

# The New York City Budget: Anatomy of a Fiscal Crisis

by Rona B. Stein

This article is designed to provide background information on some of the key developments that underlie New York City's recent budgetary difficulties. Its focus is threefold. In particular, the city budget is examined to identify those expenditure categories which are large and which have grown rapidly, especially in recent years. Second, per capita spending by New York City is compared with that of other large municipalities in this country to gain perspective on the total package and costs of services provided by the city. Analysis of some of the major economic, demographic, and political factors which have contributed to the budget imbalance, and therefore to the city's ongoing difficulties, constitutes the third principal area of focus. While much of the information presented in this article is available elsewhere, the objective here is to pull a wide variety of statistics into a coherent framework to facilitate informed discussion of the city's difficulties.

It should be emphasized at the outset that only some aspects of New York City's complicated financial situation are analyzed here. The article does consider the budgetary impact both of demographic changes, which led to a relatively heavy concentration of the low-income aged in the city, and of nationwide recessions and inflation. The fact that the city voluntarily assumed responsibility for supporting services that are not provided by most other municipal governments is also considered. On the other hand, while various municipal inefficiencies, including dubious accounting practices and poor budgetary control procedures, undoubtedly played a role in precipitating the crisis, this article does not delve into these topics.

In the first section of the article, the expense budget is divided into its major components to identify areas of rapid growth and to suggest factors which may have contributed to this expansion. The second section takes up the topic of "controllable" and "uncontrollable" spending, while the third examines city outlays relative to spending by other municipalities. Brief sections on the city's revenue trends and on certain previously proposed remedies for some of the city's fiscal ills follow, and concluding comments are contained in the final section.

## Composition of city spending

To examine the expenditure patterns which existed at the onset of the fiscal crisis, it is necessary to analyze the budget prior to austerity measures taken either by the city administration alone or in conjunction with the Municipal Assistance Corporation (MAC) or the Emergency Financial Control Board. For this reason the major expenditures outlined in Table 1 (and all other calculations unless otherwise indicated) are based on the authorized July 1975-June 1976 expense budget.<sup>1</sup>

The largest single area of expenditure, accounting for 22 percent of the total, is for the Department of

<sup>1</sup> The authorized budget was used in this analysis because it contains detailed expenditure breakdowns for each department or agency. However, since revenues and expenditures can never be forecast with perfect accuracy, budget figures change as the fiscal year progresses. In fiscal 1975-76, the authorized expense budget was almost \$700 million less than actual outlays. Although such discrepancies change the amounts of individual appropriations, they do not substantially affect the relative proportions of the various expense categories.

Table 1

**New York City's Budgeted Expenditures**

Fiscal year 1975-76

Expenditure category	Millions of dollars	Percentage of total budget
Department of Social Services ...	2,937 5	22 2
Board of Education .....	2,468 0	18 7
Health Services Administration ...	1,165 3	8 8
Police Department .....	943 7	7 1
Board of Higher Education .....	597 9	4 5
Environmental Protection .....	495 1	3 7
Payments to charitable institutions	586 3	4 4
Fire Department .....	410 5	3 1
Human Resources Program ...	164 9	1 2
Debt service .....	1,885 6	14 2
Other .....	1,577 7	11 9
Total expenditures .....	13,232 5	100 0
Less: Capital budget and special funds used to finance operating expenditures .....	1,145 0	
Expense budget .....	12,087 5	

Note: Because of rounding, figures do not necessarily add to totals.

Source: New York City Expense Budget, 1975-76

Social Services. Even this amount, however, does not cover the full extent of welfare costs. The separate allocation which is made for the Human Resources Program<sup>2</sup> must be added to this sum, raising total welfare expenditures in New York City to more than \$3.1 billion, about three fourths of which are Federally or state funded. The second largest allotment is for total educational services, i.e., for the Board of Education as well as for the Board of Higher Education. More than \$3 billion goes for education. The Health Services Administration, which includes the Health and Hospitals Corporation, is the third major area of expenditure, receiving 8.8 percent of budget funds. Together, welfare, education, and health services account for approximately 55 percent of New York's budget.

Over the long run, education and health services have each constituted a fairly constant share of the total budget, but the relative allotment for social service expenditures has grown significantly. Expenditures in this category are approximately fourteen times what they were in fiscal 1956, while the budget as a whole is about seven times larger. It is this area which has been responsible for the greatest part of the explosion in city spending. (The proportionate alloca-

<sup>2</sup> The Human Resources Program provides direction, budgeting, and coordination of city policy for community action, manpower and career development, social and youth services, public assistance, and planning for and implementation of early childhood services

tions to social services, education, health services, pensions, and debt service are illustrated in the chart.)

