



March 1977

New York City and the Economic Crisis

Joseph Harris

Labor Research Association, New York City

Follow this and additional works at: <https://scholarworks.wmich.edu/jssw>

 Part of the [Income Distribution Commons](#), [Inequality and Stratification Commons](#), and the [Social Work Commons](#)

Recommended Citation

Harris, Joseph (1977) "New York City and the Economic Crisis," *The Journal of Sociology & Social Welfare*: Vol. 4 : Iss. 8 , Article 17.
Available at: <https://scholarworks.wmich.edu/jssw/vol4/iss8/17>

This Article is brought to you for free and open access by the Social Work at ScholarWorks at WMU. For more information, please contact maira.bundza@wmich.edu.



NEW YORK CITY AND THE ECONOMIC CRISIS

by Joseph Harris

The crisis of New York City and the crises affecting many hundreds of other cities, counties, school districts, and other local and state governments are not accidents. They are a direct result of the neglect that social welfare receives at the hands of a government interested only in furthering the profits and position of the monopolies. Some people call the U.S. government a "warfare/welfare" state. I prefer to call it a state dominated by the giant corporations which control the economic and hence the political life of our nation. As long as federal policy continues to stress profits before people, the problems afflicting our nation will not be alleviated. Instead, they will worsen. The government insists on a policy of "malicious neglect" toward workers, racial minorities, the poor, the elderly, the youth, women, children--toward all but the very rich and powerful.

The Joint Economic Committee of Congress recently stated: "Chronically depressed regional and area economies are characterized by exceptionally high unemployment rates, net losses of private sector jobs, rapidly declining shares of national income, growing percentages of the national poverty population, and deteriorating public and private infrastructure."¹

The JEC recognizes that the Northeast especially, but also the Great Lakes and Mid-Atlantic, are becoming "chronically depressed." It asks for "additional Federal assistance" although it "realizes that the Federal Government cannot completely offset the effects of economic decline." Instead, it can only "provide stabilization assistance to cushion the impact of decline . . ." The JEC suggests a variety of measures to slow the decline, including directing the Federal government to let contracts especially in areas of high unemployment, to establish a development bank, and to provide tax breaks for businesses that invest in depressed areas.

What must be emphasized is that the Joint Economic Committee does not feel that the Federal government can stop the decline of the cities. Since it admits that private businesses are deserting the cities in search of higher profits elsewhere, the conclusion is inescapable that the JEC is writing off the depressed cities and regions of the country.

Had the JEC engaged in a serious search for funds to rebuild and revitalize the cities, it would have looked at the \$100 billion plus "defense" budget. This is a main source--but not the only source, as we shall see--for funds to overcome the fiscal crisis of the cities. The JEC evidently does not comprehend the scale of the repercussions which will result if the cities of the Northeast, the Great Lakes, and the Mid-Atlantic continue their rapid decline. Tremendous suffering and deprivation, accompanied by social unrest, militancy, mass radicalization, and struggle--the like of which the nation has never experienced--will cause U.S.

ruling circles to rue their earlier cavalier attitudes. Large problems cannot be solved by using run-of-the-mill, business-as-usual approaches. Yet the two parties which share power approach the crisis of the cities as if it can either be ignored or can be successfully dealt with, with the usual rhetoric and small-potatoes programs. They approach the crisis with a singular lack of serious concern.

This paper is a revised version of a speech given before a conference of activists mobilizing against inflation, unemployment, and the crisis of the cities. Its purpose, to paraphrase a famous activist and scholar, is not only to examine the city crisis, but to help bring about the conditions necessary to eliminate the crisis. It draws upon the experiences and wisdom of the many who are consciously embarked on the path of class struggle as the road to social progress.

We shall examine the meaning of "default," a few of its alleged causes, and some of the real reasons driving cities, other local governments, and state governments toward fiscal disaster. The experiences of New York City and its lessons are emphasized. Then follows a summary of the steps the bankers and industrialists took in New York City on their way to gaining open and legal jurisdiction over its financial affairs. The results of the coup d'etat are documented. We discuss the approaches toward the NYC crisis of various politicians, including President Ford and some liberal Democrats, and we present an outline of the Federal government's intervention in the NYC crisis. Finally, suggestions for ameliorating the crisis are made.

What About Default?

