

THE NEW YORK CITY FISCAL CRISIS AND ITS ECONOMIC IMPACT ON MINORITY COMMUNITIES

Julian Ellison

New York City is required by the New York State Financial Emergency Act for the City of New York to submit to the Emergency Financial Control Board (EFCB) a financial plan to eliminate a deficit estimated at \$800 million. A three-year plan has been submitted by the mayor and the Municipal Assistance Corporation (MAC) that would cut current expenditures by \$200.7 million by the end of this fiscal year (June 30, 1976). The EFCB has sent this back to the mayor, demanding details of the cut by city agency. The city's Office of Management and Budget submitted those details around October 15, 1975. It has been approved by EFCB.

This plan assumes that funds will be made available to meet debt service payments in November and December. However, with President Ford's decision to veto any Federal government legislation that would guarantee further short-term loans to New York City, the only apparent remaining hope to forestall default in November is the use of city employee pension funds as collateral for loans. If agreement cannot be reached on this with unions, default is imminent. We focus in this paper on the first-round impact of this default on the employment, wage, securities, and business income of the black and Puerto Rican communities. Secondary impacts would be proportionately severe.

EMPLOYMENT AND WAGE IMPACTS

City personnel cuts have already reached 31,000 and another 8000 layoffs are expected to follow even if the November and December debt service payments can be met. These are full-time employees. No data have been released on part-time employees who have been laid off. City officials say

that the average wage and salary income of these full-time employees is \$9600, which if true would mean a saving of \$374 million by the end of the fiscal year. If default occurs, another 60,000 employees would be laid off, according to Governor Carey. With total city employment cuts totalling nearly 100,000 since last December, total savings to the city or income lost to workers amounts to \$950.4 million.

The City's Office of Management and Budget has detailed by agency the personnel cuts as of September 30, 1975. It lists 38 agencies and three lines entitled "others" in which cuts have taken place (See *New York Times*, Friday October 17, 1975, p. 14). The largest absolute cuts have been sustained by the Board of Education, the Health and Hospitals Corporation, the Police Department, the Department of Social Services, the Sanitation Department, the Fire Department, the Board of Higher Education, and the Department of Resorts, Recreation and Cultural Affairs. These, however, also had the largest workforce to begin with. In percentage terms, agencies responsible for cultural affairs have suffered the largest cuts; the smallest cuts were taken by the City Council, the Courts, and the Transit Authority.

Total black and Puerto Rican employment in city agencies was 34 percent of the total in 1971, amounting to 94,662 (See NYC Commission on Human Rights. *The Employment of Minorities, Women and the Handicapped in City Government: A Report of a 1971 Survey*, and Table 1). We have not been able to obtain later data from the city. Officials at the New York City Human Rights Commission estimate that this figure has changed little in the four years since then.

We assume that black and Puerto Rican layoffs would be higher because these groups had lowest seniority in most cases and were employed in the agencies with lowest skill requirements and in low-skill occupations in all agencies. Moreover, layoffs of part-time workers, for which no figures are available, probably hit these groups disproportionately hard.

Aggregate wage and salary income of minority workers employed by New York City in 1971 was \$819.3 million (See Table 2). If layoffs of full-time workers of 100,000 actually occur, we estimate that the black and Puerto Rican communities will lose an income from the city of \$294.6 million, assuming they earned the average wage of \$9600 and that they were laid off in proportion to their employment. These assumptions are probably not good ones, given the low seniority and employment in low-skill occupations and agencies and hence lower wages of minority workers. The figure should be scaled downward to take account of these

facts. Based on the 1971 data, we estimate the average wage of minority workers to be \$8655. Using this figure the loss can be calculated to be \$265.6 million. In either case it is a tremendous loss to New York's minority communities (See Table 3).

Some perspective on the size of this loss is gained from observing that aggregate personal income of minorities obtained from all income sources was \$5.37 billion in 1969 (See Table 4). Income earned from the city was thus 15.3 percent of this latter figure. We estimate that minority income has grown since 1970 at a rate of 4.3 percent annually. At such a rate, minority income at the end of 1974 would amount to \$6.63 billion.

IMPACTS ON BOND AND NOTE HOLDERS

The number of Blacks and Puerto Ricans who hold city obligations is unknown but is certainly a small part of total holders of such obligations. The largest holders in our communities are the banks, savings and loan associations, insurance companies, and other financial institutions. The number of individual holders is of small financial importance.

The portfolios of black banks have been estimated to contain 7.7 percent state and local government securities (See Andrew F. Brimmer. "The Black Banks: An Assessment of Performance and Prospects," paper presented at a joint session of the annual meetings of the American Finance Association and the American Economic Association, Detroit, Michigan, December 28, 1970, and Table 9). The total assets of these banks was estimated to be \$125.6 million as of December 31, 1970. Thus, \$9.67 million was held in state and local government securities by black banks across the country.