The actual allocations to the major budget areas in selected fiscal years are shown in Table 2. The extraordinary increases in social service and higher education expenditures stand in sharp contrast to the more moderate growth in other categories. The dramatic increase in the total welfare case load has been a major cause of the growth in social service expenditure. The number of persons on public assistance rose from 339,000 in November 1961 to 998,000 in November 1975; in real terms, expenditures rose just as precipitously.<sup>3</sup>

In part, the exceedingly large social service allocations reflect demographic changes in the city's population. For example, services for the aged, a group which tends to have the lowest income, increase as the proportion of the old in the population grows. By 1970, those aged 65 and over constituted 12 percent of all city residents, an increase of 4 percentage points since 1950. During this same twenty-year period, the nationwide increase was only 2 percentage points. Between 1970 and 1973, the proportion of the city's older population continued to rise, reaching 13 percent. Moreover, in the three-year period ended in 1972, the real income of elderly households declined by 12.6 percent.<sup>4</sup> As the number of young people has also been increasing, the proportion between 25 and 64 years of age, the bulk of the labor force, has fallen since 1960 and now constitutes less than half of the city's population.

Many of those presently receiving social service assistance originally migrated to older industrial areas like New York because there was a traditionally high demand for unskilled labor in these urban manufacturing centers.<sup>5</sup> Lately however, the number of jobs in these areas has declined considerably. Indeed, 1975

<sup>3</sup> The number of persons on public assistance declined sharply in November 1974 because of the transfer of a significant number to the Federally funded Supplementary Security Income Program (SSI). Under the SSI program, the Social Security Administration assumed all administrative and financial responsibility for the Aid to the Disabled, Aid to the Aged, and Aid to the Blind programs. Although the basic SSI payments are uniform throughout the country, some states and/or localities may supplement the minimum payment and make emergency grants for loans to recipients, owing to differences in living costs. During 1975, New York City contributed about \$58 million in SSI payments

<sup>4</sup> These are the latest available data. See New York City Office for the Aging [26]

<sup>5</sup> It has been suggested that the problems in urban areas actually associated with migration have been exaggerated. "Migration to the cities and out of the South is not significant enough nor are migrants' income experiences different enough from their urban and Northern counterparts to warrant the considerable alarm the migration issue stimulates. The most important policy implication of this is that programs to stem migration are not likely to have much impact on city problems." See Wertheimer [42, page 61]

manufacturing employment in New York City was only 55 percent of its 1960 level. Yet, immigration to the older metropolitan centers did not completely halt. In fact, there is some evidence that New York City and other older industrial regions may have unintentionally encouraged the poor to move in by offering relatively generous levels of welfare benefits. This can be seen in Table 3. In the eight largest industrial states, the average benefit distributed under the Aid to Families with Dependent Children (AFDC) program amounts to \$270 per month. By comparison, in the eight states with the lowest benefits, the average monthly AFDC payment amounts to only \$99. The problem is severe in New York, which pays the highest benefits and has the second largest number of recipients, both in absolute and percentage terms.

Given these differentials, there is an incentive for the poor to relocate to the older industrial regions, and the evidence in Table 4 suggests that such relocation has taken place. As can be seen, the incidence of welfare-receiving mothers who were born out of state is considerably higher in the older industrial

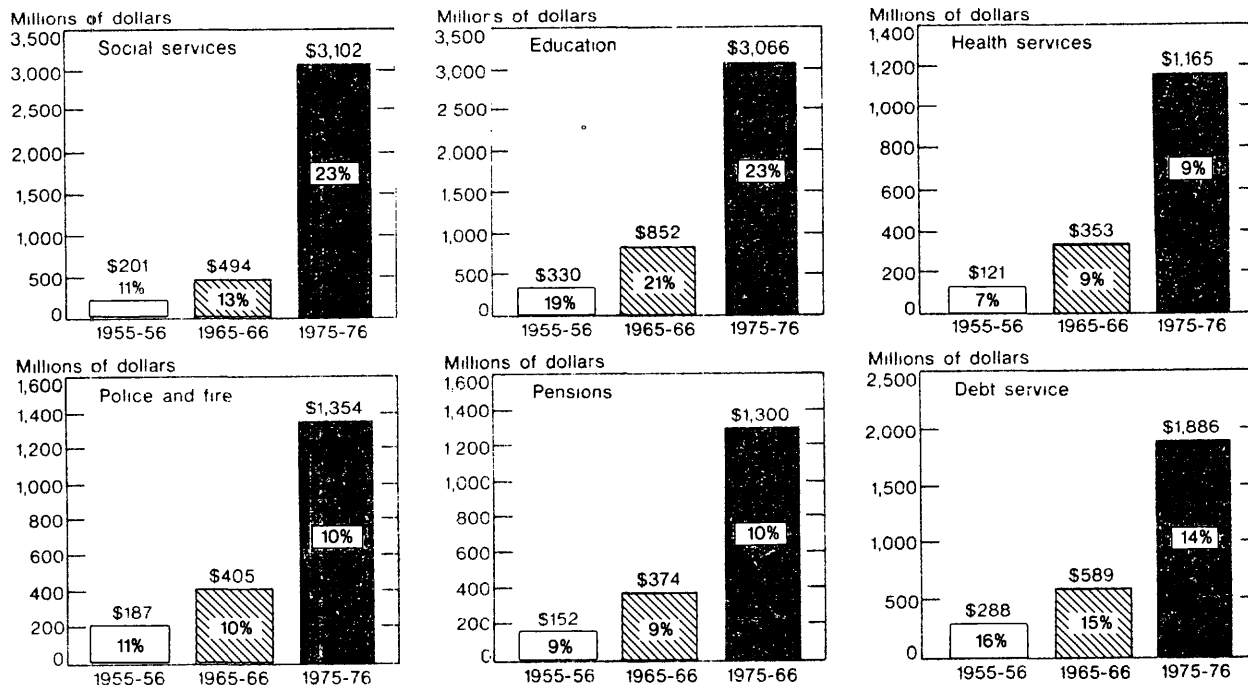
states than it is in the states that pay the lowest welfare benefits.<sup>6</sup> Moreover, in these industrial states, the proportion of the total population born out of state is less than half that of the welfare mothers, whereas in the other states, the figures are about equal.

