New York City’s fiscal crisis: the politics of inflation and retrenchment

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The current New York City fiscal crisis is above all a political crisis. Its origins lie in a set of political changes the city experienced in the 1960’s, which led municipal expenditures and indebtedness to grow at an explosive pace. And the eruption of the crisis has produced a further transformation in the structure of the city’s politics.

This is not to deny that changes in the city’s demographic and economic base over the past three decades have contributed to the problems the municipal government faces. The migration of more than a million poor blacks and Puerto Ricans to New York since World War II has placed pressures on the municipal budget at the same time that the movement of business firms and middle-class whites to the suburbs has reduced the city’s capacity to finance new expenditures. But these developments, which are commonly cited to explain the city’s difficulties, cannot in themselves account for the crisis; unemployed men and fatherless children do not, after all, have the authority to appropriate public monies or float municipal bonds. To account for the rapid growth of the municipal budget and debt, one must explain why public officials responded as they did to these changes in the city’s demographic and economic base—an explana-
tion to be found in the transformation of New York City politics in the 1960's.

During that decade, the regime that had formerly governed New York City collapsed, and a new coalition of political forces attempted to seize control. This initiated a pattern of political activity that has characteristically led to rising public expenditures and indebtedness, financial collapse, and ultimately budgetary retrenchment and a reorganization of politics, shifting the balance of power to the owners of the public debt. This pattern of political and fiscal change is not unique to New York City in the 1960's and 1970's; it has appeared both in other places and in earlier periods of the city's history.

Two routes to retrenchment

The political conditions that lead city governments to increase municipal expenditures at a rapid rate and accumulate large deficits are similar to those which encourage national governments to pursue highly inflationary fiscal and monetary policies. Such policies are likely to be adopted in the following combination of circumstances: 1) A social group that has recently gained political power begins to assert claims upon the government for greater public benefits or a larger slice of the national income; 2) the government responds to these claims either because it is allied with the group in question or because it cannot withstand its opposition; and 3) the government is too weak politically to finance these new claims by reducing the flow of benefits to other groups, or by raising taxes. To cover the difference between expenditures and revenues, both municipal and national governments can borrow money. In addition, national governments can print money—in large quantities, if necessary—to finance their deficits, and hence deficit financing on the national level can generate rampant price inflation.

These political conditions have prevailed, as the historian Charles Maier has noted, during the major episodes of national inflation in this century. The hyperinflations in Central Europe in 1919-1922, for example, followed the creation of democratic regimes in Germany and Austria, which for the first time granted representation in the government to working-class parties. These regimes, however, were threatened by anti-democratic forces on the Right and dared not alienate the nation's industrialists. The only economic policies compatible with the maintenance of a tacit coalition between labor and industry were highly inflationary: The industrialists would not tolerate any new taxes on corporate or personal incomes, and the govern-
ment thus increasingly financed its operations by resorting to the printing presses. Similarly, in Latin America, periods of severe inflation characteristically occur after the rise of regimes that speak for the urban or rural lower classes, but—because of political weakness, administrative incapacity, or corruption—cannot collect taxes from the middle and upper classes, or prevent the wealthy from sending their money abroad, or foster economic development. The Peronist regime in Argentina, for example, sponsored the organization and political incorporation of labor, but failed to industrialize the nation and generate the wealth necessary to pay for the benefits provided its supporters. Consequently, claims to the national income that the government granted exceeded the national income, and inflation followed.

The European nations now experiencing the highest levels of inflation—Portugal and Italy—are characterized by politics most closely approximating the pattern outlined above. The Italian case is too complex to describe here, but the Portuguese situation is quite straightforward. Following the revolution of 1974, which granted the Portuguese political rights they had been unable to exercise freely for 50 years, a succession of weak governments (six in two years) either encouraged, or found it impossible to resist, the demands of the army for an immediate withdrawal from Portugal’s colonies, of agricultural laborers for land, of workers and civil servants for wage increases, and of unions for greater control over factories and offices. The result was a rise in the nation’s wage bill, a decline of labor and military discipline, the influx of more than half a million refugees from Angola who had to be housed and fed by the government, a rise in government deficits, and consequently an inflation rate in 1975 of 46 per cent.

The conditions fostering very high levels of inflation are inherently unstable. Double- or triple-digit inflation can lead to a credit or liquidity crisis, to balance-of-payments difficulties, and ultimately to a recession. When this occurs, industrialists become less willing to accept inflationary policies. Middle-class rentiers, who generally are the most seriously injured by inflation, and who find it difficult under normal circumstances to assert themselves politically against better-organized groups, can erupt into an angry political force when inflation threatens to wipe out the fruits of a lifetime of thrift. And the banks, which are in a position to extend the necessary loans for stabilizing the nation’s currency and refinancing its international debt, gain enormous political leverage by their ability to attach conditions to their aid. If all these interests coalesce, they can overturn
the government that fostered inflation, and install a government that will implement a program of retrenchment.

Retrenchment involves eliminating nonessential public expenditures. What this commonly means in practice is that those groups that have only recently gained a measure of power will be deprived of whatever benefits they won by being incorporated into the political system. For the purposes of retrenchment, these groups must either be driven off the political stage, or compelled to accept a more modest role.

Historically, the first of these alternatives is probably the more common: Retrenchment often occurs at the expense of democracy. In 1922, for example, the Austrian government received a stabilization loan from the League of Nations by agreeing in the Geneva Protocols to abrogate parliamentary authority over all financial matters for a period of two years. And the agreements that brought stability to Weimar Germany involved the overthrow of the last coalition government in which a working-class party had representation. In Latin America, typically only military governments can carry out the retrenchment policies that international lending agencies insist upon. Argentina—and Chile—provide stark examples of what the implementation of a retrenchment program can entail.

The alternative route to retrenchment involves a system of discipline imposed upon the new political group not by an alliance of domestic conservatives and foreign bankers, but rather by the leadership of the group in question. And this can lead to harsh measures. The halt to the leftward drift of Portugal’s revolution and the rise to power of the moderate Socialist government of Mario Soares came only after many offices of the Portuguese Communist Party were firebombed, leftist groups in the military were smashed, the army was purged by a stern disciplinarian, General Ramilho Eanes, and the Socialists allied themselves with the two most conservative parties behind his presidential candidacy. And the success of Italy’s current retrenchment program ironically depends upon the ability of a Leninist party—the Italian Communist Party—to impose its new line (the “historic compromise”) upon restive party militants and compel the unions affiliated with the Communist labor federation to limit their wage demands.

**Boss Tweed and Tammany Hall**

New York City’s budget rises and falls in response to a political logic similar to the one outlined above. Periods of increased public
expenditures and indebtedness follow upon the rise to power of new but loosely organized political coalitions, and periods of retrenchment are associated with the expulsion of these new forces from the political arena, or their subjugation to tighter political discipline.