There are five banks in the New York City area in which the major part of ownership is held by Blacks or Puerto Ricans. Freedom National Bank (founded 1964) and Vanguard National Bank (located in Hempstead, Long Island) had total assets of \$15.8 million as of September 30, 1975. About one-third of their assets were in New York State or New York City securities. Most were in bond issues of school districts in Nassau and Suffolk Counties (See Table 5). Officials at Vanguard said that they had sold off their New York City securities "very early" in the fiscal crisis.

Banco Popular de Puerto Rico, with many branches in Puerto Rico as well as in New York City, had \$1.11 billion in total assets as of September 30, 1975. Obligations of the federal, state, municipal, and Puerto Rican governments accounted for \$307 million or 27.7 percent of the total. No

data were available on the actual amount of New York State or New York City securities held.

Banco de Ponce, which also has branches in both Puerto Rico and New York, had \$698.9 million in total assets as of September 30, 1975. No data were available on the proportion of total assets held in state or local government obligations in general, or New York State and New York City obligations in particular.

We were not able to obtain data on assets from Banco Credito, which is an investment bank in the Wall Street area.

Thus, the only minority bank for which information is available that holds New York City or New York State securities is Freedom National Bank. Other state and local securities held by four of the five minority banks amount to \$312.3 million. The New York obligations account for only 4.15 percent of Freedom's total assets.

There are two minority savings and loan associations in New York City—Carver Federal Savings and Loan Association (owned by Blacks) and Ponce de Leon Savings and Loan Association (owned by Puerto Ricans). Carver's total assets as of June 30, 1975 were \$62.7 million. No information was available on the proportion of these assets held in state and local securities and New York State or New York City securities. Ponce de Leon had total assets of \$17 million as of June 30, 1975. New York State and New York City obligations held were nil.

The remaining financial institutions controlled by minorities in New York are in the insurance industry. However, this is a small participation. Although there are many minority insurance firms or companies, there appears to be only one minority company doing a full-fledged, independent business. This is the United Mutual Life Insurance Company, located in Harlem. As of September 30, 1975 its total assets were approximately \$9.5 million, of which one percent or \$95,000 were in New York State or New York City securities. Some other companies act as brokers for their policy holders, dealing with several parent companies.

It is difficult to estimate the number of black and Puerto Rican insurance companies, since agents, branches, and brokers are counted as minority firms by the U.S. Census Bureau, even if they represent non-minority companies. Thus in 1972, 806 black firms were listed as finance, insurance, and real estate companies in New York State. Of these, 617 were in New York City. Similarly, the number of firms owned by persons of Spanish origin in New York State in those industries in 1972 was 227, of which 190 were in New York City. Puerto Ricans owned 40 of these,

Cubans 15, other Central and South Americans 22, Mexicans 3, and those with nation of origin not specified 110.

The proportion of the industry classification "finance, insurance and real estate" accounted for by insurance alone was 18.64 percent for Blacks in 1969, 24.42 percent for Puerto Ricans, and 16.92 percent for Cubans. The latter two groups comprise the majority of the Spanish origin population in New York City. Assuming that these proportions remained constant over the intervening six years, black insurance companies in New York City would now number 115, Puerto Rican companies 10, and Cuban companies two. Most of these (92 percent in the case of Blacks and 98 percent for Spanish speaking persons) fall into the sub-category "insurance agents, brokers and services," rather than "insurance carriers" (There were only 104 of the latter in the country owned by Blacks in 1969, and only 20 owned by persons of Spanish origin. Cubans owned three of these, and Puerto Ricans apparently owned none). Thus we estimate that in 1975 there are eight black insurance carriers in New York City, one Puerto Rican insurance carrier, and one Cuban carrier. These are the companies whose investment portfolios are of interest to us in attempting to estimate the impact of a New York City default on the black and Spanish speaking communities, since the agents and brokers would ordinarily not invest insurance funds themselves. Instead, the companies they represented would maintain the insurance fund for policyholders. We assume here that the disposition of funds held by white companies would impact less directly and less intensely on minority communities than would funds held by minorities. We are not able to estimate the value of assets held by these companies at this time, because we have not been able to identify them, if indeed they exist.