Yet it should be noted that, as available in New York, neither AFDC payments alone nor a more inclusive package of benefits—net cash, food, and public housing—appears to be out of line with those in some other large cities. A comparison of benefits available to two standard-size families in each of twelve cities is shown in Table 5. The major differences which arise are for the most part between the newer and older cities rather than between New York and the other cities. Nevertheless, the generous level of welfare payments must be included with such factors as the availability of low-cost rental housing and of cheap public transporta-

<sup>6</sup> Neither the birthplace nor the previous welfare status of these welfare-receiving mothers is known. Therefore, there is a possibility that these mothers, already dependent on welfare in a high benefit state, merely relocated to another area of similarly generous benefits and did not migrate from a low benefit area, as is suggested here.

### New York City: Major Budget Appropriations

In selected fiscal years



Note: Base includes capital budget and special funds used to finance operating expenditures 1955-56=\$1,782 million, 1965-66=\$3,998 million, and 1975-76=\$13,233 million

Sources: Citizens Budget Commission, Pocket Summary of New York City Finances, selected fiscal years, and New York City Expense Budget, 1975-76

Table 2

**Major Expenditures in the New York City Budget**

Selected fiscal years; in millions of dollars and percentage of total expenditures

Category	1955-56		1960-61		1965-66		1970-71		1974-75	
	Expenditure	Percent	Expenditure	Percent	Expenditure	Percent	Expenditure	Percent	Expenditure	Percent
Department of										
Social Services .....	201	11.3	246	10.5	494	12.4	1,712	21.0	2,438	19.4
Board of Education .....	303	17.0	440	18.8	768	19.2	1,535	18.9	2,127	16.9
Health Services										
Administration .....	121	6.8	151	6.4	353	8.8	723	8.9	1,096	8.7
Police Department .....	122	6.8	168	7.2	272	6.8	477	5.9	739	5.9
Board of Higher Education .....	27	1.5	45	1.9	84	2.1	298	3.7	533	4.2
Environmental Protection .....	*	*	109	4.6	161	4.0	271	3.3	384	3.1
Fire Department .....	65	3.6	85	3.6	133	3.3	215	2.6	309	2.5
Pensions .....	152	8.5	215	9.2	374	9.4	619	7.6	1,147	9.1
Debt service .....	288	16.2	402	17.1	589	14.7	832	10.2	1,798	14.3
Other .....	503	28.2	484	20.6	770	19.3	1,453	17.9	2,019	16.0
Total expenditures .....	1,782	100.0	2,345	100.0	3,998	100.0	8,135	100.0	12,590	100.0
Less Capital budget and special funds used to finance operating expenditures .....	46		—		123		426		1,486	
Expense budget .....	1,736		2,345		3,875		7,709		11,104	

\* Not available.

Source: Citizens Budget Commission, *Pocket Summary of New York City Finances*, selected fiscal years

tion in making New York a relatively attractive city for those with little income. From this perspective, the influx and permanent settlement by the poor can be viewed as a rational response to economic incentives.

**Controllable vs. uncontrollable expenditures**

It is frequently noted that many of the city's expenditures are either mandated by state law or are undertaken by so-called independent agencies, such as the Health and Hospitals Corporation. Such expenses are termed "uncontrollable", at least in the short run. On the other hand, since the legislation which established the independent agencies and other programs can be changed over time, the distinction between "controllable" and "uncontrollable" tends to blur in the longer run. In Table 6, the city's expenses for fiscal 1976 have been divided into those that the city closely controls and those that, at least in the short run, it does not.

With regard first to the independent agencies—i.e., the Board of Education, the Board of Higher Education, and the Health and Hospitals Corporation—it should be noted that they were set up under state legislation at the city's behest to circumvent local budgetary controls which had supposedly hampered flexibility and innovative management. As initially conceived, each agency was governed by an independent board. The

city made lump-sum allotments to each agency but had little control over how the funds were spent. The Mayor could reduce allocations to these agencies within limits prescribed by state law, but the actual distribution of funding cutbacks was up to the discretion of the individual agency's board. Besides legal restrictions, the Mayor's control over agency finances was also circumscribed by the fact that, to receive state or Federal aid for the agencies, the city frequently had to come up with minimum or matching amounts.

