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U.S. Labor Party Campaign White Paper:

How Debt Destroyed New York City's Economy

On Oct. 28 Christine O'Connor, the U.S. Labor Party's candidate for Comptroller of New York City, presented the following campaign white paper on the causes of the city's financial plight. Speaking for the party's New York City slate, which also includes mayoral candidate Elijah Boyd and City Council President candidate Paul Gallagher, O'Connor said, "We bring this report forward now, in the final days of the campaign, to emphasize that the New York banks' murderous policy of looting through debt is not an issue confined to this city or to 'election-year politicking.' This policy question is the dividing line between the labor, industry, and allied forces that are fighting to save the entire U.S. economy, and the London and Wall Street-based bankers and other traitors who are trying to make the misery of New York just a foretaste of a national austerity regime whose severity will make the epithet 'fascist' seem polite."

SPECIAL REPORT

INTRODUCTION

"If Koch is elected, you will very likely see Big MAC as the financial control mechanism for the next 20 years. Up to now, regardless of who the mayor was or could have been, there have been only emergency, ad hoc fiscal arrangements. Now these will become permanent. That is, whoever runs the city — the mayor, comptroller, city council — will have nothing to do with credit dealings between the city and the rest of the country. Those who take care of credit will have to have a certain amount of oversight over things. No one will disagree with this because of the mess city government made of things before. Now there's going to be someone to guarantee that the city will maintain the rules of the game, and that will require an outsider. . . .

"The next mayor in any event will have a quiet meeting some time before next spring to discuss this, and in all likelihood Big MAC will wind up running the show. Rohatyn may have disagreements with everybody and everyone, but one thing about him you can't deny, he makes things go and he wins."

—An economist at a top New York think tank, Sept. 8, 1977

One thing that Felix Rohatyn is counting on winning is the New York mayoralty race. Rohatyn, a partner in the powerful British-tied Lazard Freres investment house and the financial wizard of the city's "Big MAC," is so sure that his chosen candidate and personal friend Ed Koch will win the mayoralty that his and Koch's mutual personal friend, British-Australian publisher Rupert Murdoch, has taken to calling Koch "the mayor apparent" in the pages of his *New York Post*. And with Koch in the mayor's office, Big MAC and "Felix the Fixer" will indeed be "running the show."

But while the "above-politics" financier is confident of success in the political realm, he is by any rational measure losing — and badly — in his proclaimed area of expertise. Since MAC, the Municipal Assistance Corporation with Rohatyn in the chairmanship, was imposed on New York to "save it from itself" through what Rohatyn bluntly called "necessary pain and agony," the city has been slashed into virtual Third World conditions of disease and devastation — and, as this report will show, it is in worse financial shape than ever!

Ever since, MAC, the Emergency Financial Control Board, and the rest of the "bankers' junta" arrangements were introduced in 1975, the press columns and airwaves have been littered with "explanations" from pundits of all sorts. "The city has to pay for its previous orgy of overspending," goes the refrain. "Gross fiscal mismanagement. Now what we need is the kind of strapping austerity that wouldn't have been necessary had the politicians instituted austerity to begin with years ago." The criminal excess of hospital beds, the princely incomes of welfare recipients and municipal workers, the greediness and "low productivity" of policemen and firemen are all offered as "the problem."

The colossal failure of the Rohatyn group's reign in New York ought to be enough to silence the purveyors of such contemptible hooey, even slow learner Ed Koch — and including those who are pumping for Rohatyn's "Encono" proposal for regional and national MACs and other variants of the same austerity theme.

For the city's fundamental problem has, from the beginning, been the fact that its actual wealth-generating economy was undercut years ago through national and international policies of disinvestment, to maintain the value of debt and other bankers' paper. The resulting downward spiral of speculation, inflation and economic depression on the city, state, and national level, lawfully drove down municipal revenues to a point where only an *increase* in the city's debt could stave off total collapse

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even momentarily. In short order, the growing debt assumed a life of its own, demanding more taxes and revenues from an ever-shrinking real economic base, gouging the capital budget, cutting deeper into services. It isn't the unions, or welfare, or "corruption," that is killing New York, it is debt — debt geared not to creating new wealth, but to cannibalizing existing wealth to maintain the paper value of the past.

No program of further cuts in the real productive base — austerity, whether sudden or stretched out — can do anything but exacerbate the debt problem. This report will demonstrate how Rohatyn's disastrous record in New York proves that point.

I. WHY NEW YORK CITY HAS A DEBT PROBLEM

To understand the fundamental cause of New York City's current debt burden, we must go back to the recession of 1957-58. Prior to this recession, the postwar U.S. economy had maintained a generally steady pace of growth in manufacturing and application of modern technologies. This was made possible by the hegemony of the Bretton Woods dollar in international trade, which meant that the large domestic and international debt contracted by the major banks and U.S. government during two world wars and the Depression could be underwritten and maintained on the basis of unusually high profit margins on relatively productive investments abroad.

The 1957-58 recession signaled the beginning of the end of the postwar boom, and of the Bretton Woods monetary system. Now the demands of modern technology required a qualitatively higher standard of living for, particularly, Europe's population — a standard which could be attained only through more U.S. investment in education, housing, and so forth, but which would prevent continually increasing subsidization of past debt.

With the installation of John F. Kennedy in the White House, the present path toward monetary and economic collapse was imposed on the United States. The heavy investments and deficit financing of unproductive "missile gap" military hardware and the Vietnam adventure sealed the fate of the postwar U.S. economy, ensuring purely speculative profits which would be ploughed back into maintenance and expansion of debt. These maneuvers culminated in the housing and office-building boom of the late 1960s and early 1970s and the creation of the offshore banking havens for uncontrolled Eurodollar speculation, in which domestic funds previously available for productive corporate investment increasingly fled into the hot air of "crap game" deals in currency and Third World debt.

For the U.S. economy, and specifically for New York City, this has meant a contraction of credit available for investment in basic infrastructure, capital goods, and wealth-producing "hard" commodities — and increased obsolescence of plant and equipment, a sharp growth in unemployement, spiralling inflation, and a concomitant drop in the tax base.