IMPACT ON MINORITY FIRMS THAT SELL TO NEW YORK CITY

We estimate that there are currently about 22,592 minority firms in New York State, with receipts of \$982 million (See Table 8). In 1969, 84 percent of the black firms and 82 percent of black business receipts in New York State were in New York City. We assume that this ratio still holds. Thus, in New York City there are about 18,900 minority firms, earning in the vicinity of \$809 million (See Table 8). We estimate that not more than \$8 million is received by minority business firms in sales to New York City. This represents about one percent of estimated minority sales for 1975. As a comparison, minority sales in 1975 were an estimated \$81 million, while total sales of business firms in New York City were \$355.32 billion, a ratio

of 23-thousandths of one percent (See Tables 6, 7, and 8). Thus, if minority sales to the city were proportional to their overall sales, they would only have \$1.86 million in such sales. The upper bound of one percent seems likely because affirmative action and contract set-aside programs on the local level imply that a disproportionate part of city government contracts are let to minority firms.

The City lets about 40,000 contracts per year according to the *New York Times*, of which 1,000 are for amounts of \$100,000 or more. The city plans to reduce these expenditures by 1.63 percent in the current fiscal year. Assuming that sales of black and Puerto Rican firms are cut proportionately, this would mean a loss of \$132,000 to them. The loss of sales of course will lead to a second round effect of lowered employment in these firms and hence a further reduction in wage income to the black and Puerto Rican communities at large.

PRICE EFFECTS

The decline in city government purchases will have a deflationary impact on the City's economy. As demand is lowered, the downward pressure on prices will increase. Hence, inflation should be modified. The extent of this influence depends upon the strength of monopolistic forces in industry that sell to the City in the first instance.

These monopolistic forces resist pressure to reduce prices. Their strength can be estimated only with difficulty, however. Certainly in the black and Puerto Rican communities, retailers have, effectively, a monopoly position. Hence, we conclude that price effects of City expenditure and personnel cuts in our communities should be minimal. Inflation will continue.

SUMMARY

We conclude that the major part of the loss to minority communities in New York City stemming from a default on City debt and the expenditure reductions required to cope with such a contingency would be in three categories: (1) wage and salary loss, (2) losses to note and bond holders, and (3) losses to firms that sell to the City. The expected losses amount to \$294.6 million, \$1.8 million, and \$132,000 respectively, for a total of about \$296.5 million. A cautionary note should be registered here. Estimates of wage and salary loss are based on four-year-old data. Since one generally expects increases in both employment and income, the loss incurred is correspondingly greater. We have no good way to estimate these increases.

This loss figure, with the stipulated cautions, is about 15 percent of aggregate personal income for minorities in the city, and an even larger proportion of the wage and salary income of minorities. The impact of this crisis could be to drive more Blacks and Puerto Ricans into the dependent state signified by the size of the welfare establishment. That contingency must surely be resisted.

TABLE 1
Representation of Ethnic Groups
by Salary Range, 1971
(in Dollars)

Salary Range	Minority Group			Total
	Black	Puerto Rican	Other Spanish Surnamed	
25,000+	347	79	11	437
18,000-24,999	693	79	22	794
13,000-17,999	9,581	317	197	10,095
10,500-12,999	13,866	1,901	808	16,575
7,300-10,499	14,559	2,852	306	17,717
5,200-7,299	33,277	9,347	699	43,323
Under 5,000	1,387	950	44	2,381
Unknown	2,395	882	63	3,340
Total	76,105	16,407	2,150	94,662

TABLE 2
Estimated Total Minority Income
by Salary Range

Midpoint of Classes*	Black (\$ million)	Puerto Rican (\$ million)	Other Spanish Surname (\$ million)	Total (\$ million)
25,000+†	10.41	2.37	.33	—
21,499	14.90	1.70	.47	—
15,499	148.50	4.91	3.05	—
11,749	162.91	22.34	9.50	—
8,899	129.56	25.38	2.72	—
6,249	207.95	58.41	4.37	—
4,000	5.55	3.80	.18	—
Total	679.78	118.91	20.62	819.31

Source: Calculated from data in New York City Commission on Human Rights. *The Employment of Minorities, Women and the Handicapped in City Government: A Report of a 1971 Survey.*

*Except open ended class.

†Assume \$30,000 average for class.

TABLE 3
Mean Income of Minority
Employees of New York City, 1971

Group	Number of Employees	Aggregate Income (\$ million)	Mean Income (in \$)
Blacks	76,105	679.78	8,932
Puerto Ricans	16,407	118.91	7,248
Other Spanish Surname	2,150	20.62	9,591
Total Minority	94,662	819.31	8,655

Source: Calculated from data in Tables 1 and 2.

