percent in 1974, and 6.1 percent in 1975. Richard Wade, the urban historian, is cited as saying Richard Nixon would be remembered as the President who "abandoned the notion of compensatory spending for our cities and instead switched to per capita aid, which favored the burgeoning suburbs." This led to the ridiculous situation where dozens of communities around the nation tried to figure out what to do with this new windfall while our huge central cities reeled under the added weight of reduced revenues with which to face increasingly urgent problems.

Clearly, general revenue sharing has been a designation of untold proportion to these cities. In fact, New York City received 20 percent less than the Treasury Department originally projected as its share. Washington's explanation was that recent population growth favored the suburbs over the old, static communities. The New York Times' editorial response to this was as follows:

This is a triumph of statistics over socioeconomic facts. The cities are in trouble because they are old and relatively static. Their capital equipment, suffering from age, is more costly to maintain and in need of replacement to suburban growth is largely the result of the influx of the more affluent population sector that leaves the cities. The urban population is therefore not only static but disproportionately poor. It is in need of more expensive services, the only hope of being liberated from the unproductive and costly condition of poverty.

Much more will be said about the federal role in delivering our old, central cities to their present state; however, the foregoing should serve to provide the groundwork for justifying a high degree of responsibility.

Politics and Financial Solvency. In his last budget message in 1965, Mayor Robert Wagner said:

I intend that we shall press ahead with the war on crime, the war on poverty, the war on narcotics addiction, the war on slums, the war on disease, and the war on civic ugliness. At roughly the same time this message was being written, the Temporary Commission on City Finances was hemoening the fact that the city had been resorting to "financial expediency" for a decade in which "various recurring expenditures, formerly in the expense budget, were met by borrowing." The Commission felt that these problems derived from "organizational weaknesses." In the decade that would follow, the city government would be extensively reorganized, programs for coordination and cost control would be installed, and a new generation of aggressive administrators would take over. Also during this period, short-term debt would increase from $376 million on June 30, 1965, to $5.7 billion in February, 1975.

In retrospect, it seems clear that the tendency to borrow and otherwise seek fiscal expediencies would be much more a matter of political philosophy than organizational weaknesses. As the CBO found, "in recent years it has proved difficult politically to reduce services in line with the city's declining relative fiscal ability to afford them or to raise taxes and fees." In fact, the city's expense budget in 1965 was not "truly balanced." Instead, "gimmicks" were used which "were tolerated or even suggested by state officials and were certainly not secrets to the banking community." An example of this tolerance stemmed from a state legislative act of April 3, 1964, which amended the State Local Finance Law (Section 11, Paragraph 62) to permit officials to use the capital budget to borrow money for current expenses. As a result of this provision, over the next ten years "a total of $2.4 billion in expense items was smuggled into the capital budget at an added cost of $250 million."

Even more important than this amendment with respect to the capital budget is the fact that the tax rate for operating purposes in New York is limited while its tax rate for debt service is unlimited. This led the Temporary Commission in 1965 to observe that these provisions "tended to induce the City to meet what expenses it could from borrowing rather than from current revenues." Thus, by 1975 alarm could be expressed over the fact that the city's debt service now cost $1.886 billion annually, "consuming 14 cents out of every expense dollar, or more than the city spends for police, fire, the City University, sanitation, and the environment combined."

Peterson explains that when external aid faltered, the city borrowed to meet its operating costs, "treating the debt it accumulated as if it were merely so much transfer assistance which never would have to be repaid." How this took place can be seen from the manner in which New York City funded its annual increases in revenue from 1964 through 1973, as compared to 1973 through 1975:

<table>
<thead>
<tr>
<th>Year</th>
<th>Local Revenue</th>
<th>State and Federal Aid</th>
<th>Net Annual Borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964-73</td>
<td>52%</td>
<td>6%</td>
<td>42%</td>
</tr>
<tr>
<td>1973-75</td>
<td>6%</td>
<td>8%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Less than one-fourth of increased needs could be met by local resources in a declining
economy. With external aid gone, the city turned to increased borrowing.

Mayor Tom Malone of Wilmington, Delaware, recently deplored the fact that "the federal government ends up forcing cities to become the employer of last resort. They pull back the money in two years and you've got to put the program under your budget system." Thus, a mayor like Robert Wagner, who is determined to meet the requirements on poverty, slums and other ills, will get resources where he can. Since the State of New York permitted such free use of indebtedness to meet all types of operating costs, logically this means it will be used.