A. The Role of Real Estate Speculation

The number one cause of New York City's economic deterioration in the last 20 years has been exorbitant real estate speculation made possible through the complicity of financial institutions and city government. The office-building boom contributed enormously to inflating land values and driving up building costs, but the real villain has been pure speculation in already existing buildings and their property titles in land. The concomitant take-off in mortgage debt, as "hot money" poured into this spiral, has more than doubled noncontrolled residential and commercial rents in the city during this period.

Tens of thousands of working- and middle-class people have fled to the suburbs, replaced largely by low-income or indigent minority groupings who depend on welfare checks as cash subsidies for mortgage-induced inflated rents. Likewise, hundreds of thousands of businesses have folded in this period (see below). The combination means billions of tax dollars lost. Today there is well over $50 billion worth of mortgages on all buildings in New York City, which take at least $2.5 billion each year out of the economy in interest charges alone.

The New York real estate tax laws have provided real estate speculators — but not small homeowners — with innumerable windfalls which not only fuel speculation, but rob billions of dollars from the city treasury — the major factor in New York's budget deficits and resulting debt build-up. In fact, the real estate interests are diligently reducing their share of local taxes. In 1935 real estate taxes made up 84 percent of New York City's budget revenue; by 1976 they contributed only 27 percent. Since 1961, according to figures from the Annual Report of the Comptroller and the Temporary Commission on City Finances, real estate taxes as a percentage of local revenue have dropped from nearly 55 percent to less than 45 percent in 1976, and from nearly 42 percent of total expenditures in 1961 to less than 28 percent last year. During the same period, the percentage of delinquent real estate taxes shot from 4 to nearly 11 percent.

Paul Anderson, in *Tax Factors in Real Estate Operations*, alludes politely to the well-known porkbarrel character of this investment area:

> Real estate presents a number of important tax advantages that make it an extremely desirable investment for purposes of capital growth. The most important of these advantages are in the areas of depreciation, equity financing and tax-free exchanges. By a shrewd combination of these advantages, a personal estate may be built up more rapidly in real estate than in any other type of investment property...

New windfalls for investment in slum housing, as ecstatically described by syndicated columnist Sylvia Porter, are included in the 1969 tax law:

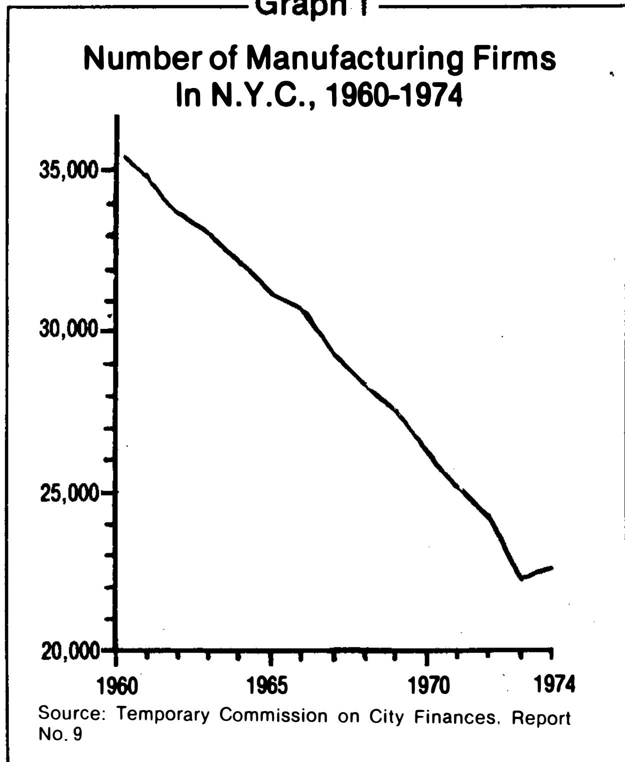
> There are unparalleled opportunities for profit awaiting you, the investor in low-cost housing in the 1970s — as a result of the meshing of the giant new housing and tax laws. In fact, "some of the hottest real estate breaks in history" are opening up and "the tax law has re-established real estate as a top payoff investment," says Eli Warach, a...nationally recognized authority on housing.

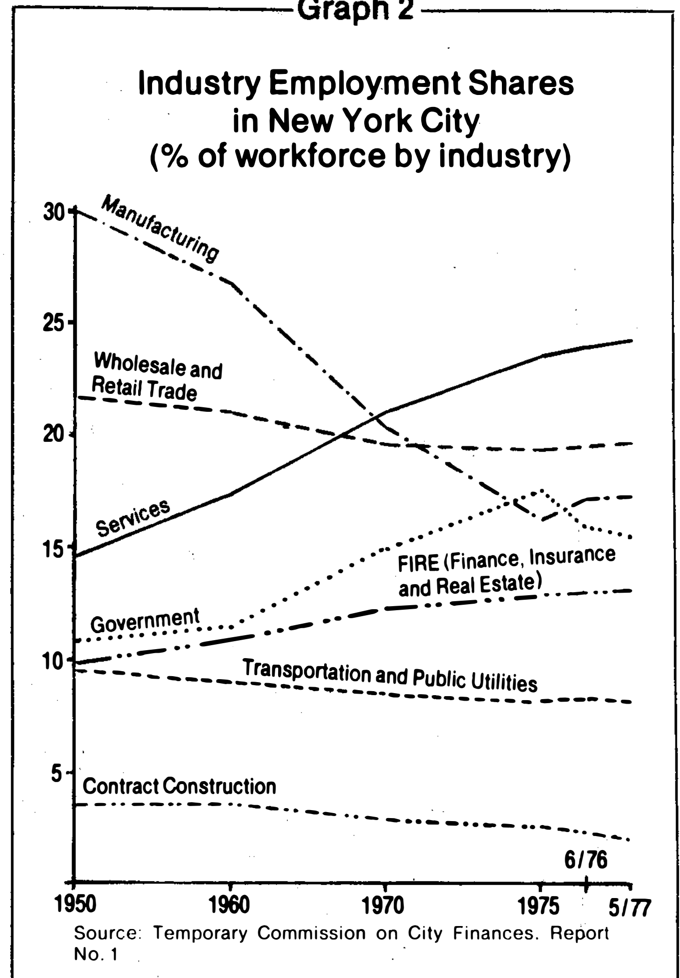
B. The Collapse of New York City's Economic Base