Since the onset of the New York City financial crisis, the autonomy and independent authority of these agencies has been altered somewhat by the Emergency Financial Control Board. Hence, their expenses are now more controllable than they were in the past, and presumably new state legislation could be sought if it were considered necessary to change the agency budgets. In fact, the persistent deficit in the budget of the Health and Hospitals Corporation recently prompted the Mayor to set up a new finance committee to see that the deficit is eliminated.<sup>7</sup>

Welfare expenditures are the largest item among the mandated "uncontrollables" in Table 6. A recent Fed-

<sup>7</sup> See Sullivan [32, page 47]

eral report has stated that "under Federal law the state determines eligibility requirements and benefit levels; therefore, the city already has virtually no control over its welfare budget although it must pay one fourth of the cost".<sup>8</sup> The state legislature, however, has a measure of control over local welfare expenditures, insofar as that body determines both the degree of local participation in the funding of these expenses and the amount of benefit payments above the Federally mandated minimum. Since New York City and other localities must by law comply with the statutes established by the state legislature, welfare is probably "uncontrollable" in the short run. In the longer run, the city can try to bring about changes in the state law. In addition, the city does have discretionary control over the administrative and personnel costs associated with the welfare program. While budgeted funds for the Department of Social Services and the Human Resources Program exceed \$3 1 billion, salary expenses con-

nected with the welfare program total \$287 million, or less than 10 percent. Of course, to the extent that personnel savings are achievable, this would represent a net gain to the city, assuming that efficiency is not adversely affected.

It is important to note that, under state law, New York City is obligated to assume an inordinately large share of welfare costs relative to cities in other states. For example, localities in New York State must pay 25 percent of total welfare costs, while those in California pay only 16 percent. Moreover, of the states that do not take full responsibility for the non-Federal share, New York State shifts the heaviest burden on to its localities.<sup>9</sup> The states, in turn, receive varying contributions toward their welfare costs depending on the Federal Government's assessment of each state's ability to pay. Thus, while Mississippi receives support for more than 70 percent of its welfare and Medicaid programs, New York State receives the minimum subsidy, i.e.,

<sup>8</sup> See Congressional Budget Office [9, page 27]

<sup>9</sup> In New York State there is also a non-Federally backed home-relief program shared jointly by the state and the localities

Table 3  
**Aid to Families with Dependent Children (AFDC)**

By state, July 1975

Governmental unit	Number of recipients*	Percentage of total	Average family monthly payment	Percentage of total population†
Total United States . . . . .	11,147,071	100	217 01	100
Total, eight largest industrial states . . . . .	5,965,540	54	270 26	45
California . . . . .	1,368,634	12	239 75	10
Illinois‡ . . . . .	768,608	7	286 70	5
Massachusetts‡ . . . . .	354,313	3	317 32	3
Michigan . . . . .	651,340	6	268 95	4
New Jersey . . . . .	443,201	4	274 13	3
New York . . . . .	1,204,259	11	336 67	9
Ohio . . . . .	538,442	5	174 33	5
Pennsylvania . . . . .	636,743	6	264 23	6
Total, eight states with lowest benefits . . . . .	1,929,802	16	98 62	18
Alabama . . . . .	159,242	1	97 33	2
Florida . . . . .	263,644	2	117 59	3
Georgia . . . . .	353,843	3	101 63	2
Louisiana . . . . .	234,169	2	119 88	2
Mississippi . . . . .	185,919	2	49 79	1
South Carolina . . . . .	135,408	1	89 23	1
Tennessee . . . . .	203,626	2	106 36	2
Texas . . . . .	393,951	3	107 13	5

\* Includes the children and one or both parents or one caretaker relative other than a parent in which the requirements of such adults were considered in determining the amount of assistance

† Based on 1970 Census and 1972 Census Bureau estimates, total United States population is equal to 208,840,000

‡ Excludes data on AFDC child care

Source: *Social Security Bulletin* (July 1975) and Bureau of the Census (1970), Fourth Count Summary Tapes, as reported in Senator Donald Halperin, *Federalization of Welfare* (November 1975)

Table 4

**Aid to Families with Dependent Children (AFDC)**

By place of birth of mother, in percent

Governmental unit	Percentage born in same state	Percentage born in another state or county	
		AFDC mothers	Total population
United States total	52.2	47.8	30.8
New York City*	25.0	66.2	13.4
Total, industrial states	45.1	54.9	25.0
California	32.5	67.5	47.4
Illinois	36.7	63.3	23.5
Massachusetts	63.3	36.7	17.8
Michigan	48.8	51.2	23.6
New Jersey	35.2	64.8	32.7
New York State	34.1	65.9	17.8
Ohio	47.5	52.5	24.3
Pennsylvania	62.8	37.2	12.7
Total, states with lowest benefits	75.6	24.3	23.5
Alabama	84.5	15.5	15.5
Florida	46.6	53.4	56.7
Georgia	84.0	16.0	21.3
Louisiana	82.4	17.6	16.7
Mississippi	89.6	10.4	14.9
South Carolina	†	†	19.0
Tennessee	70.9	29.1	21.1
Texas	71.8	28.2	22.4

\* The birthplace of approximately 8.8 percent of AFDC mothers in New York City is unknown

† Not available

Sources: Department of Health, Education, and Welfare, *Social Securities Statistics* (1971) and Division of Policy Research, Department of Human Resources (January 1975), as reported in Senator Donald Halpern, *Federalization of Welfare* (November 1975), and *1970 Census of the Population*, Table 45, individual state volumes