David Grossman, a former New York City budget director, also observed that between June 30, 1973, and March, 1975, short-term borrowing began to escalate at an alarming rate. In those two years, short-term debt went up an astounding 138 percent. Grossman attributes this to a "political process that same city adopt two successive budgets in which the hard issue of budget balance was avoided."53

Unfortunately, these trends came to a culmination in a year which has proven to be an extremely heavy year for municipal borrowing. Not only have municipalities gone to the market, the requirements of the federal government have been quite heavy. Under these circumstances, an event which had special significance for a heavy borrower like New York City occurred on February 25, 1975. On that date, the Urban Development Corporation of the State of New York defaulted on $104.5 million in due notes for four weeks. Investors found that the state's "moral obligations" guaranteed nothing. Within days New York City was forced to accept a then astronomical 8.69 percent interest rate on $537 million of bond-anticipation notes - up from 7 percent two weeks before. Not many weeks later, the city would find no buyers at all.

In its 1965 report, the Temporary Commission on City Finances felt certain that the City can achieve the high credit standing which its basic wealth merits. Of course, this will also depend on its skill in communicating the intrinsic strength of its position to investors. Ten years later, both the city's "basic wealth" and its skill at communication were suspect.

Summing Up: Who Is At Fault? For reasons that will become increasingly clear, this report is not concerned with the "faults" of individuals. A wide variety of national, political and economic trends converged to place officials in our old, central cities in untenable positions. When a mayor can fulfill his own sense of responsibility to maintain basic life-support services only by fiscal chicanery, something is desperately wrong with the system. How can Americans insist on villains whenever anything goes wrong with our governments, and the media are quick to supply them. When looking at the New York City financial situation, the media has found an embarrassment of riches.

The process of finger-pointing found a logical point of absurdity in the October 27, 1975, edition of the magazine New York. Ken Auletta identified "Twenty Critical Decisions That Broke New York City." First, he was able to blame the federal government for the 1974 O.I. Bill (with its liberal housing loans provisions) for enabling city dwellers to build in the suburbs and the 1956 highway funds bill which enabled them to get there. Starting in 1960, the state government made pensions a matter for bargaining, permitted all types of borrowing arrangements, approved hundreds of millions in short-term notes for New York City, and laid the ground-work for the default of the Urban Development Corporation. Needless to say, from 1953 on a number of city officials played political games with public funds rather than face up to the hard decisions required to hold off unreasonable demands from public employees and otherwise cut back to balance the budget. Robert Moses built bridges and roads for more and more automobiles; Robert Wagner failed to install an authorized payroll tax, permitted unions in the city government, and "balanced" his budget with the use of $255.8 million in short-term notes. John Lindsey then added to pay the bill, "paid-off" the unions for their political support, and balanced his 1973 budget in a fraudulent manner. Finally, the people themselves were at fault by failing to pass the proposed 1967 Constitution which would have moved many heavy expenses to the state, and in 1968 they elected Richard Nixon to the Presidency.

Other writers have pointed up these and other mistakes. With respect to the federal government, the 1943 Emergency Price Control Act has already been mentioned. The impact of agricultural policies on small farmers also has been expressed in terms of a push for rural migration to the cities. The whole Great Society program developed for large central cities new configurations of social services which were very expensive and which raised the expectations of support from the poor (who increasingly were becoming the majorities of our central cities). Medicaid took the place of welfare as the biggest drain on New York City finances. Urban renewal had many adverse impacts on revenues and expenditures which are still being analyzed. Finally, revenue sharing, with its special support of suburban financial needs, pulled the rug from under a house of fiscal cards in the central cities which had depended for their support on the ever-increasing largesse of the federal government.

There is a certain logical problem with any process of attributing blame when it results in finding everyone at fault. When every key operation at every level of government who had a crack at the problem made the wrong decision, and when the people themselves exacerbated the problem, there is something wrong with the system. As will be seen from the
remaining sections of this report, that is exactly what is contended here.