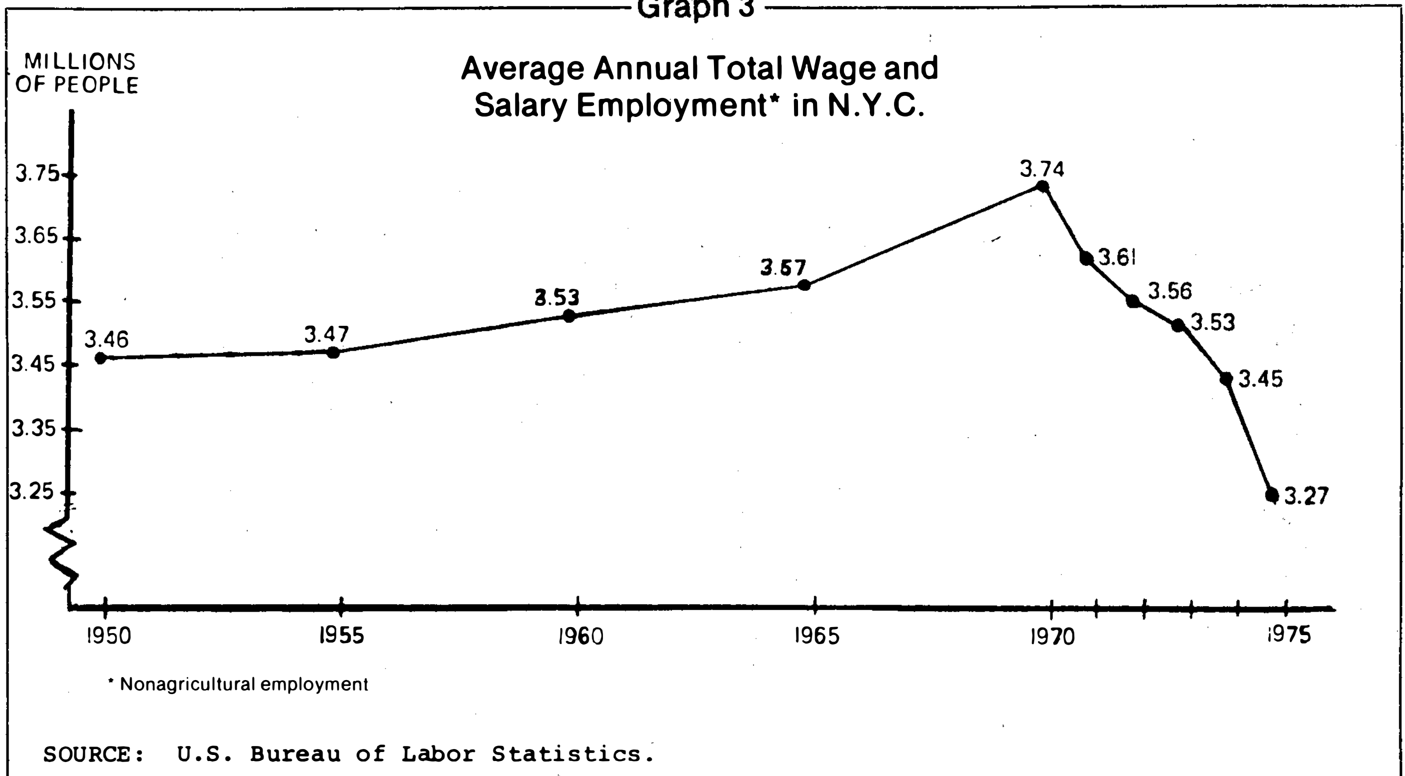
New York's productive base is characterized by the small shop. The overwhelming majority of its industrial and manufacturing firms employ 50 or fewer workers, in

outmoded facilities built around the turn of the century or even earlier. There is little margin to weather periods of tight money and inflation. The statistics readily verify this:

*Manufacturing jobs peaked at 1,065,000 in 1953. As of 1976, only 544,200 remained — a 50 percent drop in less than 25 years.

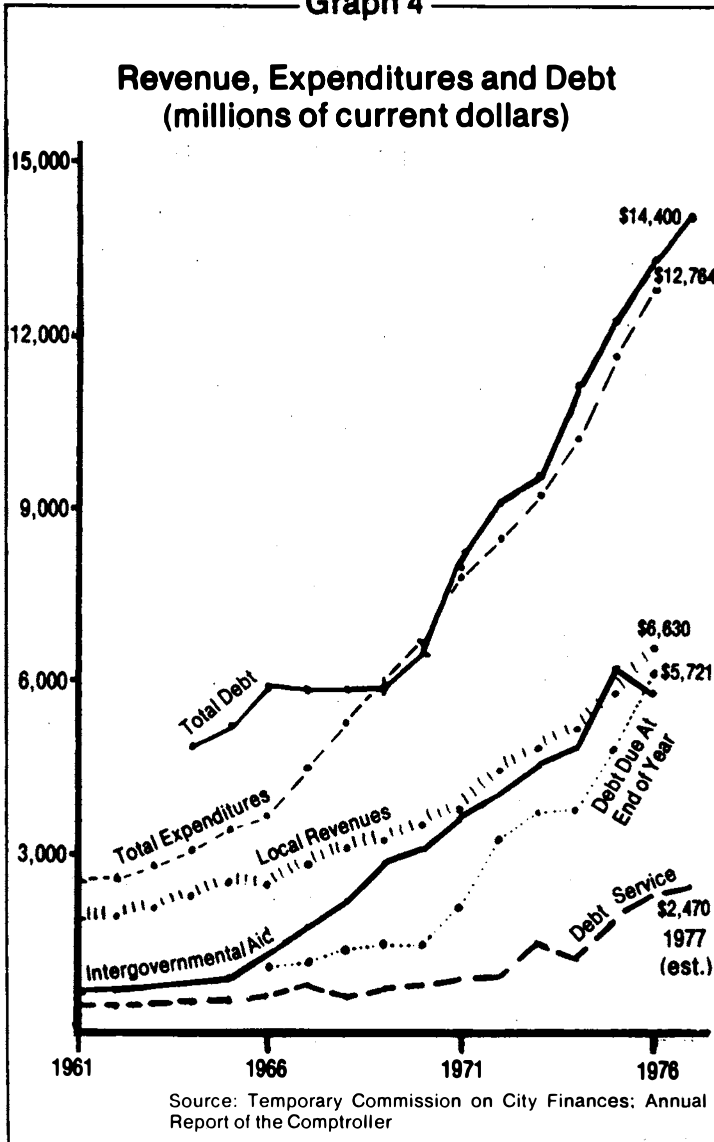






Graph 4

Revenue, Expenditures and Debt (millions of current dollars)