In New York City, these new political forces have generally been coalitions of elements of the city's business community and members of ethnic groups that had previously been politically weak. Such political coalitions have traditionally been pieced together by machine politicians, who placed new ethnic groups on the public payroll to win their votes, and at the same time sponsored the public projects favored by their allies in the business community. This method of purchasing political support can be costly. On three occasions in the city's history—in 1871, 1933, and 1975—it has led to a fiscal crisis that enabled the banks owning the city's debt to insist that municipal expenditures be drastically reduced as part of a bailout plan. The politicians in office when the city amassed its debt are then discredited by their responsibility for the city's difficulties, and weakened by the retrenchment program; this in turn permits the political agents of the bankers to call themselves reformers and win the next election. This experience chastens the defeated political forces, and enables a more sober leadership to emerge among them. It also gives the new leaders an incentive to organize their followers more tightly, and upon returning to power they can be less generous in dealing with their rank-and-file supporters, and more accommodating in dealing with their erstwhile opponents.

The rise and fall of the Tweed Ring illustrates this process quite clearly. Boss Tweed was allied with businessmen who operated chiefly in local markets—building contractors, real-estate men, street-railway promoters, savings bank owners, and manufacturers, who benefited from Tweed's ambitious program of opening up new streets and transit lines in the northern sections of the city. Uptown development had previously proceeded slowly; city officials had been more responsive to the elite merchants and bankers operating in national and international markets—interests that were oriented to the downtown district and the port, and that regarded as utterly profligate uptown development on the scale proposed by Tweed.

Tweed also sponsored the political incorporation of the immigrant Irish. In the three weeks prior to the election of 1868, the judges allied with the Tweed Ring naturalized several thousand new citizens, and expanded the number of registered voters in the city by more than 30 per cent. The attachment of these new voters to the Tammany organization was reinforced through placing many on the
public payroll, and through a public-welfare program that bore some marked similarities to the poverty programs of the 1960's. (The poverty programs funneled public monies into community groups and Baptist churches in black neighborhoods; Boss Tweed's public-welfare program channeled public funds into charitable institutions and Catholic churches in Irish neighborhoods.)

The cost of bringing the local businesses and the immigrants into the political system was high. The budget of the Streets Department, for example, quadrupled in Tweed's first years as Deputy Commissioner. It was especially high because the Ring was structurally weak. Tweed was unable to command the obedience of other politicians; instead, he was compelled to purchase with cash bribes the support of state legislators, county supervisors, and even his immediate associates. To finance its operations, the Ring levied a surcharge on all city contracts. And because the Ring was weak, Tweed hesitated to raise taxes sufficiently to meet the city's current expenses, let alone to cover the costs of the capital improvements he sponsored. Just as Mayors Lindsay and Beame were to do a century later, Tweed funded short-term revenue notes into long-term bonds. In the last four years of Ring rule in New York, the city's outstanding indebtedness tripled.

The Ring was brought down by the city's creditors, who were driven to act by two events that destroyed their tolerance for a regime based upon the two groups from which Tweed drew his support. The first was the Orange Riot of July 1871, sparked by a parade of Irish Protestants celebrating the Catholic defeat at the Battle of the Boyne. Catholic spectators threw stones at the troops protecting the marchers, and the troops responded with a volley of gunfire that killed 37 spectators. The press blamed the city government for provoking the disturbance, and respectable elements in New York concluded from the incident that a municipal government dependent upon the political support of the Irish could not preserve public order. The second event that led the city's financial elite to move against the Ring was the suspension of trading in New York City bonds on the Berlin Stock Exchange, and the refusal of bankers in London, Paris, and Frankfurt to extend any more loans to the city, after a series of exposés in the press revealed the extent of municipal corruption and the size of the city's debt. The collapse of the city's credit threatened the solvency of all the New York banks owning municipal securities. To protect itself, the city's financial community felt it imperative that the Ring be overthrown. This was accomplished, in the words of a contemporary pamphlet,
through an "insurrection of the capitalists": A group of the city’s most prominent businessmen, the Committee of 70, organized a tax strike, and a thousand property owners refused to pay their municipal taxes until the city’s accounts were audited. In addition, the city’s bankers refused to lend the municipal government the money needed to meet the city payroll and cover debt-service payments until a reformer, Andrew Haswell Green, was appointed Deputy Comptroller with absolute authority over the city’s finances. The coup de grâce was given the Tweed Ring when the Committee of 70 entered a slate of candidates in the 1871 municipal elections and won control of the city government.

The collapse of the Tweed Ring enabled “Honest John” Kelly, in alliance with a group of wealthy, nationally oriented Democrats, to seize control of Tammany Hall. Kelly inferred from the Tweed episode that Tammany could not survive if all elements of the business community united against it, and that to avoid such opposition it must shed its reputation for corruption and profligacy. He accomplished this by purging Tammany of its more disreputable elements and by centralizing and strengthening the party organization. (It has been said that Kelly “found Tammany a horde and left it an army.”) Kelly then used this organization to elect a succession of respectable merchants to the mayoralty, discipline lower-level Tammany officials engaged in the grosser forms of corruption, and make himself Comptroller, in which position he pursued an extremely tight-fisted policy of retrenchment.

By creating the modern Tammany machine, Kelly and his successors, Richard Croker and Charles Murphy, established a mechanism for incorporating immigrants into the city’s political system in a way that was tolerable to, if not entirely to the liking of, the city’s propertied elite. This involved extruding from the political system competing contenders for control over the city’s immigrant masses. Kelly’s victory represented the triumph of a respectable lower-middle-class leadership group among the Irish (Kelly himself was married to a niece of Cardinal McCloskey), and the maintenance of this group’s control entailed the defeat of both the lower-class gangs that had formerly played an important role within Tammany, and the trade-union and socialist movements that at various times (most notably the 1880’s and the 1910’s) had attempted to assume political leadership of the working classes.

The preservation of Tammany’s hegemony, however, required that the machine’s subordinate functionaries be tightly disciplined, and that new ethnic groups be given a share of the spoils. When
the hold of the machine’s central leadership weakened, as it increasingly did after Murphy’s death in 1925, Tammany officials were free to enrich themselves without limit, and to freeze out newcomers. The bacchanalia of corruption during the administration of Jimmy Walker, and the inability of Tammany’s fragmented leadership to face up to, or impose upon their subordinates, the stringencies that the Depression required, set the stage for the New York fiscal crisis of 1933, and the triumph in the municipal election that year of a coalition of reformers, businessmen, Italians, and Jews, under the leadership of Fiorello LaGuardia.

From accommodation to community participation

The last political leaders in New York to successfully pursue Kelly’s strategy were Carmine DeSapio, Alex Rose, and Robert Wagner. These leaders won a secure position for Italians and Jews in New York politics by helping to expel from the political system those elements of their ethnic constituency who were least acceptable to other groups in the city. DeSapio consolidated his hold over the Democratic Party by purging Tammany of its gangster element, which was primarily Italian, but included Jewish district leaders such as Sidney Moses and Harry Brickman. Rose established the influence of the Liberal Party by destroying the Communist-dominated American Labor Party, which was heavily Jewish, although its most prominent ally was the Italian-American Congressman Vito Marcantonio. Both DeSapio and Rose created tightly centralized party organizations, and when they united behind the same candidates, municipal elections involved as little competition as they had during the heyday of machine rule in the 1920’s. In the mayoral race of 1957, Robert Wagner, who had the support of both organizations, won 72 per cent of the vote and defeated his Republican opponent by almost one million votes.