50 percent.<sup>10</sup> The differences in funding among the eleven states which require local participation in the AFDC program are shown in Table 7. As a percentage of AFDC benefits, New York State receives 4 percent less Federal aid than the average of the other ten states and contributes 6 percent less to the welfare expenses of its localities. Hence, from New York City's viewpoint, it must pay 10 percent more than do cities in these other states. Indeed, this inequality looms even larger when it is remembered that thirty-nine

<sup>10</sup> Although New York State receives a comparatively low proportion of Federal assistance, it is among the most generous of the states in its overall level of welfare payments. These differences in payment levels arise because most programs receive Federal funding and operate under Federal guidelines, but the states themselves retain responsibility for their actual implementation and administration. Accordingly, the states retain a fair amount of flexibility in apportioning local responsibility, setting payment levels, etc. See Joint Economic Committee [20] and United States Department of Health, Education, and Welfare [40]

Table 5

**Annual Public Welfare Benefits**

July 1972, in dollars

City	Mother and three children		Husband, wife, and two children	
	AFDC*	Maximum benefit package*†	AFDC*	Maximum benefit package*†
Baltimore	2,400	4,248	2,400	4,095
Boston	4,121	6,136	4,075	5,972
Chicago	3,251	5,021	3,179	5,081
Denver	2,820	4,789	2,904	4,738
Detroit	3,792	5,001	3,792	5,074
Houston	1,776	4,070	0	2,737
Los Angeles	3,360	5,304	3,360	5,133
New York City	3,996	5,292	3,996	5,121
Philadelphia	3,612	5,127	3,612	4,965
San Francisco	3,360	5,646	3,360	5,493
St. Louis	1,560	3,945	0	1,389
Washington, D. C.	2,862	5,164	2,759	5,056

\* Represents maximum benefits available to families in which there is no income from either work or unemployment insurance.

† Net cash, food, and public housing.

Source: Joint Economic Committee, *Studies in Public Welfare: Welfare in the 70's: A National Study of Benefits Available in 100 Local Areas* (July 22, 1974)

states require *no* local contributions.

Debt service and pension benefits account for the rest of the city's mandated expenditures. The city is legally bound to meet its debt obligations, under the New York State constitution.<sup>11</sup> Similarly, the city is under a legal obligation to maintain pension benefits and contributions.<sup>12</sup> The existing pension structure, at least insofar as it applies to current retirees and to those presently on the payrolls, is practically impregnable. Indeed, the state constitution forbids the reduction of public employee pension benefits once they have been extended. The one aspect of the city's pension system apparently subject to change is the "increased take home pay" program (ITHP). Under this program, the city had been paying almost all of each employee's pension contribution, thus making the system virtually noncontributory. Unlike other pension provisions, how-

<sup>11</sup> In November 1975, the state legislature enacted a three-year moratorium on the payment of city notes, with provision for an optional "swap" of long-term bonds (which were issued by MAC). However, the New York State Court of Appeals, the highest court in the state, recently held the moratorium unconstitutional under the New York State constitution.

<sup>12</sup> The classification of pension costs as either mandated or controllable depends upon the time horizon considered. Because *future* pension costs are negotiable, a report prepared by Arthur Anderson and Co. includes them with other controllable expenses. However, the report notes that "past pension service costs may not be reducible, and since the current city contribution to the pension funds is based on prior actual payroll lagged two years, there is no real opportunity for near-term reduction." See Arthur Anderson and Co. [1, page 31]

ever, ITHP was approved by the state legislature in the early 1960's only on a temporary basis. Hence, it could be revised without changing or violating the constitution. Effective January 1, 1976, the legislature decreased the city's annual obligation under this program by 50 percent. This share is now being picked up by the employees who were, however, granted a three-month grace period before beginning contributions. The Chief Actuary of New York City places current annual ITHP costs at about half of the \$170 million being spent prior to the change in legislation. However, this \$85 million saving will not affect the city's cash position until 1978. This is because pensions have historically been funded with a two-year lag, and so the city is presently paying for its 1974 obligations.

In sum, while a good portion of the city's expense budget may not be immediately controllable by city officials, in the long run the major "uncontrollables" seem to be debt service, pension benefits already granted to past and present employees, and welfare payments mandated by the state. It is, however, within the power of the state, though not the city, to reduce the welfare burden. Pensions, too, can be revised over time, even if it takes an amendment to the state constitution.

#### Perspective on city spending

To a large extent, the problems of New York City can be traced to the fact that, as an administrative and budgetary entity, it has taken on the responsibility of supporting a wider range of services than most other municipal governments. Although some of these "extra" responsibilities are determined by the nature of the state-city relationship, others have been voluntarily assumed by

the city. This drain on the city's resources has been especially pronounced in the fields of education, welfare, and medical care. As already indicated, New York City is required to shoulder a larger share of welfare costs than most other municipal governments. At the same time, it has had to provide direct funding for education. In most other cities, the educational system is supported by an independent school district which is endowed with separate taxing powers and which receives direct state support. These school districts are not necessarily coterminous with city boundaries and so may encompass a broader tax base than the city alone. For many years, New York City voluntarily provided its residents with tuition-free university education, a program that the city had to abandon in its economy drive. Similarly, the city voluntarily established its extensive hospital system.