TABLE 4
Aggregate Personal Income of
Blacks in New York City, 1969

	Black	Puerto Rican	Total Minority
Number of families	394,000	200,000	594,000
Mean income of families (in dollars)	8,171	6,360	—
Aggregate income of families (\$ million)	3,219.4	1,272.0	4,491.4
Number of unrelated individuals (in dollars)	189,000	38,606	227,606
Mean income of unrelated individuals (in dollars)	3,947	3,437	—
Aggregate income of unrelated individuals (\$ million)	746.0	132.7	878.7
Aggregate Income of Families & Unrelated Individuals (\$ million)	3,965.4	1,404.7	5,370.1

Source: U.S. Department of Commerce Library, New York telephone interview, Tuesday, November 11, 1975.

TABLE 5
Employment of Minorities in City
Agencies with Over 10,000 Employees, 1971

Agency	Total Employment	Black		Puerto Rican		Other Spanish Surnamed		Total %
		Number	%	Number	%	Number	%	
Board of Education	88,641	15,955	18	5,318	6	886	1.0	25
Health & Hospital Corp.	40,646	22,355	55	4,065	10	813	2.0	67
Police Department	35,310	3,531	10	1,059	3			13
Social Svcs. Dept. (HRA)	23,237	10,224	44	1,394	6	465	2.0	52
Sanitation Dept. (EPA)	15,304	1,990	13	306	2			15
Fire Department	14,873	595	4	149	1			5
Housing Authority	11,312	4,299	38	2,036	19			57
Total	229,323	58,949	26	14,327	6	2,164	.9	33

Source: See Table 3. These seven agencies employ 62.27 percent of city minority workers.

TABLE 6
Total Assets of Black & Puerto Rican
Financial Institutions

Name		Total Assets (\$ million)	NYC or NYS	Securities
			Securities (\$ million)	State and Local Securities (\$ mil- lion)
Freedom (founded 1964)	(1)	41	1.7	0.
Vanguard (1971)	(2)	15.8	0.0	5.26*
Banco Popular	(2)	1.110	—	307†
Banco Ponce	(2)	698.9	—	—
Banco Credito		—	—	—
Carver Fed. Savings & Loan Assoc.	(3)	62.7	—	—
Ponce de Leon Savings & Loan Assoc.		17	—	—
United Mutual Insurance Company	(2)	9.5	.095	—
Total		\$1,954.9	\$1.795	\$312.26

NOTES:

(1) As of July 30, 1975

(2) As of September 30, 1975

(3) As of June 30, 1975

*Other municipals

†Federal, State, Puerto Rican government securities.

TABLE 7
Spanish Speaking Firms & Receipts
in New York State 1969, 1972

	1972		1969	
	Number	Receipts (\$ thousands)	Number	Receipts (\$ thousands)
Puerto Rican	1,462	80,949	1942	70,972
Mexican	153	9,484	132	3,779
Cuban	434	22,233	563	20,658
Other Central & South American	421	12,604	280	6,653
Not Specified	2,149	117,269	2933	90,721
Total Spanish Speaking	4,619	242,539	6,130	192,783

Source: U.S. Bureau of the Census. *Minority-Owned Businesses—Spanish Origin* pp. 78-79.

TABLE 8
Black Firms & Receipts in New York
State, 1969, 1972
(\$ thousands)

1972		1969	
Number	Receipts	Number	Receipts
14,377	466,363	9,269	243,057

Source: U.S. Bureau of the Census, *Minority-Owned Business—Black*, pp. 32-33.

TABLE 9
Estimated Number of Minority Firms and
Receipts in New York, 1975

Group	Number		Receipts (\$ thousand)	
	NYS	NYC	NYS	NYC
Spanish	3,108	2,600	292,293	240,705
Black	19,484	16,896	689,669	567,942
Total Minority	22,592	18,896	981,964	808,647

Source: Extrapolation of data in Tables 7 and 8.

TABLE 10
Estimated Sales in New York SMSA
1967-1975
(In \$ billion)

Year	1967	1968	1969	1970	1971	1972	1973	1974	1975
Sales	313.50	329.18	332.31	329.18	332.31	332.31	344.85	350.09	355.32

Source: Calculated from data in New York City Council on Economic Education, *1974 Fact Book on the New York Metropolitan Region*. Data on sales in retail, wholesale, service, and manufacturing sales are presented for 1967, as well as an index of total business activity for the years 1958-1973. Estimates could thus be made of total business activity for 1967, which figure could then be projected, using the index.

TABLE 11
Ratio of Minority Sales to
Total Sales in New York SMSA, 1975

Group	Sales (\$ thousand)	Ratio to Total
Spanish	240,705	.07
Black	567,942	.16
Total, Minority	808,647	.23
Total (NY, SMSA)	355,320,000	100%

Source: Calculated from data in Tables 9 and 10.