The politicians who governed the city during the 1950’s defused opposition by accommodating its major organized interests. The downtown business community was satisfied because control over the development programs that were of prime interest to them was placed in the hands of Robert Moses and/or various public authorities responsible only to their bondholders. Municipal civil servants and the prestigious civic associations were granted substantial influence over the city’s major service-delivery agencies. And in making revenue and expenditure decisions, elected officials paid special heed to the views of the city’s tax-conscious lower-middle-
class homeowners. Consequently, during Mayor Wagner's first two terms, the city government did little that aroused controversy, and its expense budget increased at an average annual rate of only 6.6 per cent between 1953 and 1960.

This political calm was shattered in the late 1950's and early 1960's by the emergence of three new political groups in New York—the Democratic reform movement, the school-integration movement, and the movement to unionize city employees. The effort of politicians to gain power in the city by allying with these movements destroyed the regime constructed by DeSapio, Rose, and Wagner, and initiated the present era of budgetary inflation.

The first of these to gather force was the reform movement in the Democratic Party. In the face of its threat, Mayor Wagner undertook to salvage his career in 1961 by turning on his political mentor, DeSapio, and seeking renomination with the support of the reformers and the municipal civil service. The steps Wagner took to win their backing—especially his sponsorship of a new city charter—weakened the regular party organizations, loosened some of the restraints upon budgetary inflation in New York, and made him more dependent politically upon groups demanding services. Consequently, municipal expenditures increased during Wagner's third term at an average annual rate of 8.9 per cent. Significantly, in 1961 the city's expense budget fell into deficit for the first time since the Depression, and it continued to do so during each year of Wagner's third term.

In 1965, the reformers and liberals abandoned their former allies in the municipal labor movement, and supported the mayoral candidacy of John Lindsay. The political forces backing Lindsay sought to drive the civil-service unions from power and seize control of the municipal bureaucracy themselves. Lindsay centered his 1965 campaign around an attack upon the "power brokers" (i.e., the civil-service union leaders); he undertook to reorganize the municipal bureaucracy into 10 super-agencies, which would be responsive to his leadership; and he regularly contracted with outside institutions (such as the RAND Corporation, the Ford Foundation, and various universities) to perform tasks formerly conducted by municipal civil servants. To gain political support, the Lindsay administration allied itself with the third new political movement of the 1960's, the black civil-rights movement. Blacks were useful allies because they could be used to legitimize the administration's efforts to seize control of the bureaucracy, which was criticized for its failure to adopt "innovative" programs that were "responsive" to the needs of the
black community. And the alliance Lindsay cultivated with blacks provided the administration with shock troops to attack the bureaucracy from below, a function served by the mechanisms of community participation established by the administration.

New York City's budget during the early Lindsay years reflected this political strategy and the political constituency of the administration. The three major municipal programs in which expenditures rose the most rapidly during the period 1966-1971 were higher education (251 per cent), welfare (225 per cent), and hospitals (123 per cent). The clientele of two of these programs (welfare and public hospitals) is predominantly black, and the explosion in expenditures for the third (higher education) occurred after the enactment of an open-admissions program that tripled black enrollments at the City University. Moreover, the staff providing services in each of these programs (whose salaries account for much of the increase in expenditures) is composed of large numbers of highly educated and well-paid professionals. To be sure, federal and state assistance under Aid to Families with Dependent Children and Medicaid helped the city pay for some of these new expenditures. But even as far as the city's own funds (so-called tax-levy expenditures) were concerned, welfare and higher education were by far the fastest-growing budgetary categories during the first five years of the Lindsay administration.

The Lindsay administration was not in a position to finance the benefits it provided to its constituency by reducing, or even holding the line on, expenditures for other municipal programs, because Lindsay's victory in the mayoral election of 1965 did not destroy the influence of the unions that represented the employees of the more traditional municipal agencies. After Lindsay's election, the city-employee unions might no longer have had an ally in the mayor's office, but they retained their capacity to strike, to lobby before the state legislature, and to support or oppose candidates in future municipal elections. By the end of his first term, the mayor discovered how vulnerable he was to each of these maneuvers. He initially attempted to break the power of the unions by refusing to enter into the give-and-take of labor negotiations, by inviting strikes, and by then seeking to mobilize public opinion (and, in one instance, the national guard) against the unions. These efforts repeatedly failed, and Lindsay eventually learned that he could not govern the city without the cooperation of the unions. In addition to the wage increases they obtained by striking, the unions were able to secure very lucrative retirement benefits from the state legisla-
ture during the Lindsay years, because as the regular party organizations in New York grew weaker, many state assemblymen and senators from the city found the civil-service unions to be their most effective source of campaign assistance.

Finally, Lindsay himself was desperately in need of such assistance in his campaign for reelection in 1969. To win union support and to pay off his campaign debt, he gave the unions everything they demanded during the 1969-70 round of contract negotiations. In these ways, the civil-service unions were able to secure substantial salary and benefit increases for city employees during his tenure, thereby compelling the mayor to increase expenditures for the agencies employing their members. During the period 1966-1971, the budgets of the traditional municipal departments—Police, Fire, Sanitation, the Board of Education—did not double or triple, as expenditures did for welfare, hospitals, and higher education, but they nonetheless did increase on the average by 66 per cent.

**Setting the stage for financial ruin**

The Lindsay administration did not find it politically possible to obtain either enough additional state aid or enough additional taxing authority to finance all these expenditure increases. Although state aid payments to the city did rise substantially during the Lindsay years, there were limits to the willingness of upstate and suburban legislators to tax their constituents for the benefit of New York City. And the state legislature, when it considered New York City financial legislation, followed a set of informal procedures that enabled political forces unfriendly to Lindsay to block some of his proposals for tax increases, and that favored the passage of legislation authorizing the city to borrow money to close its annual budget gap.

The Republican and Democratic leaders in the Assembly and Senate would round up the votes necessary to pass New York City financial legislation only if every single assemblyman and senator from the city voted in favor of the bills in question. In practice, this informal requirement for unanimous consent meant that these bills had to meet with the approval of each of the major interests enjoying access to the city's legislative delegation, the legislative leaders, and the governor. One such group was the lower-middle-income homeowners, who were unable to defeat Lindsay in mayoral elections, but did send Republican assemblymen and senators to Albany to defend their interests. These legislators found it po-
politically difficult to vote for tax increases, and to avoid losing their votes, the mayor and governor found it necessary to substitute bond and note issues. The city’s major banks, whose views were represented in such deliberations by the governor, were quite happy to endorse deficit financing, because bond and note issues provided them with healthy commissions and good investment opportunities. Moreover, so long as the office boom of the 1960’s continued—assisted by capital projects the city and state constructed with borrowed funds—it appeared that rising municipal tax receipts would enable the city to cover its debt-service payments.