In comparing the prevailing expenditure pattern in New York with those of other cities, it is necessary to examine both the range of services which are offered and the level of government which is responsible for the funding. In Table 8, the levels of expenditures and public employment in twelve major cities are compared for a common set of services for each of the municipalities listed in the table. In terms of total municipal services, New York had the highest per capita expenditures in 1973 and the largest number of city employees in 1974. However, when the comparison is limited to those common services provided by all the cities, New York's payroll and outlays are not out of line with those of other cities. In fact, on this basis, several other cities spend higher amounts and employ more workers per capita than does New York. Hence, the unusually broad range of services directly pro-

Table 6

#### Composition of New York City Expense Budget

Fiscal year 1975-76, in billions of dollars and percentage of contribution

Budget expenses	Federal		State		City		Total expense
	Amount	Percent	Amount	Percent	Amount	Percent	
Mandated expenses							
Debt service . . . . .	—	—	—	—	1.5	100	1.5
Welfare (excluding salary and administration) . . . . .	1.4	50	0.7	25	0.7	25	2.8
Pensions . . . . .	—	—	—	—	0.5	100	0.5
Independent agency control.							
Board of Education . . . . .	0.5	19	1.6	62	0.5	19	2.6
Board of Higher Education . . . . .	—	—	0.2	40	0.3	60	0.5
Health and Hospitals Corporation . . . . .	0.3	33	0.1	11	0.5	56	0.9
Total not directly controllable . . . . .	2.2	—	2.6	—	4.0	—	8.8
Controllable expenses . . . . .	0.2	6	—	—	3.1	94	3.3
Total expense budget . . . . .							12.1

Source: New York City Expense Budget, 1975-76

Table 7

### Government Funding of Costs of Aid to Families with Dependent Children

In percentage of contribution

States	Federal	State	Local
California	50	34	16
Colorado	50	40	10
Indiana	53	28	19
Minnesota	52	24	24
Montana	59	27	14
New Jersey	50	38	13
North Carolina	64	18	18
North Dakota	53	35	12
Ohio	50	45	5
Wyoming	57	22	22
Average ten states	54	31	15
New York State	50	25	25
New York difference	4	6	10

Note Because of rounding, figures do not necessarily add to totals

Sources Social and Rehabilitation Service, "State Assistance Expenditures", *Federal Register* (September 13, 1974), p 33020. Social and Rehabilitation Service, *Characteristics of State Plans for Aid to Families with Dependent Children under the Social Security Act Title IV-A* (1974).

vided by New York accounts, at least in part, for what is viewed in some quarters as an excessively large budget.

To examine further the issue of whether New York directly provides more financial support for services than other localities, it would be helpful to have estimates of the per capita cost of total services provided by the major municipalities—estimates, that is, of the total costs incurred at the local level regardless of the local government or local governmental agency providing the services. The available evidence suggests that per capita expenses in New York are above those of most other major cities, particularly in the areas of welfare, education, and health. Confidence in these comparisons is limited, however, by the fact that the data are not very good. It does appear, nevertheless, that New York City's provision of "extra" services not paid for by many other municipal governments or, in some cases, not provided by any local governmental unit, has been a major cause of the recent series of expense-budget deficits. But, considering that the city has been supporting these services for many years, their costliness in recent years has been aggravated by changes in the demographic and economic makeup

Table 8

### Per Capita Municipal Expenditures (Fiscal 1973) and Employment (1974)

City	Per capita expenditures		City employees per 10,000 population	
	All present city functions	Standard city functions*	All present city functions	Standard city functions*
New York	1,224	435	517.1	263.7
Boston	858	441	378.0	249.2
Chicago	267	383	140.0	250.1
Newark	692	449	391.1	304.6
Los Angeles	242	408	162.2	256.0
Philadelphia	415	395	163.8	301.5
San Francisco	751	488	312.5	244.4
New Orleans	241	260	177.3	271.3
St. Louis	310	360	241.9	227.8
Denver	473	375	237.0	280.9
Baltimore	806	470	434.1	312.5
Detroit	357	396	194.8	258.6

\* Elementary and secondary education, highways, police, fire, sanitation, parks, general and financial administration

Sources United States Bureau of the Census, *City Government Finances in 1972-73* (1974), United States Bureau of the Census, *Local Government Finances in Selected Metropolitan Areas and Large Counties 1974* (1975), United States Bureau of the Census, *Local Government Employment in Selected Metropolitan Areas and Large Counties 1974* (1975), and unpublished United States Census Bureau data, as reported in Congressional Budget Office, *New York's Fiscal Problems: Its Origins, Potential Repercussions and Some Alternative Policy Responses* (Washington, D C October 10, 1975), page 16

of the city

Fueling the controversy over the appropriateness of supplying particular services are charges that excessive manpower costs have been incurred in their provision. Unfortunately, it is nearly impossible to examine adequately the frequent contention that *total* compensation of New York City employees, including fringe benefits and pensions, is excessive relative to that of other municipalities and to private industry. Data limitations preclude comparison of total compensation packages in which much confidence can be placed. It does appear, however, that at least some New York City office and clerical workers receive higher wages than their counterparts in private industry, as shown in Table 9. It would also seem likely that, if anything, differences in fringe benefits have exacerbated this gap.