"Default" has many meanings. For the bankers and the lawyers, it means that cities and states do not pay back loans or make interest payments on time. Default means that a financial contract is broken. For the resident of New York City, Yonkers, Detroit, Cleveland, San Antonio, and many other places, default means massive losses of jobs, frozen and lowered wages, cutbacks in welfare, larger class sizes, cutbacks in hospitals and daycare centers, and elimination of services of many kinds. It is entirely possible for cities to fail in their financial obligations to city employees, school children, retired workers, the jobless, mothers and their children on welfare--and yet not legally default--as long as the bondholders, those to whom the city owes its loans, are paid on time.

But when cities do legally default, the impact on workers is even more severe. When the 6,195 legal defaults of the past 135 years occurred, the government apparatus swung into action to ensure that the defaulting governmental unit paid its bills to the bankers and other large bondholders. How was this accomplished? By extremely severe cutbacks in city services, wage freezes and reduction, job losses, and increased taxes--sometimes combined with varying amounts of federal and/or state financial assistance. For example, Detroit was on the edge of default in 1931. To meet its obligations to bankers, the major and city council were forced in 1931:

". . . to reduce the number of employees and to approve a 10% reduction of salaries up to \$4,000 and a 20% reduction for salaries above that level. In April 1932, the city temporarily defaulted on its payrolls because the banks refused further short-term advances until salary reductions were effected. A temporary 50% reduction in all salaries and prearranged credit from New York and Chicago were sufficient to carry Detroit through June 1932. In July, in order to obtain additional funds by the sale of notes or bonds, the city adopted a permanent 5-day salary ordinance which reduced salaries another 13%. City employees were paid at this level by means of script from July 1932 through mid-1934 . . . As economic conditions in the city began improving, there were large cash flows from past delinquent taxes. The cash flows were sufficient to enable the city to meet refunding debt service payments due in the mid and late 1930's and to restore the salary reductions forced on city employees.

World War II and the automobile boom following it enabled the city to meet the remaining refunding debt service payments."²

During each major depression, defaults skyrocket. From 1930 to 1939, 4,770 local governments defaulted in the U.S. These included 1,430 incorporated cities, 30% of the total; and school districts numbering 1,240, over 25% of the total. Did these 4,770 local governments default because their employees received "extravagant" wages, or because employees were loafing on the job, thus cheating the taxpayers? No! They defaulted because the depression, for which they were not responsible, caused massive unemployment, and drastic reductions in taxes while needed services, including welfare for the jobless, rose.

The depression which began in late 1973 officially ended, although mass unemployment remained. Officially the unemployment rate temporarily peaked at 9.2% in May of 1975. In March 1976, the official unemployment rate still stood at 7.5%, while unofficial estimates, including those of the National Urban League, stated that unemployment was about 15%. Among Black and other nationally oppressed peoples, the unemployment rate during the fourth quarter of 1975 was 26%, according to the Urban League. Officially, the figure was 14%, depression level unemployment! While the national unemployment average was 8.3% in September 1975, the unemployment was spread unevenly over the nation. For example, the official New York State unemployment rate was 12.1%. In general, the nation's largest cities, where the Black, Puerto Rican, Chicano, and other oppressed nationalities are concentrated, suffer from the greatest unemployment. If a spirited upswing does not occur, the spectre of default will settle over many hundreds of local governments and will even reach into many state governments.

While national attention has been riveted on New York City's plight, the fact is that New York City is not an isolated example of a default, Yonkers, the 4th largest city in New York state, narrowly averted default in mid-November, 1975. Further, it is estimated that 16 New York cities will default if New York defaults. Ripples from New York City's financial plight are not the main reason for the crippled position of many other local and state governments--as has been alleged by many who want

to blame New York for high interest rates and financial crises all across the nation. For example, Massachusetts would have defaulted in early December 1975, according to the New York Times (11/10/75), had the state Legislature not signed a bill in early November providing for "a \$3 billion budget with sharp tax increases and cutbacks in social programs." In one paragraph, the Times described this as "a fallout from New York City's financial disaster," but in another paragraph noted that the signing of the bill "ended a 10-month struggle with the state Legislature." However, when the struggle began, New York had not yet been acutely threatened by default.

The banks caused the fiscal crisis in Massachusetts by insisting that they "would not be able to" lend Massachusetts \$131 million to pay off short-term local housing authority loans unless the state instituted severe cutbacks in aid to the working poor and medically indigent, while raising taxes on working people. "Massachusetts was not in immediate danger of going bankrupt"; so there was no valid financial reason for First National Bank of Boston to refuse the loans. Using the New York City crisis as their excuse for their hold-up of the working people of Massachusetts, the Boston banks insisted upon \$364 million in tax increases, including a 2-cent rise in the state sales tax--the most regressive of all taxes. Cutbacks include "ending aid for 22,000 persons in nursing homes and another 110,000 of the 'working poor.'" Meanwhile, business taxes were dropped \$33 million a year.