Source: Temporary Commission on City Finances; Annual Report of the Comptroller

Table 1

City Deficits, 1960-76
(in millions of dollars)

	City Budget Deficits	Cash Deficits
1960	+$53	
1961	— 31	
1962	— 75	
1963	— 36	
1964	—100	
1965	— 54	—$261
1966	—170	— 319
1967	— 1	— 106
1968	—258	— 181
1969	— 81	— 83
1970	—542	— 832*
1971	—779	—1298
1972	—618	— 942
1973	— 32	— 784
1974	—448	—1977
1975	—1,500**	— 773
1976	—985	—1168

* or 791. MAC annual report says 832, Comp. Rept says 791
** estimated

Source: U.S. Census Bureau, Annual Comptroller's Reports, Pt. I, Summary 1

*Nearly 40 percent of New York City manufacturing firms have folded since 1960. *(Graph 1)*

*In 1950, manufacturing jobs comprised 30 percent of all city jobs; as of 1977, the figure is only 17 percent.

*During the same period, the proportion of jobs in the wealth-producing categories of manufacturing, contract construction, transportation, and utilities, and wholesale and retail trade fell, while rising in the nonproductive sectors of government, services, and finance, insurance, and real estate. *(Graph 2)*

*Real wages for manufacturing employees are only at 1966 levels, as of 1975.

*According to a General Accounting Office report on New York City, private sector employment during the 1960s rose only 2 percent versus 27 percent in the U.S. as a whole. Manufacturing employment fell 19 percent in New York, while rising 7 percent throughout the U.S.

*Between 1969 and 1976, 285,000 private sector non-manufacturing jobs were lost, an average of 41,000 per year.

*From 1969-75, 289,000 manufacturing jobs were lost, an average of 48,000 per year. (*Graph 1*)

*After peaking at 3.74 million jobs in 1970, average annual employment in New York — for public and private sectors combined — fell nearly 600,000, to 3.16 million as of June, 1977 — an average drop of 85,000 jobs per year. *(Graph 3)*

This is a portrait of collapse. Under these conditions, local revenue in the 1960s and early 1970s could not have kept pace with even the normally increasing requirements of a healthy city budget, let alone the ever-heavier burden of the New York City debt. As *Graph 4* shows, the city's total debt has left its total expenditures far behind, and debt falling due is on the verge of exceeding local revenues. The debt has very nearly devoured the city. Note, too, that the overall annual rate of increase in local revenues has stagnated in terms of constant dollars at less than 5 percent, despite a series of tax increases and budget cutbacks. At the same time, the rate of increase in total budget expenditures up until the 1971-76 period is generally double that of local revenue, in current dollar terms. But in constant dollars, the rate of increase in expenditures outpaces local revenues by double or triple.

In large measure the discrepancy has been made up by even faster rates of increase of intergovernmental (state and federal) aid. A Temporary Commission on City Finances report of October 1976 shows that such aid rose from 23 percent of the city's total expenditures in 1961 to 52.2 percent in 1975, falling back somewhat to 46.6 percent in 1976 as the noose tightened on the city. In *constant dollars*, the aid over that 15 years increased 430 percent.

In the main, this aid has gone toward so-called social services — hospitals, welfare, and higher education — and accounts for the vast increases in these areas since 1960. In most cases intergovernmental contributions have been geared to matching funds formulae, whereby the federal and state governments match every local revenue dollar for these programs two or three times over.

Nevertheless, the city has run operating budget deficits every year since 1960 *(Table 1)* to the tune of nearly $9 billion over the past 12 years, according to Annual Reports of the Comptroller. Over $5 billion of this deficit, minimally, has resulted in accumulated debt, according to the U.S. Bureau of the Census. In this situation the city increasingly went to the bond market, floating more and more short-term debt issues and "borrowing" increasing amounts for the capital budget. This process accelerated until the markets were closed to the city in April 1975.

II. THE DEBT AND THE CLEARINGHOUSE BANKS. THE CASE OF MASS TRANSIT

One thing never mentioned (by any of the analysts) is the killing that the New York clearinghouse banks and investment houses have made on city debt, since the turn of the century. Apart from the considerable fees and commissions they garner on each debt issue, these institutions annually collect, on top of principle payments, about *50 percent of that principle in interest!*

The transit debt is a prime example — although only one of many — of how the banks have manipulated and consciously increased New York's debt to maintain a steady annual flow of city income into their coffers. On top of the sheer speculative swindle involved in the city's original subsidization and eventual ownership of the subway system — a ripoff geared to prevent default on the gargantuan debt owed by the transit companies to the banks — these same banks, who held most of the original subway debt, have had their original investments paid off many times over since 1910. Take 1975-76. The debt service paid over this 12-year span, $1.932 billion, equals the *current* amount of outstanding debt — and this is more than *double* the debt at the beginning of 1940, the year the city bought out the rolling junkpiles known as the IRT and BMT. (*Table 2*)

Transit debt over the last 30 years has comprised 25 to 35 percent of the city's total long-term debt. The Annual Reports of the Comptroller list the new bond issues "for transit construction." But as is obvious from the "Second Avenue subway," which has been financed and refinanced but never built, such moneys have in fact gone merely to augment the debt service payments going to the banks.

The city thus entered the 1960s with $1.5 billion in transit debt alone — a debt that had been paid many times over already, that cost $100 million annually, that gave the city the right to administer an unprofitable, obsolete transit system which gave horrible service while funneling poorly paid workers into a dwindling number of unproductive jobs. Any question of city mismanagement in the current crisis would, therefore, have to address those financial institutions which created the preconditions for the crisis.