#### Revenues

The responsibility for the provision of a comparatively wider range of services has forced New York City to strain its revenue-generating sources to a greater extent than have other central cities. New York City's tax base has lately been shrinking. Property taxes are the city's main local source of revenue. They provided about



one half of 1975-76 locally raised revenues. Yet total tax arrearage for all properties (commercial, industrial, and residential) has been rising and presently amounts to more than \$500 million.<sup>13</sup> Hence, it is not surprising that the proportion of locally raised revenues derived from real estate tax receipts has been steadily declining. It can be seen in Table 10 that these receipts have dropped from 61 percent of local revenues in fiscal 1966 to 50 percent in fiscal 1976.

The persistent declines in private sector employment in the city have also had an adverse effect on locally raised revenues. The decline in nonagricultural payroll employment amounted to about 500,000 jobs between June 1969 and July 1975. Each job lost diminishes total tax receipts, particularly from personal income taxes and sales taxes. It has been estimated that each city-based job generated \$820 in tax revenues for the city in 1970.<sup>14</sup>

Inflation has also had a deleterious effect on the city's revenues. In the short run, expenditures respond quickly to the upward movement of prices, as do sales and income tax receipts to some extent. Property reassessments, however, cannot keep pace with price surges, in part because of the occurrence of unanticipated rates of inflation during the relatively long time periods between the setting of assessments and actual collection of taxes. This is not to say that New York alone among municipalities has suffered from the distorting effects of inflation. Although inflationary conditions lower the real burden of outstanding municipal debt, they also necessitate additional borrowing since, as noted, there is evidence that city expenditures in general have been more responsive to inflation than have its revenues.

### Proposed remedies

The city's ongoing financial problems have brought forth a number of suggestions for easing the budgetary squeeze. Some of these are economizing measures which aim at increased reliance on private enterprise to perform functions which have heretofore been provided by the city. Such measures, of course, involve reductions in personnel on the city payroll. In addition, a second set of proposals calls for transferring provision of certain services from the city to either the state or the Federal Government. On the revenue side, there are occasionally suggestions for higher taxes, but the tax burden on local residents is already so high

that the consensus is that any further tax increase is likely to be self-defeating. Of course, reform of the city's accounting procedures—which is in progress—is an essential part of any plan for resolving the city's problems.

Among the suggestions for a greater role for private enterprise is the hiring of private haulage firms to replace, at least in part, the Municipal Sanitation Department. It has been estimated that costs to the municipal department are 68 percent higher than to the average private contract firm to provide twice-a-week curbside collection service. The many contributing factors to this differential include higher employee absentee rates, larger crews, fewer households serviced per shift, more time per household, and smaller trucks, all characteristic of municipal service.<sup>15</sup> Limited experimentation along these lines is beginning within the Sanitation Department in the handling of garbage collection by a worker cooperative under an independent contract with the city. The motivation for improving techniques is to be provided by the possibility of larger paychecks. As a more extreme suggestion, it has even been proposed that the responsibility for education be transferred to the private sector under a government subsidized voucher plan.<sup>16</sup> The education benefits extended to eligible United States war veterans provide a successful precedent of this type of program. Those who were qualified were given a uniform sum to be spent in any institution which met minimum Government standards.

Many variations of these ideas are possible, all of which could have exceedingly complicated political and social, as well as economic, ramifications. Hence, it is not surprising that many of the more drastic innovations have not been attempted. However, the city has achieved some budget economies through personnel cutbacks and other austerity measures.

Besides cutbacks in expenditures, other proposals call for transferring various elements of the burden to some other level of government. Most recommendations of this type concentrate on the welfare system.<sup>17</sup> The most common of these include (1) increasing the state and Federal proportions of the payments and consequently reducing the city's share of the costs; (2) federalizing the welfare system altogether; (3) installing a Federally based negative income tax system which would replace welfare payments in their present form; and (4) increasing noncash benefits, such as food stamps, while reducing cash payments.

<sup>13</sup> There is evidence that the rent-control system has exacerbated the housing problem in New York City. Landlords, receiving lower returns in the face of rising costs, have neglected or, in the extreme, entirely abandoned their housing units. This, in turn, has diminished the city's tax base and, thus, its revenue inflow. According to one study, the elimination of rent control could raise city revenues by as much as 6 percent. See Lowry, De Salvo, and Woodfill [22].

<sup>14</sup> See Bahl, Jump, and Puryear [3, page 8].

<sup>15</sup> See Savas [29, page VI].

<sup>16</sup> See Friedman [14, pages 89-90].

<sup>17</sup> In this regard, bear in mind that, since the city's contribution to welfare is 25 percent, savings here would amount at most to about \$700 million, excluding salary and administration expenses.