The New York City Crisis

Let's examine the continuing New York City crisis. Is "high living" the cause, as President Ford, Senator Proxmire, and Senator Adlai Stevenson claim? Ford, in a speech to the National Press Club on October 29, 1975 claimed that "New York City's wages and salaries are the highest in the United States." But the Bureau of Labor Statistics of the U.S. Government ranks New York City "fourth among the nation's largest cities in the average salaries paid all employees. After BLS adjusted those fourth-ranked wages to the cost of living in each city, the city's salaries dropped to tenth-rank."³

Ford claims that "New York City is the only major city in the country that picks up the entire (pension) burden." The truth is that almost every one of the approximately 20 New York city employee pension plans is "contributory," that is, employees contribute part of their salaries toward their pensions. President Ford also claims that "25 percent of the hospital beds are empty" in New York's 18 municipal hospitals. Again, Ford "improves" the life of New Yorkers in the telling. In reality, the vacancy rate in New York municipal hospitals is about 20%, while the national vacancy rate for state and local government hospitals was about 30% in 1973, according to the American Hospital Association.

For the working people of New York City, life is not easy: "55.7% of the residents of New York City fall below the Bureau of Labor Standards on the deprivation scale, 15% are in dire poverty."⁴ At least one-half million workers, probably 800,000, are unemployed. One of every eight persons is on welfare. Few workers own their own homes; instead, they pay outrageous rents for old, broken-down apartments. Rent-control, more a myth than a reality, is rapidly being undermined.

Over the years, New Yorkers have won some achievements. If the rulers of our nation have their way, these gains will be erased. Already, since the advent of the financial crisis, the City University system's no tuition and open admissions policies have been eliminated. As a result of these policies "43 percent of senior college students come from families with annual incomes under \$10,000."⁵ Nationally, 47.5% of all high school graduates enroll in college, but in New York, with its City University system, 79% enroll in college. Is this bad? Should this be stopped? On the contrary, the right to an education, including college--which is needed for most better-paying jobs--should be a right for all Americans, in whatever state they live, and regardless of their economic status.

If New York residents do not have such high living standards, you may ask, why is the city government of New York practically bankrupt? Why can't it pay its bills? It might seem that the answers must be very complex since so many and conflicting ones have been offered, but actually the answers are fairly obvious--once we put aside the nonsense being peddled to confuse and divide and immobilize us.

First, New York City manufacturers and other businessmen have eliminated more than 500,000 jobs since 1969. They either cut back their workforce because of automation, speedup, or declines in production, or they moved their businesses to more profitable areas, both domestically and foreign. They moved to areas where trade unions are weaker, wages are lower, taxes fewer, land more plentiful and cheaper--in short, where profits are greater. They took with them the profits which the workers in New York produced, and they left behind them workers without jobs, many of whom will never find other work. As a result, no tax revenues were collected from these businesses. Nor were income taxes collected from the many workers who did not manage to find other jobs. Mayor Beame, in testimony before the Joint Economic Committee of Congress (10/10/75), estimated that the city's economic decline since 1969 caused a loss of tax revenues totalling more than \$1.2 billion. In the past year alone, the loss was \$400 million.

On the other hand, city services for the 500,000 abandoned workers had to be maintained: fire, police, transit, sanitation, education, hospitals, and many others including welfare for the most unfortunate. City contributions to welfare cost rose \$650 million since 1969, according to Mayor Beame, as the result of the city's depressed economic condition. Together, the decreased revenues and increased costs from the economic decline total \$2 billion since 1969.

A second factor is the depression which began in late 1973. It sharply increased the long-run problems of business and job loss in the midst of service cost increases.

A third cause of New York City's financial crisis is the huge discrepancy between what NYC gives to the federal government and what it gets back. According to one source, NYC sent \$26 billion to Washington, D.C., and received back \$3 billion in fiscal year 1974.⁶ What happened to the \$23 billion that Washington kept? At least \$8 billion went directly to the military. Another \$6 billion went to the

CIA, FBI, other repressive agencies, subsidies to business interests, and other giveaways. Since 55% of the federal budget goes to the military, to repressive agencies, and to various subsidies and giveaways, we can assume that 55% of New York City's contribution to the federal budget, or \$14 billion, was similarly allocated. That's more than the entire city budget of \$12 billion. Another economist estimated that by 1973 "the net annual outflow of tax dollars from New York City, in excess of all federal payments for all purposes into New York City, had increased to \$7.5 billion, more than 7 times the estimated New York City deficit for 1976."⁷