Table 2

Transit Debt and Debt Service
(in millions of dollars)

Fiscal Year	Total Debt Out-Standing**	Total Debt Service	Total Debt Out-Standing Year end
1940*	818	33	1,131
1945	1,142	57	1,155
1950	1,195	67	1,261
1955	1,286	81	1,333
1960	1,571	97	1,630
1965	1,763	144	1,793
1966	1,793	151	1,794
1967	1,794	128	1,825
1968	1,825	167	1,808
1969	1,808	137	1,822
1970	1,822	146	1,870
1971	1,870	147	1,919
1972	1,919	208	1,893
1973	1,893	155	1,950
1974	1,950	156	1,963
1975	1,963	169	1,948
1976	1,948	219***	1,932
1965-76		1,932	

Note: * 1940 is the year the city bought the IRT and BMT
** beginning of fiscal year
***estimated
Source: Annual Reports of the Comptroller

III. DEBT AND AUSTERITY IN THE 1960s AND 1970s

A. Parameters of the Debt Crisis

With the collapse of production-oriented investment in New York City's private sector economy in the 1960s, the advent of Lyndon Johnson's Great Society poverty

Table 3

New York City Debt

(in millions of dollars)

Date	Gross Funded (Long-term) Debt	% ±	% ±	Temporary (short-term) Debt	% Temp/Tot Debt	Total Debt	% ±	Net Increase in Total Debt	Cash Deficit in Budget
1966	5019	6.7	-11.2	467	8.5	5,486	4.9	256	319
1967	5070	1.0	40.0	635	11.1	5,705	4.0	219	106
1968	5044	- .5	9.1	693	12.0	5,737	.6	32	181
1969	5080	.7	7.8	747	12.8	5,827	1.6	90	83
1970	5236	3.1	72.4	1,288	19.7	6,524	12.0	697	832
1971	5635	7.6	80.0	2,319	29.2	7,954	21.9	1430	1298
1972	6380	13.2	14.3	2,650	29.3	9,030	13.5	1076	942
1973	6917	8.4	- 5.0	2,518	26.7	9,435	4.5	405	784
1974	7652	10.6	35.7	3,416	30.9	11,068	17.3	1633	1977
1975	7767	1.5	32.0	4,540	36.9	12,307	11.2	1239	733
1976*	11,148	43.5	-54.4	2,070	15.7	13,218	7.4	911	1168
	8,352	7.5	7.2	4,866	36.8	13,218	7.4	911	1168
1977 (Jan 31)	11.700	5.0	30.4	2,700	18.8	14,400			

* In 1976, MAC spent about $3.720 billions in bonds, 2.796 billions of which replaced the city's short-term debt. So if the MAC $3.7 billion is counted as long-term, the first set of figures are obtained: but to maintain continuity, the second line shows that the short-term debt is still growing in 1976.

In 1975, short-term debt coming due peaked at about $5.5 billion in spring of that year, coincident with the banks' refusing to market city debt. Note the last two columns in this chart, which shows a general coherence between the budget cash deficits each year and the increase in debt. Note also that 1970 is the "out-of-control" take-off year for short-term debt, while long-term debt is steadier.

Source: Annual Reports of the Comptroller

programs paved the way for a temporary de facto bailout policy. The takeoff year for federal and state aid for New York was 1966, when aid was increased 50 percent by $450 million. This offset a precipitous $150 million decline (in constant dollar terms) in local revenue. In the 10-year period from 1961-71, intergovernmental aid increased annually at a 20 percent clip. With money on this scale available under the attractive matching funds lure, the city made every effort to snap up as much as it could, thereby giving an illusion of growing prosperity at a time when the real economic base was sharply contracting.

Shrinking local revenues, federal money, banks seeking outlets for their cash, and the very real need to keep a lid on the underlying social turmoil associated with the end of any opportunity in the ghettoes — all combined to send the city into increasing budget deficits and spiraling debt. *(Table 3)* While debt service *(Table 4)* as a proportion of total budget expenditures actually dropped during the 1960s and early 1970s (from 17 percent in 1961 to 10.6 percent in 1971) — and even held steady as a proportion of real estate taxes levied, at around 35 to 40 percent — more and more of the debt therefore had to be rolled over each year. When federal money began to dry up in 1972, the city went more deeply into debt to maintain comparable levels of functioning.

In 1972, debt service amounted to nearly $1 billion, 42 percent of the city's real estate tax levy. In 1973 this skyrocketed to nearly $1.6 billion — 65 percent of the real estate tax levy. By 1975 debt service was nearly $2 billion and 67 percent of the tax. In the 15 years from 1960 to 1975, short-term debt, debt due within one year, went from a mere 2 percent of the total debt to 37 percent! And the debt due at the start of each fiscal year went from an already unmanageable 45.1 percent of local revenues to an astronomical *91.1 percent* by 1976!

B. Taxes

This spectacular increase in debt and debt service,

which is paid directly out of local revenue, combined with a fall in the tax base to cause an increase in the taxes and austerity imposed on city residents and businesses that makes New York the highest-taxed city in the U.S. For example, a corporate income tax was imposed about 1966, rose to 5.5 percent by 1970, was increased to 6.7 percent in 1971, and was raised to 10 percent in 1975. The regressive local sales tax was doubled from 2 to 4 percent in 1975. When coupled with a state sales tax that has increased to 4 percent, the result has been more stores and shoppers fleeing the city.

Throughout the 1960s taxes as a percentage of personal income varied between 7.3 percent and 7.9 percent. Starting in 1972, the percentage rose to 8.7 percent, and by 1975 had reached 10.2 percent. While personal income from 1963 to 1976 rose by $23 billion, or 85.2 percent, taxes rose by $3.2 billion, or over 150 percent. In New York, both working-class and middle-class heads of household pay twice as much income taxes as the U.S. average.