II. THE FINANCIAL STATUS OF AMERICAN CITIES

Few people would argue that New York City is unique in this country in a way that makes it especially symbolic and significant. In its huge hospital system, its nearly tuition-free university, and its unparalleled transportation system, the city government provides services unlike any other American city. Because of these factors, it is difficult to compare New York with other cities; however, bases for comparison do exist. Beyond these unusual and exceptional services, New York provides the full range of municipal services which are common to cities (and, in some instances, counties) across the country. Its police, firemen, and social workers do much the same work as their counterparts in other large cities.

Unfortunately, as will be emphasized, the pattern of New York's expenditures, wage settlements, and revenue problems are similar to those of many other larger cities. The impact of federal policies and the national economy too has been felt in the large central cities in much the same way, because federal domestic policies have been applied uniformly throughout the nation. Those central cities that are not as dependent on the bond market as is New York may not yet have felt the same type of financial pressures; however, there are many signs that they may not be far behind.

This section examines selected cost and revenue factors which enable us to compare New York City with others in the United States. On the basis of these, some conclusions are reached concerning the extent to which we are faced with a crisis in national domestic policies.

Uniqueness: A Matter of Degree. It is difficult for many to believe that a city spending more than $12 billion annually is not unique in every way, but this uniqueness is largely a matter of sheer scale. For example, the CBO points out that the city has more debt "on a per capita basis" than other central cities. On the other hand (something apart from sheer size), New York City "has been the only major city that has chronically run a large current operating deficit in both the good and bad economic years."

Certainly, the city's borrowing needs, which include $2.0 billion in long-term securities and $6.0 billion in the short-term market, are unique. To most municipal administrators, these are truly staggering figures, and it is difficult to imagine how a city could reach the point financially where its dependence on the market is so heavy.

Citing a number of studies of urban problems, Pettengill and Upadhyay emphasize that there is "a clear association between high density of population and high spending per capita for most of the common functions, notably police and fire protec-

When it comes to density, New York City is in a class by itself. As of the 1970 census, the city had 26,252 residents per square mile. The next most dense cities, Chicago and Philadelphia, had 15,187 and 15,164 respectively.

The implications of density are far-reaching; however, other factors also add to a city's problems in this respect. A number of studies show the following features of cities are associated with a high crime rate: density, tourists, percentage of population of foreign birth, and percentage of non-white. Putting all of these together, it is easy to see why New York City must contend with problems of such magnitude that its operating costs are necessarily going to exceed those of other American cities (and virtually all state governments as well). In addition to these factors, however, in its city university, municipal hospital system, low- and middle-income housing, and public transportation network, New York provides services unique in scale and different in quality than most other major cities.

New York must also bear expenses for nationally-sponsored (and state-mandated) services to a degree not required elsewhere. New York State is one of only 21 states which still require their governments, notably counties, to contribute to the support of assistance to families with dependent children, and of these, the local share is highest in New York, where it is one-quarter of the total, or half of the non-federal, share. Consequently, the city's welfare-related expenditures are approximately $3.5 billion annually—about one-third of its current spending. Of this, the city must raise a billion from local resources.

All of these circumstances make New York unique in the most fundamental way: the multiplicity and complexity of its problems. However, few of these problems are not faced to a lesser degree by other large American cities.

The Larger the Costlier. Peterson reports that between 1950 and 1974, combined state and local spending increased half again as fast as the rate of growth of the entire economy, and the share of output of the economy by the non-federal public sector "climbed from 7.2 percent in 1951 to 14.7 percent in 1974." He adds that of the government, it has been the big cities that have witnessed the most rapid gains in expenditures. In fact, per capita city expenditures throughout the nation are rising in every functional area and far exceed the general rate of inflation.

It has been noted several times that it costs more to provide public services in our big cities. Not only does it cost more per capita, but the cost disadvantage has widened over time. This may seem strange in light of the fact that virtually all of the oldest central cities have lost population during
the past decade or so. For example, while New York City did gain 1.1 percent in population between 1960 and 1970, its costs increased by 225 percent; however, Washington lost 1.0 percent in population while its costs increased 238 percent, Baltimore lost 3.5 percent and costs increased 194 percent, Newark lost 5.6 percent and costs increased 319 percent, and Cincinnati lost 9.3 percent while increasing 197 percent in costs. Clearly, the pressures for rising costs are a problem shared by many of these large, central cities.