The main manufacturing states of the Northeast lost \$55 billion in 1973, up from \$23 billion a year during the 1965-67 period. Over a period of 10 years, the yearly deficit to the federal government from these main industrial states rose 140%. What happened to the \$55 billion the federal government pocketed from these 8 industrial states, and the \$15 billion pocketed from another 18 states? Part went to the 24 states (mainly in the South) which were net gainers (\$12 billion), but most of the money (\$58 billion) was not returned to any state through federal aid of any kind, defense contracts, federal payrolls (military or civilian), social security, or veterans benefits. Most of the missing \$58 billion went to pay interest to the banks, mainly on past and present budget deficits caused by war spending (\$23 billion), international affairs and finance (\$3 billion), general government (\$5 billion), "intelligence" agencies, and overseas military spending.

A fourth, and very important, cause of New York City's financial crisis, of its budget being out of balance, is that the "business community"--as the New York Times and Wall Street Journal call the calculating cut-throats who are systematically wrecking people's livelihoods, educations, safety, and health, while shouting for the city to act "responsibly"--is not paying its share of the city's taxes.

If Mayor Beame and Governor Carey enforced the laws they have sworn to uphold, New York City's financial crisis would disappear. The banks and other large corporations escaped paying \$22 million in real estate taxes due to lowering of the original valuations on their property during 1975. In 1975, \$670 million in real estate taxes was lost due to initial under-valuations of all big business properties. Over the past 10 years, billions of dollars have been lost this way. In addition, \$500 million in back real estate taxes, mainly from large businesses, is uncollected. A recent study of 7,300 businesses, picked at random out of the total 430,000 businesses that collect sales tax in the state, showed that the sample businesses owe \$40 million to the state. Billions of dollars must be owed by all 430,000 businesses.

Why don't Beame and Carey enforce the law and collect these taxes? Perhaps because both hold public office due to the generosity of the oil industry and the major New York banks.

Since the "business community" does not pay its share of the taxes, the burden on the working class is increased. For example, the real estate tax, which is paid primarily by businesses and the upper stratum of workers, constituted 39% of New

York City's operating budget in fiscal year 1964. By 1974, it had dropped to a mere 26%. On the other hand, New York State taxes on workers such as the personal income and sales taxes comprised 65% of the general fund in fiscal year 1958, but by 1974 the figure rose to 80%. On the federal level, corporate income taxes dropped from 30% of all tax receipts in 1955 to 15% in 1974.

A fifth reason for New York City's financial bind is that the city is discriminated against by the state and federal governments. The formulas which determine the amounts of aid the city is to receive are rigged against all cities, and especially against New York City, the symbol of national and local representation especially for national minorities. For example, New York City pays 30% of the cost--\$370 million in 1974--of its welfare recipients, more than any other city in the country. Only 21 states require local governments to pay any share at all of welfare costs. Chicago pays 2.9%; Philadelphia, 0%; Detroit, 4.3%; Houston, 4%.⁸

Together, the five reasons given above provide the basis for understanding the crisis of New York City: the long-term trend of businesses to run away from New York, seeking higher profits; the depression of 1974-75; heavy federal taxes which are wasted and which do not return to New York; the corporate non-payment of taxes and shifting of the tax burden from those able to pay to those who cannot; and discrimination by the state and federal governments in providing aid. Of course, there are additional reasons, but these are the primary ones. These five reasons apply not only to New York City: change the figures and you have the basic ingredients to the financial crises hitting city after city.

After the above factors have been in operation for a while, deficits mount. The banks do not mind lending money to the cities; in fact, they encourage it. Although there have been 6,195 defaults, almost all have been very temporary. The money has been repaid. Permanent losses have not occurred. Lending money to the government, at all levels from local to federal, has always been a good, safe investment. After a time, the deficits grow larger. Cities finally come to the point where they are at the mercy of the banks. They need to borrow money, and only the banks can provide it.

Who Runs New York City Now?

A brief summary of the events of the past few months in New York may help to bring home what the rulers of our country have in mind for other cities and local governments. By 1975, New York City was paying 18% of its budget--about \$1.9 billion--to pay back loans, primarily to the major banks. To pay off back debts, finance the new deficit, finance capital expenditures such as school construction, and borrow money to pay bills that come due before revenues come in, New York City needed to borrow \$8 billion in 1975. Then the banks decided that New York City was a bad risk--and it was, in the sense that it was getting deeper and deeper into debt. Interest rates rose to more than 10%, as the banks held back their loans at lower interest rates. One state agency, the Urban Development Corporation, defaulted on one of its loans in February, but was quickly bailed out by the state government.