The Lindsay administration was ultimately compelled to abandon its efforts to break the power of the public-employee unions, to seize control of the municipal bureaucracy, and to use the authority of the city government for new purposes. These efforts suffered a number of serious setbacks at the end of the mayor’s first term and the beginning of his second. Lindsay’s efforts to decentralize the city school system precipitated a bitter controversy and a teachers’ strike—the Ocean Hill strike of 1968—and the settlement of the controversy was something of a defeat for the most militant advocates of community control. The upper-middle-class liberals and blacks who comprised the core of the Lindsay coalition were unable on their own to provide him with the votes he needed to win reelection in 1969, and Lindsay was consequently compelled to come to terms with the civil-service unions. And the administration’s plans to place a large, low-income housing project in the middle-class neighborhood of Forest Hills in 1971 generated intense local opposition, and had to be drastically scaled down.

The defeat at Forest Hills chastened Lindsay, and the growth rate of the city’s budget slowed considerably. From 1966 through 1971, operating expenditures had increased at an average annual rate of 16.5 per cent. In 1972, the growth rate of the city’s budget declined to 8.6 per cent; in 1973 it was 9.3 per cent. Moreover, much of this budgetary growth resulted from rising prices, and the deceleration of the city’s budget after the Lindsay administration had received its political chastening is thus particularly dramatic when measured in constant dollars: Annual expenditure increases in constant dollars averaged 11.5 per cent from 1966 through 1971; they averaged 3.7 per cent in the next two years. Abe Beame’s election as mayor in 1973 simply confirmed that a new political and fiscal plateau had been reached. Mayor Beame’s budgets, again measured in constant dollars, grew at an average annual rate of only 2.8 per cent.
This new political and fiscal plateau did not involve a return to the \textit{status quo ante} of 1965. The new players in the political game, who had been ushered onto the field by John Lindsay, were not expelled—apart from a few unruly ones who had attempted to drive out some of the older players. And the claims of these new players to a share of the gate were recognized. Consequently, as Mayor Lindsay left office and Mayor Beame came in, the city's budget was more than three times as large as it had been at the close of the Wagner administration.

In the mid-1970's, however, it was far more difficult than it had been in the late 1960's for New York City to honor the claims upon its budget granted during the Lindsay administration. Inflation drove up the cost of providing a fixed bundle of municipal services, and the failure of the city's economy to recover from the recession of the early 1970's made it increasingly difficult for New York to cover these rising costs. Moreover, by the mid-1970's there was an explosion in the costs of the retirement benefits that the municipal government and the state legislature had granted to city employees during the previous decade. In 1965, the city's retirement costs had been $364 million; by 1974, they had risen to $1.121 billion, and in 1976 they were $1.480 billion. In 1965, the city's annual debt-service payments had been $470 million; by 1974, they had risen to $1.269 billion, and in two more years they reached $2.304 billion. In order to close the gap between current expenditures and current revenues, and refinance the short-term debt as it fell due, the city resorted ever more heavily to borrowing. By 1975, the city's cumulative short-term debt had risen to $5.3 billion. The budget Mayor Beame initially presented to the state legislature for fiscal year 1976 anticipated a further deficit of $460 million, and had the city been able to borrow all that it wanted in 1975, its short-term debt might have amounted to as much as 33 per cent of the entire outstanding short-term municipal debt in the United States! The city's request for huge grants and additional taxing authority from the state legislature, and its enormous demands upon the municipal-securities market for additional loans, set the stage for the New York fiscal crisis of 1975.

\textbf{The rise of the banks}

The fiscal crisis of 1975 was precipitated by a combination of events resembling the taxpayers' strike and bondholders' coup that had brought down Tweed a century earlier. The Republican state
senators from New York City banded together in May 1975, and agreed to present a common front against the pressure from their party leaders and colleagues to vote for legislation granting additional taxing authority to the city. The refusal of these spokesmen for the city's taxpayers to consent to any new taxes increased the city's demand for credit, and thereby weakened the market for New York City securities. Later that month, the major New York banks refused to underwrite or purchase any more New York City notes and bonds, and thereby drove the city to the verge of bankruptcy.

There is little reason to believe that the Republican legislators and the New York bankers foresaw the enormous consequences their actions would have, or that in precipitating the crisis they were motivated by anything beyond the desire to protect the short-run economic interests of the groups they represented and their own short-run political and institutional interests. As for the Republican state legislators, they were heavily dependent upon the support of small-property owners, who were being squeezed by the combination of inflation, recession, high levels of taxation, and rent control in New York, and were increasingly voting on the Conservative Party line. Moreover, in 1975 the governor's office was occupied by a Democrat for the first time in 16 years and hence Republican legislators no longer had a compelling reason to support a tax package hammered out in negotiations between the governor and the mayor.

As for the major New York banks, there were a number of strictly economic reasons why they were becoming increasingly reluctant to purchase the city's securities. Other more lucrative investment opportunities (foreign loans, leasing, consumer financing) had recently been developed by the banks, or had been made available to them by amendments to the Bank Holding Company Act, and the failure of the Real Estate Investment Trusts had created liquidity problems for many of them. But most importantly, as the city's short-term debt began to skyrocket, it was becoming increasingly clear to outsiders as well as insiders that the city was engaged in a great ponzi game: It was financing current expenditures by borrowing, and paying off old debt by issuing new debt. So long as dealing in New York municipal securities had been a high-profit, low-risk venture for the city's banks, they had been quite happy to participate without asking too many embarrassing questions of city officials. But when the 11 major New York banks realized in the spring of 1975 that the outside world would shortly be able to figure out what the municipal government had been doing, they unloaded $2.7 billion in New York City securities that they owned.
With the banks flooding the market with old New York bonds at the same time the city was seeking to sell additional hundreds of millions in new municipal notes and bonds, the market in the city's securities collapsed.

This collapse confronted the banks with immediate and grave dangers. Unless the city could borrow additional money, it could not redeem its old notes and bonds as they fell due, and if the city defaulted on these obligations, the value of New York securities remaining in the banks' portfolios would plummet. If this occurred, not only would the banks suffer a direct loss, they also could be sued by the clients whose money they had invested in New York notes and bonds. Thus the major New York banks sought desperately to keep the city from defaulting: They pleaded with out-of-town banks to purchase New York securities; when that failed, they pleaded with the federal government to guarantee the city's bonds. Indeed, the very desperation of the banks made it possible for the architects of the plan that bailed out New York to squeeze additional loans out of the banks to shore up the city's finances.

In addition to these short-run economic dangers, the fiscal crisis presented the banks with long-run political opportunities. It has enabled the banks (and, more generally, the city's corporate elite) to gain a dominant voice in municipal affairs. Some of this influence rests upon the ability of the banks to extract concessions from the city government in return for lending it money. But the banks have actually lent the city less money than either the municipal-employee pension funds or the federal government. The major reason the banks have become so influential lies instead in the following combination of circumstances. First, the city must be able to regain access to the municipal credit market, unless some other means of managing its cash flow, financing capital projects, and discharging its outstanding debts becomes available. Second, the city has no chance whatever of regaining access unless its most prominent bankers and business leaders are prepared to assert that they are satisfied it is managing its affairs in a prudent and economical fashion. Third, public officials at the municipal, state, and national levels have accepted the banks' claim that if the business community's retrenchment program is adopted, the market will reopen to the city—in other words, that enactment of the retrenchment program is sufficient, as well as necessary, for the city to regain access to the market. This claim is, to say the least, highly conjectural.