The evidence would make it appear that cost is largely a function of size. Bureau of Census data on city government finances for 1971-72 show that per capita police costs go up steadily, from $18.02 for cities under 50,000 to $64.57 for cities of one million or more. The cost is higher in each increment of larger population without exception. The Bureau's data show that between 1960 and 1972, increases in per capita city spending by function followed the same pattern from top to bottom without exception (though between increments, in a few instances, the next larger size group had lower increases than the preceding increment). In short, larger cities cost more per capita and their rate of increase is higher as they get bigger.

To add to this unfortunate picture, it is well recognized that the higher costs of big cities are not reflected in superior services. In terms of crime rates, school achievement scores, life expectancy and similar criteria,"big cities rank toward the bottom in comparison of the quality of urban public life." These data should give pause to those urban reformists who decry the multiplicity of municipalities in urban areas. Calls for "metro" governments, greater powers of annexation, and other moves for consolidation seldom consider the costs associated with governing as a municipal organization gets larger. Local governments are labor intensive, and such organizations seldom gain efficiency as they get larger (at least past a certain minimum size of something under 100,000 population, if the comparative cost data is to be believed). This is not necessarily an argument against "two-tier" government in which certain technology-intensive, area-wide services (e.g., trash incineration, environmental monitoring, sewage treatment) are consolidated; however, it is a warning that such moves must be analyzed with great care.

George Peterson maintains that size alone is not the problem. The real question is whether the large city is growing or declining, with the latter being much more costly to operate. By this definition, virtually all of the major cities in the nation are declining in Peterson's terms (Houston and Dallas being two exceptions), and it is with declining cities that this report is concerned. Looking at these cities with respect to common municipal functions, all the major declining cities (including New York) have 13 municipal workers per 1,000 residents. In addition, while the average monthly wage for common function workers is $1,095 for New York, it is $958 for 14 other large declining cities. This and similar data leads the CBO to observe that "according to most measures, New York's situation is far from the worst in the nation." Using an index of central city disadvantage, the CBO finds that Chicago, Newark (by a large margin), St. Louis, Baltimore, and a number of other cities are worse off than New York. For example, while 12.4 percent of the population is on welfare in New York, Boston has 16.9, Newark 14.4, Philadelphia 16.2, St. Louis 15.8, and Baltimore 15.6. Operating expenses of all governments providing common municipal functions on a per capita basis in 1972-73, New York cost $435, Boston $441, Newark $449, San Francisco $448, and Baltimore $470. Nor are salaries for public employees in New York the most onerous. The average salary for a police officer in New York in 1974 was $14,666. It was $15,833 in Los Angeles, $15,529 in San Francisco, and $15,636 in Detroit. The pattern is much the same for teachers and firemen. Only with respect to sanitation workers does New York clearly stand out.

Aside from the problems with the bond market, inflationary and other cost pressures are being felt all over the nation, especially in the largest cities. Recent news articles give details of extreme cost pressures in Chicago, San Francisco, Boston, Baltimore, Detroit and Atlanta. As Mayor Maynard Jackson of Atlanta said: "In a city which hasn't had to bimow a dime in operating expenses since 1937, in a city which is in a strong financial condition, we are feeling the severe impact of inflation." Mayor Jackson adds that the recession "is having a devastating effect on the people... Layoffs, increases in taxes, fines and similar fees, closed public facilities, and similar moves are all being cited as necessary steps by these cities.

Much of the loss of central cities has been the gain of their suburbs. For example, between 1965 and 1972, employment growth in New York City was 0.1 percent while in its suburbs it was 21.9 percent (excluding Newark and Jersey City). Corresponding data for other cities was as follows: Baltimore gained 3.6 percent, but its suburbs gained 32.1 percent; St. Louis lost 1.9 percent, while its suburbs gained 26.8 percent; Philadelphia lost 2.7 percent, as its suburbs gained 24.6 percent.

By way of summation, urban costs have climbed steeply everywhere in the nation, and fastest of all in the large central cities. In fact, bigness means high costs on almost any scale one chooses to use. Within this context, for comparable service costs, New York is in line with other large cities and far from the costliest on most counts.

