State of the City: Fiscal Shock
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pg. 24

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New Yorkers, have been subjected during the past half year to a series of fiscal shocks that must convince even the most cynical citizen that this time the crisis is real. Within weeks, the city faces the grim possibility that it will not be able to raise the cash needed to meet its immediate obligations. In answer to recent appeals to Washington, Secretary of the Treasury Simon said flatly that "the solution to the city's financial problems does not lie at the Federal level."

The first storm signals appeared early last fall when Mayor Beame reported that his 1974-75 budget already was running $420 million in the red. Despite a progression of economies, the deficit has not been eliminated. It remains at $120 million or more—probably substantially more—as the fiscal year rapidly draws to a close.

Concurrently, the city began experiencing difficulty in marketing a rapidly growing volume of short-term notes. In December, city officials were forced to accept what they called an "outrageous" 9.479 per cent interest rate for a $500-million loan. By April, with city bonds selling at two-thirds of face value and with the city's "A" credit rating suspended by Standard & Poor's, New York faced the humiliating prospect of not being able to market a note issue for $450 million, already scaled down from an initial $550 million. Only a last-minute advance of $400 million from the state enabled City Hall to meet its debt and payroll obligations for the month.

The worst is yet to come. Between now and the end of June, it is estimated that the city will have to borrow at least $1.5 billion in a saturated market that is apprehensive about the city's fiscal position. There is growing fear that in the next six weeks, possibly as early as next week, the city will face a cash crunch comparable to that of the 1930's when bankers and the state forced the most stringent economies on the city to avert municipal bankruptcy.

The immediate cause for eroding confidence in the Beame administration is its persistent failure to wipe out the deficit in the current budget. This failure has been heightened by a disturbing lag in executing even those economy measures that have already been proclaimed, plus the prospect of a much larger deficit in the new fiscal year beginning July 1. After months of pruning and manipulating, the Mayor is still projecting a $641.5-million deficit in his $12.8-billion 1975-76 budget—and that is *after* allowing for a 10 per cent increase in realty taxes and a reduction in the city's payroll which the Mayor claims will amount to 10 per cent by the end of the fiscal year.

Is it any wonder that the Citizens Budget Commission says the city is facing "the worst fiscal crisis in its history"? How did the city get into this mess?

Roots of the Crisis

Part of the problem can be fairly ascribed to the current national recession-cum-inflation which has raised the costs of government while curbing revenues.

However, the roots of the urban crisis go far deeper than any transient national economic maladjustment. New York, like other urban centers, has been affected by long-term trends that have eroded the tax base while increasing pressure for public spending. These include:

- The flight to the suburbs of more affluent citizens, and of industries, and a concurrent influx of unskilled poor whose needs send social-service costs soaring.
- The progressive obsolescence and decay of the center city—of housing, highways, transit and water and sewer facilities.
- The unionization of public employes, with consequent sharp increases in wages and fringe benefits.
- Increasing congestion and pollution and a growing recognition of their harmful impact.

These problems are compounded for New York because of its size and density and because it has been a pioneer in developing public services, particularly in the area of human welfare. This city has spent more per capita on public services than most other cities and has been almost unique in providing some services, such as its city university and hospital systems.

The result has been a relentless rise in city expenditures—at a rate of 10 to 15 per cent annually for the past ten years—in the face of a much slower increase in the city's tax base. Three out of every four jobs added here during the 1960's were in the public sector. For over fifteen years, a profligate city has spent more than it has been taking in, papering over the difference with massive borrowing and fiscal legerdemain.

This is a game that cannot be played any longer. In the last ten years, the expense budget has more than tripled. Funded debt has doubled. Short-term obligations outstanding have soared from $747 million only five years ago to an estimated $6 billion next June 30. Total debt now exceeds $13 billion. Debt *service* is expected to surpass $2 billion next year.

What to Do About It?

The immediate task is to bring the new budget into balance and to begin whittling down the debt. Despite the string of economies Mayor Beame has already announced and the anguish his proposals have produced in the municipal unions, the size of the deficits in current and future budgets and the credit squeeze underscore the need for more drastic steps.

State and Federal aid combined account for about 45 per cent of the municipal budget. New York still has a valid case for more help in specific areas, and Mr. Beame will undoubtedly press this point, when he meets with President Ford tomorrow. Welfare is properly a Federal responsibility; courts, corrections and hospitals logically should be taken over by the state. Meanwhile New York City has a gigantic problem.

Some additional increase in local taxes—beyond the Mayor's proposed 10 per cent rise in the realty levy—undoubtedly will be needed. But New York City and state taxes are already the highest in the nation. There are severe limits to the amount that can be added to the current tax burden without further undermining the city's economic base. Commuters still pay far less than their fair share of the costs of maintaining the city, and the commuter tax should be raised; but the revenue yield would not begin to solve the budget problem.

The only realistic course is to cut spending to levels that the city can afford—and that means reducing personnel and services far more drastically than the Mayor has so far suggested, and clamping a lid on civil service wages and fringe benefits. The essential first step would be to put a freeze on all new hiring and to suspend negotiated pay increases—amounting to some $600 million in the new fiscal year—as the Citizens Budget Commission has recommended. The only—but less desirable—alternative is wholesale firings.

For the long haul, the budget crisis and the inevitability of a reduced work force—either by attrition or dismissals—make it essential that the city reform its budget-making procedures and improve personnel and management practices. This city has been ill-served by a political structure that has let mayors manipulate the budgetary process, almost without challenge, and by the gross inefficiencies of the bureaucracy. Citizens will have a chance to vote for long overdue reforms when the State Charter Revision Commission submits its recommendations in a referendum next fall.

With sound management and effective political oversight, this still dynamic and wealthy city can afford to provide adequate, even superior municipal services. It cannot afford to be profligate any longer.

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