In the name of making New York bonds marketable, the banks have managed to extract enormous concessions from the city. In
the process, the local business elite has come to play a larger and larger role in governing the city, and the conduct of public policy in New York has increasingly come to reflect the priorities of the business community. The state initially created a Stabilization Reserve Corporation (SRC) to market a new series of bonds for the city, and it specifically set aside the proceeds of certain city taxes to cover the debt-service payments on these bonds. When these bonds failed to sell, a new state-appointed board, the Municipal Assistance Corporation (MAC), was created to replace SRC. In addition to being granted the authority to issue bonds and use municipal tax revenues for debt service on these securities, MAC was given the power to revamp New York City's accounting system. When the MAC bonds also failed to sell, the state, at the urging of the banks, passed a statute requiring the city to balance its budget within three years and limit its annual expenditure increases to not more than two per cent during that period, and creating an Emergency Financial Control Board (EFCB) empowered to freeze the wages of city employees, approve all city contracts, and supervise city finances.

The EFCB is composed of two state officials (the governor and state comptroller), two city officials (the mayor and city comptroller), and three private citizens appointed by the governor. The governor resisted pressure to appoint a labor and a minority representative, and selected instead the top executives of the New York Telephone Company, American Airlines, and Colt Industries. In addition, the mayor—at the urging of the business community—established the Mayor's Committee on Management Survey, chaired by the president of the Metropolitan Life Insurance Company, to reorganize the municipal bureaucracy along business lines. And in response to pressure from the banks, the mayor fired one of his oldest associates as First Deputy Mayor, and appointed prominent business executives to three of the most important financial and managerial positions in the city government: Deputy Mayor for City Finances, Budget Director, and Director of Operations. Just as the New York banks in 1871 were able to install their man, Andrew H. Green, as Deputy Comptroller, thereby gaining control of the city's finances, the leaders of the New York financial and business community over the last two years have been able to install their representatives in key positions, thereby gaining effective control over the city government today.

These spokesmen for the city's business community have argued, with considerable justification, that New York has little alternative
but to close the gap between expenditures and revenues by reducing expenditures. Tax increases would encourage more employers and taxpayers to leave the city, thus exacerbating New York's economic and fiscal problems. Among the city's expenditures, however, two categories have been the particular targets of New York's fiscal overseers. The first are labor costs. In response to pressure from MAC and the EFCB, the city instituted a wage freeze and eliminated 56,000 employees from its payroll. This represents a 19-percent reduction in the city's labor force. The second are programs with predominantly black clienteles—youth services, addiction services, compensatory higher education—which have suffered disproportionately severe budget and personnel cutbacks. Moreover, personnel have been fired in disproportionate numbers from job categories—clerical, paraprofessional, and maintenance—heavily staffed by blacks and Puerto Ricans. Consequently, between July 1974 and February 1976, the number of Hispanics employed by mayoral agencies declined by 51 per cent, and the number of black males declined by 40 per cent. What retrenchment has meant in practice is that the city has curtailed the benefits it provides to two of the groups—civil servants and blacks—that had gained a measure of political power in the 1960's.

The fall of the blacks and the unions

Squeezing out the blacks has been a rather simple matter. Black leaders had mobilized their constituency in the 1960's by relying upon the resources provided by federal and local agencies, and by drawing upon the publicity and support of the press, national foundations, and universities. In the early 1970's, however, the Nixon Administration turned sharply to the right, and federal expenditures for community organization were cut drastically. At about the same time, the Lindsay administration abandoned its mobilization strategy, and the various institutions in the not-for-profit sector committed wholeheartedly to social activism in the 1960's felt the pinch of a declining stock market and reduced federal social expenditures, and became far less aggressive politically. Finally, upper-middle-class youths, who had provided much of the manpower for community organization drives in the 1960's, turned to other causes in the following decade: environmentalism, consumerism, feminism, or simply careerism. The New York fiscal crisis represents the culmination of this trend: Blacks have simply been abandoned by their erstwhile supporters. It appears that the upper-middle classes, who
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in the flush 1960's saw blacks as useful allies in the drive to extend their influence over municipal government, have concluded in the harsher climate of the 1970's that their political interests can better be served by entering into an alliance with the banks. The New York Times, for example, has uncritically accepted the most questionable assumption underlying the retrenchment program advocated by the city's business leadership—the notion that retrenchment will restore the city's access to the capital market—and it now attacks the civil service not in the name of responsiveness and innovation, but rather in the name of economy and productivity.

It has been a far more troublesome problem to deprive the city employees of the gains they achieved in the late 1960's and early 1970's, because city employees are far better organized than blacks, and their power is less dependent upon the steadfastness of their allies. Nonetheless, the civil-service unions have been compelled to accept a wage freeze, layoffs, longer hours, and heavier workloads. In addition, they have been induced to invest (or to commit themselves to invest) some $3.7 billion of their pension-fund assets in New York City and MAC bonds. Indeed, since the onset of the fiscal crisis, the tables have been entirely turned in municipal labor relations. No longer do the unions and the city bargain to determine which of the unions' demands the city will accede to; now the question has become which of the city's demands the unions will accede to. How has this been accomplished?

In an immediate sense, the tables were turned by the state's Financial Emergency Act, which granted the EFCB the power to review—and to reject—municipal labor contracts. But one must ask why the unions have agreed to play by these new rules, instead of striking to obtain higher wages. The most direct explanation for the unions' meekness is that strikes would almost certainly fail. New York City's creditors and potential creditors regard the wage freeze as the acid test of whether public officials in New York are prepared to mend their ways. Were city and state officials to bow to the demands of a striking union, the city's present and future sources of credit would dry up. If the unions were to strike nonetheless—in an effort to compel the mayor and governor to choose between losing access to credit once the city's current cash balance was depleted, and an immediate and total disruption of municipal services—the mayor and governor would probably take the latter. The success of a strike ultimately depends upon public tolerance—or more concretely, whether the public will countenance the use of the national guard to perform the functions of striking workers.
Mayor Lindsay floated the idea of using the national guard during the 1968 sanitation strike, and quickly discovered that it was totally outside the realm of political possibility at that time. It is a measure of how dramatically New York politics have been transformed since the fiscal crisis that the municipal unions dare not tempt the mayor to make such a proposal today.

Another reason for the remarkable restraint of the unions during the crisis is that they have an enormous stake in the city's fiscal viability. Bankruptcy would cause the value of the New York City and MAC bonds owned by the union pension funds to plummet. More importantly still, bankruptcy would throw the city into the hands of a receiver with the unilateral authority to abrogate union contracts, slash wages, order wholesale firings, and reduce pension benefits. This would mean the end of collective bargaining and would threaten the very existence of the unions. To avoid these dangers, municipal union leaders have undertaken the task of selling the retrenchment program to their members, convincing them that they have no alternative but to bear with it. And by doing this, they have made it unnecessary for the bankers and business leaders to rely upon harsher measures to implement the program. In this respect, since the fiscal crisis the municipal labor leaders have played a role in New York politics similar to that played by John Kelly after the overthrow of Tweed: They have assumed the job of disciplining the municipal labor force, just as Kelly imposed a system of discipline upon the ward heelers in Tammany. In praising Victor Gottbaum for being "responsible" in urging his members to bear with the wage freeze, the editorial writers for the New York Times were saying in 1975 precisely what the editor of the Commercial Advertiser said a century ago of Kelly, in somewhat more forthright terms: "Kelly has ruled the fierce Democracy in such a manner that life and property are comparatively safe... It requires a great man to stand between the City Treasury and this most dangerous mass... Dethrone Kelly and where is the man to succeed him?"