The Cost of Public Employment--Pensions. It has already been stressed that the large cities have more employees per thousand
population and pay much higher wages for those they have. By almost any standard, New York City's labor force is neither the most excessive or costly in relation to size. For example, the city has one policeman (uniformed) for every 285 residents; by contrast, Chicago has one for every 241, Philadelphia one for every 227, Detroit one for every 249, Baltimore one for every 257, and Washington one for every 158. With respect to firefighters, New York's ratio is 1:648, Houston's 1:538, Baltimore's 1:440, Dallas' 1:581, Washington's 1:535, and Cleveland's 1:566. In terms of salaries for police, New York's range of $12,900-$16,470 is lower than Chicago (at the upper limit), Los Angeles, Philadelphia (at the lower limit), Detroit, and Cleveland (at the lower limit). The story is much the same for firemen.

It was pointed out earlier that it is in the area of pensions that New York is hit very hard. Indeed, few subjects seem to incur more wrath on the part of observers of the New York scene than the "rip off" achieved by unions with respect to pensions—or so the story goes. In New York, the city's pension contributions, which are now permitted to be 20 percent of the payroll, but there is a past unfunded liability of $6 billion. If this seems irresponsible, it should be noted that Pittsburgh, Boston, Indianapolis, and the State of Florida (and doubtlessly others) do not fund their pensions at all. Those jurisdictions have to cover current revenues. Dan McCull of the University of Pennsylvania is cited as saying: "As a group, public employee retirement systems are inadequately funded, poorly designed and subject to unsound political manipulation."

The New York City situation is complicated by the fact that the terms of retirement changed while the basic for actuarial funding did not. The actuarial assumptions date back to 1918, and on that basis the system was fairly sound until recent years. In 1968, as a result of changes in state laws permitting pension terms to be included in collective bargaining, employees were permitted to retire at half pay after 20 years, and the amount of the pension was based on their actual earnings in the last year of employment. This led to the highly publicized case of the $13,000-a-year bus driver who retired on an annual pension of $12,600 by working an average of 35 hours of overtime a week during his final year.

Municipal pension systems comprise a highly specialized and arcane field for which reliable information is notoriously lacking. Recent hikes in costs of the systems (e.g., between 1969 and 1972, Detroit's costs are reported to have jumped 100 percent and Philadelphia's 300 percent) would seem to indicate that the malaise is widespread. Whether New York is in a class by itself in this respect will require far greater study than can be undertaken here, but it is an area that deserves national concern.

The National Dimensions of Fiscal Problems. It should be clear that the brunt of the argument of this report is that our larger cities are much more in the same condition as the City of New York. In fact, virtually all municipalities are finding it difficult to make ends meet in the light of national economic trends and pressures on them to provide services and higher wages. For example, a study for the Joint Economic Committee of the Congress found "state and local revenues increasing at approximately the same rate as the GNP, an income elasticity of 1.0, but expenditures rising at a multiple of 1.6 or 1.7. Further, "between 1955 and 1972 cities found it necessary to raise 347 percent more revenue... and most of this $27 billion increase was raised internally."62 But this pattern was not uniform. Between 1960 and 1972, the average per capita revenue for all cities went up $264.67, but for cities with more than a million population the increase was $620.48. Perhaps more importantly, state and federal assistance provided all cities an average of $66.62 of this increase, but provided the largest cities $256.73.63 Cities in larger jurisdictions become much more dependent on state and federal assistance than their smaller compatriots.

The formula for general revenue sharing, as has been stressed, treated the major cities much less generously. "Boston, for example, suffered a 20 percent drop in federal aid between 1971 and 1975. The 'growing cities,' in contrast, were large net gainers from the switch to revenue sharing."84 In fact, overall, "from growth rates that had averaged 19 percent per annum for the previous decade, the growth in federal assistance in 1975 fell to 6 percent, despite record inflation.85 Given the dependence of the larger jurisdictions on federal aid, this obviously hit them hardest. The devastating effects on New York City have already been documented, but all cities are in the same boat in this respect.