In June, 1975, the New York State Legislature established what became known as Big MAC: the Municipal Assistance Corporation. Big MAC's purpose was to borrow money for the city--a total of \$3.3 billion--since the banks were refusing to lend money to New York City. The theory was that the banks would be willing to lend money to Big MAC for two reasons: because MAC's loans were backed by the state government, as well as the fact that money collected by New York City through its sales tax and stock transfer tax was to be used directly to pay off MAC's loans. The theory was only partially successful. Big MAC was able to borrow only two-thirds of the \$3.3 billion--at rates up to 10%.

In return for Big MAC's "help," New York City "agreed to tighten its budget process" under MAC's supervision.⁹ The result was that in July, one month after MAC was established, it imposed "a far-reaching M.A.C.-dictated laundry list of economies, including a municipal wage freeze and changes in the city's governmental structure."¹⁰ The subway fare went up from 35¢ to 50¢, an increase of 43%. Large-scale layoffs began.

Who was put in charge of MAC's financial policies by Governor Carey? Felix Rohatyn, a member of the Board of Directors of I.T.T., Owens Illinois, and the giant investment banking firm of Lazard Freres and Co. In Washington, D.C., Rohatyn is known for his role in "fixing" three major antitrust cases against I.T.T. through behind-the-scenes meetings with then Assistant Attorney General Kleindienst.

In September, since New York City's financial crisis had not been solved, the state legislature, in special session, established the Emergency Financial Control Board (EFCB). It "displaced the city's Budget Bureau" and ordered the "appointment of a bank-dictated deputy mayor for finance."¹¹ The EFCB has the power to review and reject all contracts entered into by the city or by any of the city's agencies. Under this provision, the EFCB rejected the United Federation of Teachers contract, and the Transport Workers' settlement, calling for cost-of-living increases, has been declared illegal.

The EFCB goes far beyond Big MAC. Whereas Nixon's wage freeze lasted only 90 days, and prices were also frozen, the EFCB's freeze on wages will last up to three years --while prices are free to rise at the dictate of the market and of monopoly power. After three years of 10% inflation, workers will have absorbed a 30% decrease in real wages!

The EFCB is also forcing huge cuts in social service jobs. Already at least 75,000 municipal jobs have been lost, and the expectation is that the total may exceed 100,000, a third of all municipal employees. Under the Emergency Financial Control Board, New York City elections have become essentially meaningless. The City Council's powers have been usurped by the EFCB. And now Yonkers, the fourth largest city in New York state, has been saddled with its own EFCB after narrowly escaping default.

The political takeover of New York City by the bankers and their EFCB is a test. If the bankers can succeed with this in New York City, then they will try to do it

elsewhere. The Nixon program was subversion of the democratic rights of the people; it included a wage freeze and wage controls while prices skyrocketed. The Ford program--and all who support his ideas on New York City--calls for eliminating self-government of the cities. It calls for disenfranchising the majority of the Black population on a local level. It calls for eliminating the right of unions to decide contracts with their employers. It is aimed at crippling the ability of working people and oppressed nationalities to protect their standard of living. The step of replacing local elected officials by bankers is a big step in the direction toward repression and fascism.

The EFCB plans to balance New York City's budget by slashing expenditures and raising taxes. The EFCB is projecting a "real reduction in controllable expenditures by fiscal year 1978" of 18% based on its unlikely assumption of a 3% rate of inflation.¹² But assuming the more realistic figure of 10% inflation each year, the EFCB's projected cuts become 32% of controllable expenditures (everything except the debt service, state mandated welfare expenditures, pension payments, and other smaller assorted items).

Here are a few items clipped from the New York Times which show the impact of the budget cuts: "The Aid to Dependent Children program has been forced to discontinue classes in nutrition and consumer education, and complaint time on buildings violations has been increased from three weeks to three months." "Last month the last of the Police Department-sponsored school-crossing guards were let go as a budget-cutting measure." "In eastern Queens there are no school crossing guards." "Fordham Hospital, the only municipal hospital serving the people of central Bronx County" is being closed. "Within the last four months, 200 people were laid off in the branch libraries . . . resulting in cuts in people, hours, and the closing of some branches." "The State Dormitory Authority, citing a lack of investor confidence and inability to market its bonds, said yesterday that it was suspending work on \$229 million in construction at three senior colleges of the City University." "More than 15,000 jobs in private industry will disappear as a direct result of city budget reductions already imposed . . . occur primarily in trade, construction, and services ranging from hotels to computers."