**Sources of instability**

There are, then, some striking similarities between the financial and political developments in New York since the fiscal crisis of 1975, and those in the aftermath of Tweed's downfall a century ago. In each case, municipal expenditures exceeded municipal revenues, and the city was compelled to bring the two into line by
reducing its expenditures. Retrenchment has involved a reduction in the flow of benefits to groups that had recently acquired political power, which in turn means that the members of these groups must endure a new and more stringent fiscal and political order. This process of financial and political contraction has been accomplished, in part at least, with the cooperation of leaders from the very groups that are being compelled to lower their sights and accept the harsher discipline of the new order.

The parallel is not perfect, however. The most obvious difference is that blacks and Puerto Ricans have thus far been less successful in defending their economic and political gains than the Irish were under Kelly, or for that matter, than the civil-service unions have been during the present crisis. Another difference is that the regime currently governing the city is less tightly organized, centralized, and broadly based than the Tammany of Kelly, Croker, and Murphy. Consequently, no single organization today is capable of subjecting both the electorate and public officials to its discipline. And for these reasons, the *modus vivendi* that has emerged among the major actors in New York politics in the present crisis is not entirely stable.

The structural weakness of the present New York regime, and the substantial exclusion of blacks from it, could lead to the collapse of the entire set of accommodations sustaining the retrenchment program so far. One potential threat to the success of the current retrenchment program arises from the weakness and lack of discipline of some of the city's public-employee unions. If the leaders of a union are to risk negotiating a contract that reduces their members' benefits, they must be politically secure; if they are to get their members to approve such a contract, the union must be organizationally strong. Victor Gottbaum and the union organization he leads (the State, County, and Municipal Employees) may well be strong enough to impose discipline upon its rank-and-file, but some of his colleagues in the municipal labor movement are not so well situated. The leadership of the Patrolman's Benevolent Association (PBA), in particular, is very insecure, and the union itself is highly factionalized and quite weak. It is not surprising, therefore, that two successive PBA presidents, Ken McFeely and Douglas Weaving, refused to agree to the wage freeze, and were reluctant to negotiate a contract that—in the city's judgment, at least—stayed within the EFCB's guidelines. When Weaving finally did hammer out an agreement with the city's negotiators, it was rejected by the union's delegate assembly, and bands of policemen,
encouraged by Weaving's political opponents within the union, staged a series of protests and demonstrations. Unable to mediate successfully between his members and the EFCB, Weaving resigned, as McFeely had before him. The refusal or inability of any one union to accept wage restraints, of course, makes it more difficult for the other unions to do so.

The very fact that New York City employees are represented by a number of independent unions is another potential source of instability: Each union can attempt to exploit its peculiar advantages, and pass the burdens of moderation on to the other unions. On a number of occasions the United Federation of Teachers (UFT) has sought to do exactly this. The UFT is probably the most politically powerful of the city-employee unions, because it can both draw upon its own resources and count on other groups to rally to the cause of education. Thus the UFT relied on its strength in the state legislature to secure passage of the Stavinsky-Goodman bill in the spring of 1976, which directed the mayor to restore $150 million of the funds he had cut from the Board of Education's budget. And the UFT has been the only civil-service union to stage a strike during the first two years of the financial crisis. The contract settlement that ended the brief teachers' strike in September 1975 provided salary increases for senior teachers, which the Board of Education financed by reducing the length of the school day and by failing to rehire any of the teachers laid off earlier. In all probability, when the UFT and the Board agreed to this contract, they anticipated that they would be able, with the support of aroused parents' groups, to pressure the mayor into giving the schools enough money to rehire teachers and restore the full school day.

The Stavisky-Goodman bill and the 1975 UFT contract indicate other tensions that can undermine the retrenchment program—those between the handful of officials in New York directly responsible for the city's finances and the hundreds of officials in legislative and administrative positions without such a responsibility. The overriding concern of the mayor and comptroller of New York City, and the governor and comptroller of New York State, is what might be termed the "cash-flow imperative." The city simply must have cash on hand to pay its bills when they fall due—especially to meet its payroll and debt-service obligations—if the government of the city is not to grind to a halt. The cash-flow imperative is the central preoccupation of these four officials, because they bear the ultimate responsibility for the day-to-day administration of the city's affairs, and for obtaining the loans the city needs to continue operating.
This is a less immediate concern to city and state legislators, and to administrative officials who are only responsible for spending money but not raising it. And because politicians in New York today (in contrast to the situation during the heyday of Tammany rule) are independent political operators who are not subject to the discipline of a common party organization, the mayor and governor have found it difficult to compel other officials to pay heed to the imperatives imposed upon the city by the capital market.

The inability of the mayor and the governor to control other politicians provides groups demanding services with the opportunity to get their way by mobilizing other public officials against them. The Stavisky-Goodman bill, for example, was strenuously opposed in the name of fiscal responsibility by Mayor Beame and Governor Carey—both of whom, it should be noted, are moderately liberal Democrats. Nonetheless, the UFT and its allies were able to secure overwhelming majorities in the State Assembly and Senate to pass the bill—even though the governor had vetoed it, the legislature had not overridden a gubernatorial veto in more than 100 years, and one house of the legislature was controlled by moderately conservative Republicans. The UFT was also able to pressure the EFCB into approving its labor contract, although questions had been raised by the EFCB staff about whether the contract was consistent with the wage freeze, by getting the two United States Senators from New York to urge ratification in public testimony before the Board. Likewise, the Board of Higher Education and the Health and Hospitals Corporation, which as quasi-independent agencies have somewhat more leeway to maneuver politically than regular city departments, have attempted to resist budget cuts by getting various elected officials to support their cause. In this way, they hope to isolate and pressure the mayor and governor.

The electoral threat

The final difference between the regime governing New York today and the regime Kelly and his successors constructed involves perhaps the most serious threat to the retrenchment program. The Tammany machine in the days of Kelly, Croker, and Murphy rested on a very broad and tightly controlled electoral base. The structure of electoral politics in New York today is quite different. A substantial proportion of the city’s electorate—particularly its potential black and Puerto Rican electorate—does not vote. And many of the groups that do vote, but have acquiesced in the retrench-
ment process so far, are capable of acting independently in the electoral arena to protect themselves from the full rigors of retrenchment. The potential thus exists for elections to disrupt the retrenchment process. If black leaders were to mobilize a broader electoral base now than in the past—and they now have a stronger incentive to do so—public officials would not find it so easy to slash expenditures on programs with a black clientele. And if various groups that have acquiesced thus far to retrenchment were to adopt a new stance and enter into a new set of electoral alliances, public officials might find it politically impossible to heed the imperatives imposed upon the city by the capital market.