These changes in the patterns of federal aid fly in the face of adverse trends in virtually all areas of the country for central cities. For example, "for the 72 largest SMSA's, 86 percent of the growth in non-white population during the sixties occurred in the central cities and only 14 percent in suburbs outside central cities areas."86 The percentage of people over age 65 went up 11 percent in CC's as compared with only 8 percent outside.86 It is generally felt that these types of problems have been the keenest in the northeastern United States; however, it is anticipated that the west and south will experience the same trends as they grow older.87 Recently some skepticism in this respect was expressed to the Wall Street Journal in the following terms: "Hell, it's no disaster out here if they default," one Kansas bond dealer acknowledged. 'We sell Kansas bonds to Kansas bankers, and they don't give a damn what New York City does.'88 To the extent that this represents a sizable portion of the
nation's attitude, we are probably that far away from the development of a realistic national urban policy.

In approaching the possibility of assistance, some, including President Ford, have expressed concern about what it does to our system of government. Logic would say that if a local jurisdiction undertakes a responsibility of the state or nation as a whole, the cost of that service should be borne by the state or national government rather than by local government.95 During the 1960's, the federal government did not hesitate to use local governments as instruments of public policy in the interest of coping with poverty, racism, and similar social ills. These programs became part of the patterns of services of many of our larger governments; and as federal policy moved toward other concerns, these cities were left with the continuing expectations of their dependent residents but little in the way of external assistance to meet them. For mayors like Wagner and Lindsay who placed the costs of social programs above the discipline of legitimate budget-balancing, the cost (in money and opprobrium) has been very high. Something is clearly wrong with national policy which makes the cost of balancing municipal budgets an exercise in weighing human misery.

III. AN APPROACH TO A SOLUTION

It is probably a mistake ever to think in terms of a "solution." Cities are, or should be, in the business of alleviating human suffering, and this is a process that will never be completed. Nonetheless, something must be done. Even within the political and legal limits prescribed and accepted, our larger central cities are not able to function effectively. No one is satisfied.

While New York's problem with the market has served to awaken many to the fiscal problems of cities, it has served to cloud issues other than how to avoid default. As this report has indicated, in many ways other cities are as bad, or worse, off than New York, yet their conditions are largely ignored because they have not had problems with short-term indebtedness. It is with these other conditions (i.e., non-market problems) in mind that possible approaches to the financial problems of our larger central cities are here considered.

Attention first will be focused on the most commonly recommended solution to the problem: massive cutbacks in municipal costs. The simple-minded analogies with household bookkeeping which are used at the very highest levels of government (e.g., "You can't spend what you don't have.") have created the illusion that firing public employees and reducing services is the clear answer to the crisis. That this overlooks certain problems in communities with a revenue base sensitive to the local economy will be explored.

A brief look will be given to the credit market; however, this is felt to be a subject quite apart from the main thrust of this report.

Finally, a number of authorities (individually or in groups) have set forth more comprehensive programs, both for New York City and large central cities in general. Some of these will be reviewed briefly in an effort to identify the national program required to meet these problems. It is, of course, far beyond the scope of this report, or the resources of this writer, to set forth a specific program in detail.

Cost Reductions: The Debits and the Credits. Pettengill and Uppal aptly point out that "...no pass judgments about other people's choices need to make very clear their own assumptions about rationality." Mayor Wagner's rationality was set forth succinctly in this extract from his last budget message in 1965: "I do not propose to permit our fiscal problems to set the limits of our commitments to meet the essential needs of the people of the city." As difficult as it may be for the budget-balancer to understand these sentiments, consideration of the hard, cold facts of life in our major cities should give one pause before criticizing.

As a major city grows, it develops a massive capital infrastructure in the form of roads, sewers, housing, and many other facilities. While the population may peak out and the city may start shrinking in size, that capital plant must still be maintained. And as it gets older, repairs (and the failure to make repairs) become more costly. For example, abandoned homes become targets for vandalism and crime, pose fire hazards, and in many cases must be razed at city expense. And as the population shrinks, the remaining taxpayers must bear a heavier per capita burden for this maintenance.92 In short, our old, huge, declining central cities are stuck with a huge capital plant which must be maintained. Failure to maintain it can only lead to even more expense in other ways.