Table 4

Debt Service Comparisons

(in millions of dollars)

Fiscal/Year	% change each year	Debt Service	As % of Real Estate Tax Levy	As % of Total Expenditures Budget	As % of Tax-Levy Budget
1961	—	402	38.0	17.0	22.3
1962	- .5	400	36.2	15.6	20.7
1963	—	400	34.4	14.2	19.2
1964	8.3	433	34.4	13.9	18.6
1965	8.5	470	34.8	14.0	18.8
1966	25.3	589	41.1	15.3	23.2
1967	14.1	672	42.3	15.0	24.6
1968	-3.3	650	39.1	12.3	21.2
1969	2.6	667	38.1	11.1	21.5
1970	1.3	676	35.6	10.8	18.5
1971	22.8	830	39.7	10.6	19.9
1972	12.3	932	42.3	11.0	21.5
1973	71.5	1,598	64.7	17.2	34.2
1974	-20.6	1,269	47.7	12.4	23.5
1975	53.5	1,948	67.2	16.7	36.2
1976	18.3	2,304	71.0	18.1	32.7
1977 (est)	7.2	2,470	74.0		

Source: Temporary Commission on City Finances

Despite the tax windfalls for real estate speculation, it should be noted that New York real estate tax rates are on the whole commensurate with those in other parts of the country; property owners have not been hit nearly so hard as other sectors. The screams about rising real estate taxes have mainly come from speculators and their banker backers who were caught when the real estate boom of the late 1960s-early 1970s collapsed, and by slumlords who are faced with ravaged buildings and fleeing tenants. Real estate taxes are still the staple of local revenues, but since 1961 have fallen nearly 10 percent, from 55 to 45 percent. Real estate tax delinquencies, which increased steadily from 4 percent in 1960 to over 6 percent in 1973, were running at nearly 11 percent in 1976, reflecting above all the disinvestment in housing construction and maintenance.

C. Welfare — Austerity Disguised as a Gift

While it is certainly true that New York City provides the highest level of welfare benefits anywhere in the United States, these grants must be recognized for what they are: (1) rent subsidies to support inflated real estate property values; (2) wage subsidies to permit continued operation of low-wage, labor-intensive, heavily indebted industries like the garment center; and (3) a sop to the undereducated and unemployed to prevent uncontrollable social chaos.

According to the Temporary Commission on City Finance: "Despite the constant growth of AFDC (Aid for Families with Dependent Children — ed.) expenditures, the basic monthly grant level exclusive of rent for a family of four in New York City actually has declined, in constant dollars, from $141 in 1961 to $136 in 1975." In current dollar terms, the basic grant in 1975, again exclusive of rent, was $258. If rent is included, the average payment per AFDC family in August 1976 was $341.

This means that the rent allowance, on average, is a mere $83 per month! Even with the highest allowable grant of $400, rent allowance would still be only $143 — an amount hardly sufficient to cover inflated New York City rents for a family of four. In other words, the average welfare family probably spends well over one-half of its monthly check on rent, which means that the amount the family has to live on is far below the poverty level. Such has been the fate of the "fat" welfare recipient.

D. The City Workforce

An Analysis of Seven Key Departments

An enlightening comparison can be made of employment and budget expenditures in seven major city departments, based on the Temporary Commission's reports. They are the four "traditional" departments of police, fire, sanitation, and education, financed mainly by local revenues, and the three "nontraditional," social service-oriented departments of hospitals, higher education, and welfare, financed mainly under intergovernmental aid matching funds formulae.

First and foremost, from 1971 to 1976, in the wake of the cutbacks imposed by the Municipal Assistance Corporation-Emergency Financial Control Board regime, funding for all seven drops as a percentage of both total and tax-levy (i.e., local revenue) expenditures, the latter dropping by almost 10 percent. In 1971, debt service accounted for nearly 20 percent of tax-levy expenditures; in 1976, the debt service portion was up to 32.7 percent, a 177.6 percent increase.

Budget Expenditures: In relative terms, the "traditional" services were sacrificed under federal funding policies, stagnating local revenues, and escalating debt service, and under the MAC regime, the funding drop has been tremendous. By fiscal year 1976, the percentage of both total expenditures and of tax-levy expenditures for *both* the four "traditional" departments and the three

"nontraditional" ones drop — because of debt service. But up to that point, it was generally the case that, by this measure, the service categories' growth outstripped the traditional categories' growth by a good margin, such that the decline in percentage of expenditures by the latter about equaled the increase in the former.

In the 15 years from 1961 to 1976, the share of total expenditures for the four "traditional" functions declined from 46 percent to only 30 percent, from $1.1 billion to $4 billion. By contrast, the welfare, hospitals, and higher education share increased from 22 percent to 37 percent, $.5 billion to $4.9 billion (with hospitals increasing the least). Where in 1961 the four traditional functions accounted for double the total expenditures of the "service" functions, and triple the tax-levy expenditures, by 1976 they accounted for *less* in total expenditures than the three service functions, and *less than double* the tax-levy expenditures of the services. This of course reflects the enormous increase in intergovernmental aid and the increasing tendency to take advantage of matching funds grants by putting relatively more tax-levy expenditures toward service departments at the expense of the traditional areas.

The increase in tax-levy expenditures for both broad categories was about $500 million in constant dollar terms (in current dollars, the traditional categories were upped about $1.7 billion, the nontraditional about $.8 billion). But for the latter, the rate of increase was *double* that of the former in current dollar terms, and about *two and one-half times* the rate in constant dollar terms. For hospitals, education, higher education, and sanitation, the amount of expenditures in constant dollar terms puts the departments back in the middle 1960s or before — for sanitation, 1976 tax-levy expenditures are 15 percent below that of 1971. All departments except police and welfare have been hit with less expenditures from the tax-levy portion since the 1975-76 cutbacks, in constant dollar terms — and police has barely held even, while welfare has increased only 11.5 percent since 1971.

Employment. The percentage of total employment for the traditional categories dropped from over 25 percent in 1961 to 21.5 percent in 1976; the percentage for the nontraditional functions rose from about 25 percent to 31.5 percent during that time. Only welfare and higher education increased their percentage — the others fell. More important, in terms of changes in employment within each department, only welfare and higher education increased dramatically in 15 years by the time the cuts took hold, and by the end of fiscal 1976, there were only 20 percent more police officers than in 1961. Fire and sanitation had 2 percent and 12 percent fewer men respectively, and teachers were at mid-1960s levels. Hospital employment showed virtually no increase. All four traditional categories were hit hardest by the layoffs and attrition imposed by MAC and the Emergency Financial Control Board. Fire and sanitation employment levels by the end of fiscal 1976 were 20 percent below 1971, police nearly 12 percent, and public school teachers 14 percent.