In short, the structure of electoral politics in New York today is such that political campaigns can generate serious strains within the retrenchment coalition, and can result in the election of public officials committed to opposing aspects of the retrenchment program. Just how real this possibility is can be seen by examining the potential electoral resources commanded by blacks, homeowners, liberals, and city employees, and by considering the various ways candidates might construct coalitions among these groups in their efforts to win municipal elections.

Blacks and Puerto Ricans participate in elections in far smaller proportions than other major groups in the city. (During the first round of the 1973 Democratic mayoral primary election, for example, a total of 3,828 votes was cast in the predominantly black 54th Assembly District in Brooklyn, while 23,080 votes were cast in the predominantly Jewish 45th Assembly District a few miles to the south.) This is a consequence, at least in part, of the peculiar role blacks and Puerto Ricans played in the city's politics in the 1960's—one that contrasts sharply with the role the Irish played in New York politics a century before. While the political leaders of the Irish were rewarded in direct proportion to the number of votes they commanded, for the most part black leaders in the 1960's were not rewarded on this basis, because their support was valued less for the number of votes they could swing in municipal elections, than for the legitimacy they were able to confer upon public officials or public programs in the eyes of federal grant-givers, national opinion leaders, and the most ardent supporters of these officials and programs. To the extent that black leaders were able to obtain administrative appointments, influence over policy-making, access to the mass media, federal or foundation grants for their organizations, or election to public office in predominantly black constituencies, all without a large mass following, they had no compelling
incentive to undertake the effort involved in mobilizing such a following.

The legitimacy that black leaders can confer on the officials or programs they support has been a far less valuable political commodity in the mid-1970's than it was in the late 1960's, and blacks have consequently suffered heavily from retrenchment. The immediate reason why blacks have borne the brunt of the recent wave of firings, of course, is that the city removes workers from the municipal payroll in reverse order of seniority. Black leaders have predictably denounced this practice as "racist" and "anti-black." The city has adhered to it nonetheless, because any alternative would be denounced with equal vehemence by the civil-service unions, and the mayor is less willing to arouse their ire than that of the black leadership. If it were the case, however, that blacks and Puerto Ricans cast as large a proportion of the vote in the Democratic primary as their proportion of the city's population (roughly one third), rather than voting at less than half that rate, it is likely that the mayor would have taken greater pains to protect blacks from the full force of the "last-hired, first-fired" rule. He might, for example, have cut more deeply into job categories occupied predominantly by whites, rather than by blacks.

Such political lessons are not likely to be lost on black politicians. To the extent that black leaders in the future will only be rewarded in proportion to the help they are able to give their friends at the polls, or the harm they are able to inflict on their enemies, they will have a stronger incentive than they had in the 1960's to mobilize the enormous pool of black non-voters. At the same time, retrenchment will provide black politicians with the inducement to adopt a new leadership style, and it may well spark leadership struggles within the black community. The skills involved in organizing large blocs of voters and forging coalitions in the electoral arena are not the same as the ones rewarded and hence encouraged by the city's political system in the 1960's. In this way, the current fiscal crisis may well foster leadership changes within the black community akin to those among the Irish a century ago, which favored the respectable and taciturn John Kelly over both the fiery Irish nationalist O'Donovan Roosa and the disreputable gambler John Morrissey. Such leadership is by no means alien to blacks: It is the style of the black labor leader (e.g., Bayard Rustin or Lillian Roberts) rather than the black preacher. There are some indications that such a transformation may in fact be taking place today. In announcing his candidacy for the 1977 Democratic mayoral
nomination, for example, Percy Sutton ignored racial issues and focused his remarks solely on the problem of crime, an issue around which he clearly hopes to mobilize a biracial electoral majority. Over the long run, then, the fiscal crisis may do for blacks what the overthrow of Tweed did for the Irish: It may facilitate their incorporation into the political system under a chastened and more sober political leadership.

Whatever its long-run consequences, however, in the short run the incorporation of the enormous reserve of black non-voters into the electoral arena can only upset the current retrenchment program. The success of this program is contingent upon the political feasibility of firing a large fraction of the city’s minority-group employees, and cutting heavily into the budgets of municipal agencies providing services to blacks and Puerto Ricans. No black leader could hold onto his following while tolerating a retrenchment program whose burdens fall so disproportionately on his constituency. (Although his general strategy entails avoiding racially divisive issues as much as possible, even Percy Sutton rose to the defense of John L. S. Holloman, the black director of the New York City Health and Hospitals Corporation, whose removal from office was engineered by the EFCB and Mayor Beame because he resisted cutting the budget of the public hospital system, most of whose patients and a majority of whose nonprofessional personnel are black and Puerto Rican.) The entry of thousands of blacks into the electorate would give black politicians the bargaining power to back up their demand that the burdens of retrenchment be redistributed. Any such changes would of course be resisted by the groups that would be disadvantaged, and elected officials might well find it impossible, within the constraints imposed upon the city by the municipal-bond market, to arrange a new set of fiscal and political accommodations acceptable to the city’s unions, taxpayers, business interests, liberals, and blacks.

Who should bear the burden?

The civil-service unions are also in a position to use their electoral influence to improve their bargaining power in the retrenchment process. The unions can deploy manpower and money in political campaigns, and public employees and their spouses constitute a substantial voting bloc, especially influential in primary elections. A natural strategy for a candidate would be to court the support of the unions and middle-class Jews (the group whose turnout rate
is the highest in the city's electorate) by casting himself as the
defender of the city's traditional public programs, especially its
public schools and colleges, and its subsidized middle-income hous-
ing program and rent-control program. The two chief sponsors of the
Stavisky-Goodman bill, one of whom had his eye on the presidency
of the city council and the other on the mayoralty, were clearly
laying the groundwork for such a campaign appeal when they in-
troduced their bill in the state legislature.

Elections and political campaigns can also lead to changes in
the relative influence of the two groups most strongly committed
to budgetary cutbacks—the city's downtown business elite and its
homeowning population—and might thereby disrupt the retrench-
ment coalition. Since the eruption of the fiscal crisis, bankers and
corporate executives have wielded enormous power in their role as
mediators between the city and the capital market. They are able
to exercise far less leverage in electoral politics, however, because
apart from the Republican organization in Manhattan, they have
no organizational presence. On the other hand, representatives of
the city's homeowners have played little direct role in governing the
city since the onset of the fiscal crisis (no spokesman for this group
sits on the EFCB or MAC), but they are an important force in the
city's electoral politics. Tax-conscious homeowners are a major bloc
in the city's electorate, and their representatives play a considerable
role in municipal elections through the regular Democratic and
Republican organizations in Brooklyn, Queens, and the Bronx, and
through the Conservative Party.