Seven schools have already been closed and 13 more closings are scheduled. Eight firehouses have closed, resulting in the fire engine response time climbing 25%. The climb in needless deaths and injuries has not yet been calculated. Severe cut-backs in the capital budget mean that no new construction of a major sort will take place during the next three years. School and hospital facilities will not expand or be replaced. The deterioration of the city's facilities will accelerate still further. Mayor Beame, on November 11, detailed a new plan to eliminate another 13,000 City employees and stated that "the burden of the cuts will fall most heavily on social services, hospitals and education, which account for almost half of the economies. . . The Social Services Department is closing 28 day-care centers and three centers for the elderly."

In more "scientific" terms, 2,100 sanitation workers, or 15% of the total, were eliminated between January 1975 and November 1975, as were 19% of all hospital employees, 30% of the employees of the board of education, 17% of cultural employees, 12% of police, 11% of firemen, and 11% of social services workers. All together, about 16% of all municipal employees lost their jobs during 1975.

The pink slips have not been evenly distributed. The last hired have been the first to go. Black and Puerto Rican people and youth have been hit far out of proportion to their numbers in the population: "40% of the Black males" and "51.2% of Hispanic workers" lost their jobs.¹³

The service cutbacks have not been evenly distributed. Ghetto and barrio communities, poor communities, have had their garbage collections reduced beyond any reasonable limit. In Crown Heights, a section of Brooklyn, residents protested by taking huge piles of uncollected garbage and stacking them in the streets. When 90 families live in one apartment building, or when 500 families live in one apartment building, then 90 or 500 bags of garbage accumulate daily. But in many areas, garbage is only collected twice each week! Classroom enrollment sizes have been stretched past 50 elementary students per classroom in many areas of the city. Recreation periods have been eliminated in many schools. Governor Carey and Mayor Beame find Ford's pressure an excellent excuse for further taxing working people and cutting benefits.

But only one side has been presented: the repression and the losses suffered by the working people of New York City. The other side is the tremendous fightback against these cuts. While so far the protests have not been coordinated, our estimate is that at least 300,000 New Yorkers have marched and struck against the budget cuts. Teachers, students, sanitation men, poverty workers, clerks, social workers, hospital workers, police and firemen, senior citizens, daycare mothers and staff, commuters against the fare hikes--at one time or another, organized protests involving thousands of persons in each of the above categories have been held.

The New York Coalition to Fight Inflation and Unemployment has played a very helpful role in encouraging unity and understanding among the many thousands of protestors. And on December 9, 1975 it held the first united demonstration to save New York City, along with other groups in the Ad Hoc Committee to Demonstrate Against the Budget Cuts. The fightback has a tremendous task ahead. Arrayed against the interests of working people in the cities are the united forces of the giant banks, monopoly corporations, and their servants in all levels of government.

A successful struggle to save the cities involves joining two struggles together: the struggle for full employment and the struggle for massive federal aid to the cities. A victory for either will help the other. And neither can be successful without unity with the other. As mass unemployment continues, so will the financial crisis of local governments. Federal aid to the cities--to prevent massive municipal layoffs (and repercussions in private industry) and to create instead many hundreds of thousands of jobs for the unemployed city dwellers--necessarily must be a focal point of concern.

President Ford's policy of forcing drastic cutbacks in New York City's budget, in order to "punish" its residents for supposedly having lived beyond their means, will only intensify unemployment among those already hardest hit by the depression and racist discrimination, and the flight of corporations to higher-profit locations. Presenting New York City to the American people as "sin city," as a city of lazy workers and welfare cheats, Ford mounted a national campaign to convince the public that the financial crisis facing the city was of its own making. In speeches at home and abroad, his message was the same: New York City must solve its problems without federal aid, even if it had to default or declare bankruptcy. Ford's message was loud and clear: any city in financial crisis must lay off thousands of already hard-pressed workers, cut pensions, increase classroom sizes, reduce college enrollments and raise tuition fees, reduce medical and hospital care, increase transportation fares, cut daycare, close libraries, reduce fire and police protection, and slash welfare payments.

President Ford made the issue of federal aid to New York City a major part of his strategy for first winning the Republican Party presidential nomination--of out-flanking Ronald Reagan on the right--and then going on to win the general election. Ford wishes to pit the rest of the nation against New York City and its large Black, Puerto Rican, Jewish, and other minority populations. He is attempting to build an anti-labor, anti-Black, anti-Puerto Rican, anti-foreign born, anti-Jewish coalition. Appealing to the most backward sentiments of the population, fomenting all the prejudice he can muster, Ford hopes to win a majority to his policy of making New York City an "example" for the entire nation of what will happen to any city not living within its budget.