The New York Times recently pointed out that "one thing is clear, though: In as much as New York's $12.3-billion budget, now out to $14.1-billion, is geared toward the poor, it is they who will suffer most." Even this slight cut, as the article goes on to explain, has had serious consequences. More than 3,000 policemen have been cut in the face of rising crime rates; fire companies have been closed in eight communities, with a resulting rise in response times; a drop of 1,434 positions in sanitation has reduced the frequency of collections; seven schools have been closed and 13 more are scheduled for closing, with resulting reductions in the quality of teaching and the discontinuance of many places of continuing education, and after-school and summer programs; the transit fare has been increased from 35 to 50 cents; one hospital has been closed, two others are scheduled to be shut, ambulance services have been reduced, and burn-treatment units are staffed at 50 percent of their former
complements. This and much more has been done to reduce a $12.3 billion budget to $12.1 billion! It does not take a high degree of sophistication to see the human price being paid in this effort.

When looking at New York City, it is estimated that 500,000 apartments and homes are substandard, and only about 6,000 new units can be authorized in 1975. The 18-hospital municipal system provides medical services for more than two million patients a year, "most of them poor or aged or both." These and similar data provide a justification for the following comments:

Then there are the needs of New York's poor, who cannot be asked to die in order to balance the budget. New Yorkers did not cause the recession which precipitated the crisis. That was managed in Washington.

The budget-balancer must face up to some hard facts of economic life. As Alfred Eisenpreis said to the New York Times, "There is no magic formula, no magic wand I can wave that is going to bring back all those jobs that have gone. New York is too big and too complex for simplistic solutions. We have to move ahead on a piecemeal basis." A "piecemeal basis" means understanding the implications of each step taken before it is taken. For example, the corrections system has been caught between budget cuts and federal court orders requiring more humane care of prisoners. The Commissioner of Corrections speculates "that by the end of the year you'll see the doors of the prisons open here in New York City and almost 1,000 inmates will have to walk out." The District Attorney of Manhattan too notes that these types of cutbacks will have a "marked impact" on the city's tax base. As he explains: "Crime, more than any other force, destroys the economic viability of the city. Crime and the fear of unsafe streets drive away businesses, drive away tourists and conventions."

But even if these conclusions can be regarded as "scare tactics" and highly speculative, there remains the question of what happens to the economy in a city when public jobs are cut. The New York Times explains it in this manner: "More than 15,000 jobs in private industry will disappear as a direct result of city budget reductions already imposed, according to projections by knowledgeable economists." This is the Keynesian "multiplier effect." On a national level, Professor Otto Eckstein of Harvard estimates that this results in 75 private employees losing their jobs for every 100 public counterparts. "But because some of the impact of the nearly 40,000 New York City cutbacks will fall on employees inside the city, Dr. Eckstein estimated that at least 15,000 employees in the city would be affected." On the other hand, Chinitz of Brown feels that "the ratio would be closer to 1-to-1, or more than 30,000." In a city where private jobs have decreased so drastically and the city has become the employer of last resort, the latter estimate does not seem too extreme. This situation faces those advocating drastic budget cuts with a dilemma. The sharp decline in the health of the local economy played a major role in the city's financial crisis. Drastic reductions in the work force will accelerate this decline in the private sector. This in turn will exacerbate the city's financial crisis.

Another major line of argument is that city taxes should be increased to balance the budget, and steps in this direction have recently been taken by the New York State Legislature. Space does not permit an analysis of the incidences of possible new tax packages; however, an observation by the CBO seems very much in order: "Cuts in employment and wage rates are likely to be unacceptable to the city's employees, while tax increases are likely to further erode the tax base. New York has managed to maintain a high level of public services only by running large deficits each year." It seems doubtful that any thinking person would argue that higher taxes will make New York more attractive to business and industry when it already has the highest taxes in the nation.

The Approach: A Coordinated Intergovernmental Effort. In 1965, the Temporary Commission on City Finances could list as the "strong factors in its credit picture" the following for New York City: the City's tremendous economic resources, its favorable property tax collection record, its modest general purpose debt, its rapid debt retirement schedule, and the constitutional provisions making debt service a first charge on revenues. Interestingly, every one of these factors continues to exist, and the city is nonetheless in the condition it is. The problem with the firm foundations of sound fiscal wisdom is that it simply ignores the dependence of the "credit picture" on a welter of socio-economic conditions in the city and nationwide economic trends. As the New York Times says: "It is not realistic to talk abstractly of local responsibility while cities grapple with problems of poverty and race and economics and migration that are not local in origin and cannot be in solution."

The editor of Challenge recently commented that "there is not a chance that New York will spontaneously recover from its deep, demoralizing slide into the lower depths." In his opinion, "the revival of New York City must be planned." However, the dimensions of this plan must consider the scope of the problem nationally and the complexities of the relationships between the cities and their state (and federal) governments.