In more general terms, the total of full-time municipal employees shows the ravage of the city with full clarity. From Dec. 31, 1974 to March 31, 1977, the job rolls were cut by 60,841 people — 20.7 percent lopped off in 27 months. If the estimates in the city's Executive Budget hold good for 1978, the reduction will come to 23 percent by next June.

At this point, Board of Education employment is only somewhat greater than 1969 levels; Department of Social Services is at 1967 levels; police, 1964 levels; fire, 1952 levels; and sanitation at 1929! And in terms of rates of increase or decrease in manpower for the various departments, sanitation and fire are consistently on the bottom, with fire, sanitation, police, and hospital rates considerably lower than the city-wide average, and way below the rates for higher education and welfare.

Labor Costs: Every study of New York City's fiscal crisis attempts to pin much of the city's woes on increases in employee compensation. The Economic Development Council, for example, points out that in 1976 the base pay of the sanit worker was more than)15,731; with fringe benefits and pension, $23,657; when "time off" is figured in at $4,376, total compensation for a mere garbage collector comes to $28,033! They note that between 1961 and 1973, the pay of city employees increased 129 percent, versus only 85.2 percent for workers in the private sector, excluding fringe and retirement benefits. In 1961 the average earnings of city employees equaled those of private sector employees; by 1973 they were 29 percent above. Taking police officers as an example, the Temporary Commission says:

> Thus in the course of four years (1971-75), local taxes for police rose $270 million, almost 50 percent; the compensation of police officers increased over 50 percent; and the number of police officers, and hours of police service delivered, actually declined... (by 2.1 percent and 3.7 percent respectively). Productivity declined very sharply.

The Temporary Commission says that from 1966 to 1971, labor costs doubled from $2.1 billion to $4 billion, with the largest increases coming in fringe and pension benefits. Taking police as the typical example, *real* pay of police increased 10.3 percent in the "depression" years from 1970 to 1976, while the average pay in the private sector ranged from a maximum 4.5 percent increase in some sectors to a 7.9 percent decrease in others. From 1961 to 1975, the average annual increase in city labor costs was 10.65 percent.

Table 5 gives an idea of the increase in labor costs in New York City. Indeed there have been very real gains, and it is no exaggeration to say that city employees pay is a good deal above that of the average employee in many other sectors. Contrary to the squawks from the Temporary Commission, however, the Commission's own figures show a quite *un*extraordinary trend. The key is in real dollars, and in percentage changes in real dollar terms. While employment rose 23 percent during 1961-66, *real dollar* labor costs rose only 43 percent — not so far out of line, considering that about 20 percent or so went to new employees. The 1966-71 period certainly shows a sharp rise in benefits as the Commission charges. In the next four years 1971-75, however, employment increased only 4 percent while real labor costs rose less than 6 percent — meaning that "old" employees got only a 2 percent increase in benefits on the average.

Table 5

Full-Time Employment and Labor Costs in New York City, 1961-1975
(in millions of dollars)

Fiscal Year	Employment	Employment % Change	Total Labor Costs (current $)	Total Labor Costs % Change	Total Labor Costs (constant $)	Total Labor Costs % Change
1961-75	200,706	46.7	1345.2	312.3	1533	124.3
1961-66	246,887	23.0	2098.2	56.0	2192	43.0
1966-71	283,103	14.7	3984.8	89.9	3251	48.3
1971-75	294,522	4.0	5545.7	39.2	3439	5.8

Note: Employment data as of Dec. 31 of each fiscal year

Source: Temporary Commission on City Finances

Furthermore, the fact that more dangerous and skilled layers, such as police, received 10 percent increases means that semi- and unskilled workers, for example hopital employees, gained nothing in real terms.

Any attempt to attribute the city's increased debt service to labor costs is, in sum, monetarist drivel. It is true that police officers received a 10.3 percent increase in real dollar terms from 1970-76 — but the debt collectors raked in a 27 percent increase from 1971 to 1976 alone. Average labor costs in the city did indeed increase 10.65 percent annually from 1961 to 1975 — but debt service increased 14 percent annually in the same period. And it is still going up, while labor costs have dropped in rate of increase. In fact labor cost, including pensions and fringe benefits, *fell* as a proportion of total expenditures, from 56 percent in 1965 to 42.4 percent in 1975.

If New York's economy is to be reestablished on the basis of *real wealth* and concomitant services — rather than maintenance of speculative real estate and debt values — far higher standards of living and compensation for the labor force would be the absolutely necessary norm. The difference between the city's wages bill and its debt service load is not primarily dollars and cents, but the fact that one adds to the real economic strength of New York, while the other destroys it.

E. The Capital Budget

This area is probably the foremost measure of the austerity and decay that have ripped New York City apart. The capital budget of any city or corporation is a key indicator of its future, or lack of one. In New York over the past 20 years, the capital budget can be described only as appalling. In general, most of the capital expenditures for large projects have been wasteful; those that haven't been outright boondoggles have been bandaid maintenance efforts on outmoded equipment and facilities that should have been scrapped and rebuilt long ago, e.g., the transit, water, and sewerage systems. In a sense, with such aggravated deterioration as New York now has, anything short of massive capital expenditure can hardly create enough real wealth to justify the debt incurred.

As already noted, the increasing deficits in the city budgets resulted in accelerated looting of capital funds. In 1965, according to the Temporary Commission, the city "borrowed" only $26 million from the city-funded portion of the capital budget, which amounted to just 3.6 percent of these funds. By the 1975 crunch, this had risen to $724 million, or nearly 53 percent. In constant dollar terms, actual capital funding with city bonded revenues exceeded the 1965 figure of $743 million only in 1973, and then only at $793 million. By 1975, real capital spending was only $652 million in current dollars, and barely $400 million in constant dollars — nearly *half* of the already pitiful 1965 level! The results have been obvious: the 1960s and early 1970s have seen New York deteriorate into a crumbling hulk, replete with water and sewerage breaks, subway failures, and the other concomitants of a plunge into the Dark Ages. The "overspending" by the city hardly produced a boom in real capital spending.