According to the polls, Ford is losing his gamble. Working people are not buying his slurs about New Yorkers. Increasing sentiment is being expressed for federal assistance to New York and to other hard-pressed cities. And so our honest President shifted his ground, gave some aid to New York City, and then claimed the credit for NYC's last second escape from default.

On the one hand, Ford used the New York City crisis to divert national attention away from the continuing national mass unemployment. On the other hand, he and Arthur Burns of the Federal Reserve Board laid the groundwork for placing the blame on New York City if the economic upswing fails. Ford, the banks, and most major politicians are blaming other cities' financial crises on New York City. Their chorus is that bankers' fears of a default by New York City are causing bankers across the nation to hesitate before lending money to other cities and states--except at higher interest rates. Current estimates are that, since the New York City crisis began, banks have raised their interest rates to local and state governments sufficient to bring in extra profits of more than \$2 billion.

Almost all the Democrats in Congress joined Ford in his campaign. Senator Proxmire, the liberal, wrote in his November 1975 newsletter:

"How about the argument that New York City has been wasteful, lived-beyond-her-means, and now she should be required to pay for it? I agree with that

argument entirely. New York has been wasteful. She has paid salaries and pensions that are too high. She has provided free tuition at her city university. She has undoubtedly had thousands of people on city payrolls who do nothing but draw pay and loaf. This has to be stopped and now."

Supposedly pro-labor liberals joined the chorus of anti-labor, racist voices. Major spokesmen of both major parties agree substantially on the solution to New York City's problems: forced cutbacks and higher taxes on the workers.

The main difference has been that Ford and his backers were more willing to let New York City default, thus opening the door to much more catastrophic cutbacks and deprivations for New York's workers--and the possibility of fairly lengthy delays in repayment of certain loans to banks and other major bondholders. More minor, but well-publicized differences involved details: should the federal government establish a committee to run New York City's financial affairs; should a judge handle the job; or should the bank-dominated Emergency Financial Control Board continue to rule New York City? Should the federal government guarantee loans by the banks to the city of \$2.5 billion or \$3 billion?

Very few politicians, on any level of government, have taken the side of the working people of New York City. John Conyers and Bella Abzug have been among the most responsive, and one or two members of the New York State legislature have spoken out. Many politicians, who previously had good positions, crumpled under the pressure. However, it is noteworthy that most New York politicians are quite concerned and worried about how the people will respond to the cutbacks. They sense the growing anger and willingness to fight and are afraid of getting in the way of the expected upsurge.

On November 26, 1975 President Ford reversed his opposition to aid for New York City and endorsed a plan for \$2.3 billion a year in short-term Federal loans to ease the city's cash flow problem through 1978. The loans must be repaid by the end of each year--at interest rates 1% above those of federal securities. However, the essence of the financial "solution" is: (a) the bailing out, with liberal interest but some delay in payment, of the banks and big private investors in city notes; (b) financing of the city to the tune of billions by cleaning out the reserves of workers' pension funds--forcing the unions to lend their pension funds to the city when the banks and other big investors are boycotting city securities as a bad risk; (c) not an inch of motion to collect unpaid and underassessed taxes from banks and office buildings, or get a larger share of the \$26 billion paid to the federal government in taxes annually.

It is clear that at the heart of the three-year plan are substantial layoffs, a wage freeze and cuts in services, with the Emergency Financial Control Board (EFCB) giving every aid to the employers in dictating terms of labor contracts and thus fundamentally undermining collective bargaining. The first contract negotiation of 1976 involves 32,400 subway and bus workers in the Transport Workers Union. Their contract expired March 31, 1976. The Transit Authority is insisting on a wage freeze among other items, on the grounds that the EFCB forbids any wage increases as part of its three-year financial plan.

Mass layoffs are the heart of this financial plan imposed by the EFCB--and Ford's plan only adds federal pressure to its implementation. For example, Harrison Goldin, City Controller, said on January 15, 1976 that New York faces a \$1 billion income shortage in the next three fiscal years. His response is more layoffs. Felix Rohatyn says he believes the shortage is already up to \$1½ billion when originally \$725 million in added budget cuts had been foreseen.

Mayor Beame, in his address on the "State of the City" on January 22, 1976 said: "I am here to tell you that the road ahead as far as the eye can see is uphill and rough." He said that the city could not continue to finance the City University. Deputy Mayor Kenneth Axelrod, speaking about additional layoffs, said: "It looks like that's where the emphasis will have to be." Beame, in his speech, deplored the cuts, and the racist nature of these cuts, and then turned around and said he would continue making them. He demagogically stated: "I want to make it clear that at this point in our history, economic development and job and revenue projects must have absolutely top municipal priority." How did he propose to expand jobs? By cutting them!