The CBO provides Congress with a fairly broad, though sketchily presented, set of "policy alternatives." At the local level, those alternatives include local expenditure reductions, tax increases, adoption of sound fiscal practices, management reforms and
increased productivity. The implications of the first two of these have already been reviewed. Few can deny the desirability of "sound fiscal practices"; however, the real trick is how to achieve them when the fiscal pressures are such as those experienced by New York City. New York has been a leader in "management reforms" ever since they were recommended by the Temporary Commission in 1965, but they have served little purpose in the face of crushing economic developments. In any event, these types of recommendations serve little purpose under the circumstances.

The CBO poses for the state government the possibilities of increased direct aid, borrowing on behalf of the city, and assumption of the fiscal responsibility for some major city services. Little comment is needed in this report since New York State's finances are skating bankruptcy, it is having trouble borrowing for its own financial needs, and it can ill afford to take over any additional major services.

For the federal government, the CBO sees direct aid, direct loans, bond guarantees, bond insurance or reinsurance, and assumption of the fiscal responsibility for some major city services. Surely the answer lies somewhere within this mixture.

However, the federal role should not be one that is activated only when a major city is on the brink of disaster; it should be based on a rationale that recognizes the national character of these jurisdictions. The days are gone when these cities were the sites of our major industries and businesses, were comprised of heterogenous populations and income groups, and were the main source of the nation's commercial wealth. Rather than being the masters of their own fates, they are now the victims of a highly mobile population, federal domestic policies, and convulsive changes in the national economy. As a result, our large, central cities have become the caretakers of the poor, aged, and underprivileged—people that cannot afford to go elsewhere. Thus a federal hands-off policy that may have been appropriate 50 years ago (for the sake of argument) is completely inappropriate in the light of national domestic roles now played by many of these cities. When the full implications of these changes are set forth in a rational domestic policy, the amounts and types of assistance the federal government should provide will become much clearer.

FOOTNOTES

12. New York Times, October 15, 1975. The Times attributes this information to Herbert Blenstock, head of the Federal Bureau of Labor Statistics in New York. As will be seen, several authorities, such as Peterson and the CBO, have different figures for different time periods; however, on balance, this citation seems to be the most authentic and reliable. The Times itself cites this same figure on November 24, 1975, reducing the chance that a typographical error could be involved.
14. New York Times, October 15, 1975. Here the inconsistency in statistics concerning lost jobs is most blatant. In one article the figure of more than 500,000 is used in one place and 470,000 in another. However, the latter figure appears to have been taken from the cited Syracuse study, which undoubtedly was using different data sources, if not differing time periods.
17. Ibid., p. 12.
19. Ken Auletta, "Who's to Blame for the Fix We're In," New York, October 27, 1975, p. 34.
22. Ibid., p. 19.
27. Temporary Commission, Toward Fiscal Strength, p. 18.
29. Ibid.
37. Pettengill and Uppal, Can Cities Survive?, p. 73.
40. Pettengill and Uppal, Can Cities Survive?, p. 82.
41. Ibid., p. 82.
42. Auletta, "Who's to Blame," p. 33.
43. Temporary Commission, Toward Fiscal Strength, p. 5.
44. Ibid., p. 9.
48. Temporary Commission, Toward Fiscal Strength, p. 27.
51. Ibid.
58. Ibid., p. 6.
60. Ibid.
61. Ibid., p. 28.
63. Ibid.
64. Ibid., p. 13.
68. Pettengill and Uppal, Can Cities Survive?, p. 31.
69. Ibid., p. 27.
70. Ibid., p. 17.
72. Ibid., pp. 16-17.
73. Congressional Budget Office, New York, p. 15.
74. Ibid., pp. 16-17.
80. Ibid.
82. Pettengill and Uppal, Can Cities Survive?, p. 87,
citing a study by Mushkin, Lupe and Friedman undertaken for the Joint Economic Committee of Congress.
83. Ibid., p. 75.
85. Ibid.
86. Pettengill and Uppal, Can Cities Survive?, p. 80.
87. Ibid., p. 81.
90. Pettengill and Uppal, Can Cities Survive?, p. 86.