Worse is the toll taken by the so-called budgetary remedies imposed by MAC and the Emergency Financial Control Board. *(Table 6)* While the amounts

Table 6

Capital Budget Under Current 3-Year Plan
(in millions of dollars)

Fiscal/Year	Capital Spending* (cash outlay)	Amount Cut
1975	1760	
1976	1600	160
1977**	1100	500
1978**	930	170

*Both City bonded debt and intergovernmental aid
**Plan

borrowed for city operating expenses are to be phased out in 10 percent annual reductions, the current three-year financial plan has slated the capital program to be cut by 47 percent, to $930 million. By 1978, about $600 million of this will still go to operating expenses, leaving only $300 million for capital formation (or at least maintenance). In fact, in 1977 only about $141 million of city bonded debt went to capital expenditures — a mere $77 million in constant dollars, or only 10 percent of 1965 expenditures! In 1978 this will be permitted to rise all the way to... $130 million (in constant dollars).

A section titled "The City's Infrastructure — Future Needs and Priorities," the Final Report of the Temporary Commission on City Finances gives away the incompetent reasoning behind this "solution" to the city's fiscal crisis. The mayor anticipates spending about $1 billion of city money for capital funds during the three-year capital program for fiscal 1979-81, says the report. If the same amount were raised each year through 1985, the city would have $8 billion available for the capital budget. However, according to the phase-out plan regarding capital expenses, about $3 billion of this would go to operating expenses, leaving $5 billion for capital funds. It is clear that with this paltry amount of money, not much construction can be done, given the scope of costs simply for maintenance needs. Making a virtue out of this horrible discovery, the Commission concludes,

> The basic priority should be for maintenance rather than new construction... Although maintenance under normal conditions should be an expense budget item, the type of maintenance discussed herein is of a capitalizable nature (!) designed to overcome the effects of past neglect. (!!)

The report continues:

> ...There appear to be strong economic development reasons supporting an investment by the city (in the Convention Center). The cases for construction of new transit lines and the third water tunnel do not seem as persuasive. Hospital and school construction, on the face of things, should not be the subject of capital expenditure because there is excess in both systems. The top priority... is the transit system because of the critical role it plays in the city's economy.

Meaning rebuilding the subways? Far from it. The Commission says outright that it is urging repair of streets and highways, with no mention of the subways.

> Finally, from a "quality of life" rather than direct *economic or life-supporting perspective* (emphasis added), the city's park system deserves a high maintenance priority.

The report estimates that this will cost $6.8 billion, of which $2.2 billion will come from the state and federal governments, leaving the city share at $4.6 billion. It then recommends that probably not all of this can be done because, based on past performances of cost overruns, $5 billion will not be enough.

With this kind of mentality running New York, the city is doomed to be complete destruction of its basic infrastructure. Even a debt moratorium at this stage would be little more than a starting point. Literally tens of billions of dollars are needed to rectify what the debt has done to the city, and create the preconditions for a sound financial future.

ROHATYN's REMEDY

III. DEBT AND AUSTERITY IN THE 1960s AND 1970s

As many honest economists will acknowledge, Felix Rohatyn's "successful" maneuverings during the past two and half years may have temporarily prevented a default, but have left the city in even worse financial condition than before the 1975 crunch. In addition to slashing the capital budget, MAC's budget cuts and debt "stretch-outs" have so exacerbated the city's economic plight that the choice is now either the most thoroughgoing *fascist* austerity or complete debt moratorium and massive real development. Nothing in between can stabilize the situation even temporarily, and only the second alternative can save it.

Table 7
MAC Debt Payment
(in millions of dollars)

	1978-1995	1978-1986	1987-1995
Old Schedule			
Principle	$5038		
Interest	2827		
Total	7865	$6110	$1750
Average per yr.	437	679	195
Stretched Schedule			
Principle	$5038		
Interest	4715		
Total	9752	$4720	$5030
Average per yr.	542	525	559

Source: Municipal Assistance Corporation

The outrageous incompetence of Rohatyn's financial acrobatics is demonstrated most efficiently by the fact that the debt and debt service crisis of New York City is worse than it was pre-Rohatyn, in 1975. Rohatyn's latest scheme — agreed to by the banks and pension funds — gets rid of outstanding short-term debt "once and for all" (!), and of the troublesome $819 million of short-term notes that were involved in the invalidated moratorium, by having MAC assume over $5 billion in outstanding city debt. To spread the payments out more evenly than originally planned, Rohatyn has concocted the financial scheme shown in *Table 7*.

Under this plan, the city will have to pay nearly $2

billion *more* in debt service over the 18-year period, all of it in interest. This is 2 percent more than the total debt service under the old arrangement, and fully two-thirds more in interest. To "save" $150 million per year in debt service payments the first nine years, the city will pay $350 million *more* the next nine years. (!)

The Comptroller General's report on New York City released last April gives the verdict on Rohatyn's wizardry. The General Accounting Office report *conservatively* estimates a budget gap by 1985 of $1 billion if the U.S. and city economy have "sustained growth," and a gap of $1.5 billion if the pattern of stagflation continues. Given the already devastated local tax base and cutbacks in intergovernmental aid, they bluntly admit the impossibility of the situation: "The fiscal and economic base of New York City continues to deteriorate, and this deterioration is the root of the problem." Even more immediate, the projected 1978 budget appears certain to have a deficit of well over $1 billion.

The failure of the Rohatyn remedies is the lawful result of the fact that they are just a further stage of the city's terminal debt disease. The bankers' dictatorship in New York has, unfortunately, been given every opportunity to prove that no solution to the City's ills will come from this quarter, that in fact the city will be quite literally razed to the ground, if the debt-and-collapse cycle is allowed to continue long enough. And it has given the rest of the nation a striking preview of the results of the analogous policies of "pain and agony" austerity and slashes in real economic progress that Rohatyn and his political allies are demanding for the rest of the nation.

This report was prepared for the U.S. Labor Party by Stephen Parsons.