The New York Times "News in Review" section of January 25, 1976 commented on Governor Carey's "State of the State Message," saying that he sounded like Ronald Reagan. Each proposed less government spending for social welfare programs and more tax and other benefits to big business as the cure for economic ills. Mayor Beame's Message drew much the same "trickle down from the rich to the poor" policy conclusions.

Default was avoided temporarily, but as Controller Goldin indicated could reappear as an imminent danger at any moment. Standard and Poor's says it will be 10 years before the city can borrow in the commercial market and others say it will be 20 years. In the meantime cuts in services, layoffs, and wage freezes are to continue, each year cutting over twice as much off the budget as in the first year of the plan, now that the budget deficit is discovered to be \$1½ billion rather than \$725 million.

Proposals to Aid the People of New York and Other Cities

To help cities all over the nation avoid fiscal crises and default without putting new burdens on city workers, several relief measures must be won. First, the federal government should guarantee whatever loans any city needs. Second, short-term loans must be converted to long-term loans with a reduction in their interest rates. This would reduce the immediate financial pressures on the cities and would hurt only the banks and other bondholders. The long-run solution to New York's, as well as other cities', financial problems lies in massive federal grants to the cities. Without such grants, New York's problems will likely reappear with increased intensity when the limited time period of federally guaranteed loans runs out.

The long-run financial problems of New York City and other cities show no signs of lessening; rather, every indication is they will intensify without outside help. Long-run solutions must include federal grants to cities, with specific appropriations for housing construction, schools, child care, mass transit, and other needs.

Priority must be given to the most oppressed communities. This type of program would create many jobs and help balance city budgets by increasing tax revenues and decreasing welfare expenditures. Restructuring of the tax burden in New York City and on all levels of government, so that the ruling class pays more, is absolutely necessary.

Finally, the largest source of federal funds which could be used to create jobs and aid the cities is the military budget. The advance of detente allows and demands a substantial reduction in the military budget. This source of funds must be tapped for the peoples' benefit.

It must be clearly understood that those who oppose detente also oppose saving the cities; those who oppose unions also oppose helping the cities; those who favor segregation and discrimination oppose giving aid to the cities. And, it must be stressed, these positions are not accidental. They are reflections of basic class positions. Therefore, to win substantial aid for the people of the cities, this reactionary coalition and all that it stands for must be fought. As long as this pro-monopoly coalition rules, it will not willingly spend the billions necessary to turn the cities into centers of full employment, decent schools, mass transit, adequate housing, clean air, etc.

To campaign for federal aid to the cities, while evading the absolutely necessary struggle to reduce the arms budget, will only result in failing to win aid for the cities. To strive to convince representatives of monopoly to vote for measures to help the working class--while anti-monopoly forces remain trapped within the two-party, lesser-evil, two wings of the capitalist class political party framework--will guarantee failure. Only independent action, independent with regard to political line (and not isolated from the labor, peace, civil rights, women, senior citizen, etc., movements), offers a path of struggle with a chance for success. After all, large problems require basic solutions.

The two greatest barriers to success (for the working class) in our nation are racism and anti-communism. Without a principled battle against both, a successful battle for the cities cannot be won. Racism divides us along "color lines" and prevents us from seeing our real enemy: monopoly. Anti-communism isolates those who have stood steadfast against the ravages of American "free enterprise" ideology and prevents them from giving much needed leadership in the terribly complex battles lying ahead.

REFERENCES

1. 1976 Joint Economic Report, Senate Report No. 94-690.
2. City Emergencies, Advisory Commission on Intergovernmental Relations, 1973.
3. "Public Employee Press," newspaper of District 37 of AFSCME, 11/7/75.
4. Henry Maier, Mayor of Milwaukee, Wisconsin, in testimony before the Joint Economic Committee of Congress on 9/24/75.

5. New York Times, 11/16/75.
6. Journal of Commerce, 10/10/75.
7. Seymour Melman, Public Employee Press, 3/12/76.
8. Washington Post, 11/17/75.
9. New York Times, 6/11/75.
10. New York Times, 6/11/75.
11. New York Times, 10/2/75.
12. "New York City's Financial Crisis," a study for the Joint Economic Committee of Congress, 1975.
13. "City Layoff: The Effect on Minorities and Women," New York Commission on Human Rights, 4/76.