The question of who speaks for retrenchment in the governmental
and electoral arenas is quite significant because the politicians who
represent the city's homeowners are likely to cultivate alliances that
differ considerably from the ones the bankers have struck. It would
be natural for a candidate seeking the votes of the homeowners
(who are chiefly lower-middle-class Catholics) to advocate that the
municipal bureaucracies that employ and serve them (the Police
and Fire Departments) be spared drastic budget cuts, and that re-
ductions be made instead in programs (especially welfare) that
have a black clientele and employ middle- or upper-middle-class
personnel. Nothing could be more calculated to alienate the reform-
ers and liberals, who have been happy to join a retrenchment
coalition led by men of their own class or a higher social class (like
Felix Rohatyn), and would find it hard enough anyway to overcome
cultural and ethnic antipathies sufficiently to collaborate with poli-
ticians speaking for lower-middle-class Irish and Italians.
Finally, reformers and liberals may come to play a different role in the city's politics during and after an election campaign than they have since the eruption of the fiscal crisis. Since 1975, reformers and liberals have followed the political leadership of the banks. In electoral politics, however, they have the ability to act independently, and they command a number of important resources—organizational skills, money, talent, energy, and a committed mass following. During an election campaign, these resources could be deployed in one (or both) of two ways. One alternative, which might be called the West Side option, would be for liberals to recultivate an alliance with blacks, oppose budgetary cutbacks, attack the banks, and—apart from calling for increased federal aid—ignore the issue of how the city is to pay its bills. The second, the East Side option, would be for liberals to maintain their current alliance with the banks, insist that the city has no choice but to cut its budget, attack the politicians and union leaders (the power brokers?) responsible for getting the city into its present mess, and—apart from opposing appeals to racism—ignore the blacks.

Campaigns can thus open the question of who should bear the burden of retrenchment, and elections can compel public officials to commit themselves to protect various municipal programs from budgetary cutbacks. When this source of strain is considered along with the other tensions besetting the retrenchment coalition, it is little wonder that New York City's creditors and potential creditors are reluctant to trust their fate to democratic politics.

The logic of political contraction

There are, as I noted above, two fundamental routes to retrenchment. One, the path of political organization and internally imposed discipline, preserves at least the forms of democracy. The other, the path of political contraction and externally imposed discipline, does not. Any particular retrenchment program may of course involve elements of both self-discipline and political contraction. Although New York City recovered from the fiscal crisis of 1871 by pursuing for the most part the path of self-discipline, there were aspects of the post-Tweed regime that could scarcely be considered democratic. For example, the reform charter under which the city operated from 1873 through 1897 included provisions for "minority representation" guaranteeing the anti-Tammany forces at least one third of the seats on the Board of Alderman. And Tammany relied, at least in part, upon its control of the police to deal with opponents who
challenged its hegemony over the working classes: The police commonly intervened against unions in labor disputes, and dealt rather harshly with anarchists, socialists, and communists.

These qualifications aside, New York City recovered from its 1871 fiscal crisis without abandoning the forms of democracy, because John Kelly and his successors discovered a way, in a city where the ownership of property was not widespread, to reconcile mass political participation with the security of private property. They accomplished this by constructing a political machine that exchanged patronage for votes, and had both a broad base and a centralized structure and was therefore able to subject voters, public officials, and public employees to its discipline.

No such political organization exists in New York today. This is why the process of retrenchment in New York is currently beset by so many tensions, and why political campaigns and elections could so easily upset the retrenchment program. And it is for this reason that legal and institutional reforms that would sharply limit the scope of local democracy are being seriously considered in New York today.

New York City's creditors are well aware of the dangers threatening the retrenchment process. This explains the character of the proposals that the banks have advanced, and that public officials themselves have supported, in an effort to make the city's bonds marketable. For example, at the insistence of the banks, the statute creating the Municipal Assistance Corporation diverted the revenues of the stock-transfer tax and sales tax from the city's general fund, and earmarked them for debt-service payments on MAC bonds. And in February 1977, Mayor Beame proposed that revenues from the city's property tax be set aside in a fund under the State Comptroller for the purpose of meeting debt-service payments on New York City bonds and notes. Together, these reforms would deprive locally elected officials in New York City of the authority to determine how the monies raised by the city's most productive taxes are to be spent. (An analogous reform on the federal level would be a constitutional amendment depriving Congress of its authority over the $150 billion raised by the federal income tax, declaring that this money must be spent for national defense, and placing it in a fund controlled by the Joint Chiefs of Staff.)

In a similar vein, Governor Carey proposed that a "health czar" be jointly appointed by the mayor and governor to exercise all the authority of the city and state governments over hospitals and health care in New York City. This would permit both the mayor and gov-
ernor to disclaim responsibility for the health czar's actions, and would thus give him enough freedom from popular pressures to accomplish what officials subject to such pressures find impossible to do—order the closing of hospitals.

Finally, in March 1977, the banks proposed that a state-appointed Budget Review Board be established as a long-term successor to the EFCB. The Review Board would have the power to review the city's budget before it was adopted, to reject it if—in the Board's judgment—it was not legitimately balanced, and to approve or disapprove all subsequent budgetary changes and all city borrowing. If city officials refused to obey the orders of the Review Board, it would have the authority to assume total control over the city's finances, and even to prefer criminal changes against municipal officials. The banks also proposed that restrictions be placed upon the city's ability to issue short-term debt, that a fund be created to cover revenue shortfalls and expenditure overruns, and that city officials be required to observe various reporting requirements and internal budgetary controls.

As these proposals indicate, a process of political contraction is well under way in New York. And the logic behind that process seems to be inexorable. If New York City is to manage its cash flow, finance capital projects, and pay off its accumulated deficit, it must enjoy access to credit. It will obtain such access only if its creditors are convinced that the city is able to repay the money it borrows. The city can only pay its debts if its current expenditures do not (as they presently do) exceed its revenues. Since the city's ability to increase its revenues through additional taxation is reaching the point of diminishing returns, it has no alternative but to reduce its expenditures. If elected officials find it politically impossible to reduce municipal expenditures, then the city can obtain the loans it requires only if outsiders are empowered to do the job for them, or if their authority to do otherwise is restricted by law.

In the absence of a political leadership with the power that John Kelly had to impose restraints upon public officials, New York City's creditors have searched for other means to insure that their loans will be repaid. And in an effort to provide such guarantees, the city has been driven down the second route to retrenchment—that of political contraction. To be sure, New York City is not the Weimar Republic or Argentina. David Rockefeller is not in a position to organize bands of black-shirted thugs to beat up municipal union leaders and break up meetings of West Side reformers, nor is Felix Rohatyn likely to propose that welfare recipients be disqualified
from voting in municipal elections. The process of political contraction, however, can proceed not only by direct assaults upon the rights of newly powerful groups, but also by removing authority from the hands of elected officials amenable to the influence of these groups and transferring it to officials insulated from popular pressures. Moreover, statutes can be enacted and standards placed in the covenants of 20-year municipal bonds that limit the freedom of elected officials within the domain where they do retain some authority. And, as Boss Tweed learned, the criminal law can be used to keep profligate politicians in line. Just such reforms have been enacted or are being proposed in New York in an effort to make the city's bonds marketable. Whatever may be the long-run consequences of the city's fiscal crisis, as a result of these reforms, the citizens of New York may be left over the next decade with very little control over how they are governed.

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