Table 9

**New York City—Average Weekly Earnings of Men and Women Combined**

In dollars; April 1973-74-75

Employment classification	Private industry	Municipal workers	Difference
April 1973:			
Senior stenographers .....	149.00	165 00	+ 16 00
Typists—Class B ... ..	114 00	131 25	+17 25
Keypunch operators— Class B .....	126 50	145.75	+19 25
Computer systems analysts— Class A .. ..	335 50	343 50	+ 8 00
April 1974			
Senior stenographers .....	160 50	175.75	+ 15 25
Typists—Class B .....	119 50	134 00	+14 50
Keypunch operators— Class B .....	138 00	147 75	+ 9 75
Computer systems analysts— Class A .....	360 50	347 25	-13 25
April 1975:			
Senior stenographers .....	172 00	191 75	+19 75
Typists—Class B ... ..	133 50	148 00	+14 50
Keypunch operators— Class B .. ..	147 00	163 25	+16 25
Computer systems analysts— Class A .. ..	385 00	356 75	-28 25

Sources: Bureau of Labor Statistics, *Area Wage Survey, New York, New York Metropolitan Area* (annual); Bureau of Labor Statistics, *Wages and Benefits of New York City Municipal Government Workers* (September 1975).

State and Federal takeover of services other than welfare has also been suggested. The proposals include a Federal program to equalize energy costs, increased aid to education, mass transit, and hospitals; regionalization of such services as transportation or environmental protection; Federal assumption of the security costs incurred because of the United Nations and foreign consulates; and the conversion of city highways into interstate arteries which would, in effect, make them Federal responsibilities.

In addition to the numerous methods for both streamlining and transferring expenditures, there are proposals which attack the problem from the revenue side. Yet, due to the high level of taxes already paid by city businesses and residents, any further taxes may have detrimental rather than recuperative effects on the city's faltering economy.<sup>18</sup> For the past nine years, New

York State has led the nation in per capita state and local tax payments, exceeding the national average in fiscal 1973-74 by 54 percent and that of both New Jersey and Connecticut by almost 40 percent.<sup>19</sup> This sizable tax differential is prominent among the reasons cited by major firms for abandoning New York for locations in neighboring states in which it is felt that the tax burden on the corporation itself and/or its employees would be smaller.<sup>20</sup>

When the tax burdens of individual cities are examined, it similarly appears that New York City is well up on the list. The government of the District of Columbia compared the tax burden of a family of four at different income levels in the nation's thirty largest cities. The "burdens" include state and local income taxes, state and local sales taxes, automobile taxes, and residential property taxes adjusted for intercity differences in property values. A summary of these findings is shown in Table 11. At each income level, the combined state-local tax burden of New York City residents is either second or third highest.

**Summary**

Overall, the evidence marshaled here indicates that a broad array of factors, some of a fundamental economic nature and some reflecting peculiarities specific to the city, combined to create the financial problem that emerged in 1975. The dramatic loss of jobs in the city, stemming in part from the two recessions experienced over the 1969-75 period, was one factor. The virulent nationwide inflation with which city revenues, particularly from the property tax, were unable to keep pace was another. And demographic changes which led to a concentration of the low-income aged in the city and simultaneously reduced the proportion between the ages of 25 and 64, the primary labor force group, also contributed to the ongoing budgetary and financial strains.

Beyond this, New York City's distress can be attributed to a measurable extent to the fact that it has responsibility for supporting a broader range of services than are provided by most other municipal governments. There are really two aspects to this problem. First, New York City directly funds some services that are supported elsewhere by local instrumentalities other than the municipal government. While it is not clear how serious a problem this creates, it does suggest that New York supports certain services from a relatively narrow tax base compared with some other localities.

<sup>18</sup> Approximately \$200 million in New York City taxes was approved by the Albany legislature in November 1975. However, the controversial corporate bond transfer tax passed by the legislature in August 1975 has already been repealed. It is blamed for the exodus of several brokerage houses from the city. See *Wall Street Journal* [41].

<sup>19</sup> United States Bureau of the Census [34, Table 22].

<sup>20</sup> High taxes have existed for many years, but other favorable factors which once outweighed the costs of locating in New York have now become less important.

Table 10

**New York City: Actual Receipts from Local Revenue Sources**

In millions of dollars and percent

Revenue sources	1965-66		1970-71		1974-75		1975-76	
	Revenue	Percent	Revenue	Percent	Revenue	Percent	Revenue	Percent
Real estate tax .....	1,432	60.9	1,960	55.2	2,619	51.3	2,898	49.8
Sales tax .....	382	17.3	494	13.9	791	15.5	825*	14.2
Utility tax .....	31	1.4	50	1.4	90	1.8	93	1.6
Personal income tax .....	—	—	199	5.6	466	9.1	528	9.1
Business income tax .....	214	9.7	252	7.1	444	8.7	688	11.8
Stock transfer tax .....	94	4.3	259	7.3	185	3.6	270	4.6
Commercial occupancy tax .....	72	3.3	140	3.9	191	3.7	198	3.4
Off-track betting .....	—	—	—	—	67	1.3	65	1.1
Water charges .....	49	2.2	158	4.4	191	3.7	174	3.0
Fines and forfeitures .....	18	0.8	39	1.1	66	1.3	85	1.5
<b>Total .....</b>	<b>2,202</b>	<b>100.0</b>	<b>3,551</b>	<b>100.0</b>	<b>5,110</b>	<b>100.0</b>	<b>5,824</b>	<b>100.0</b>

\* Includes \$655 million in funds earmarked for the Municipal Assistance Corporation

Source: Citizens Budget Commission, *Pocket Summary of New York City Finances*, selected fiscal years

Table 11

**Estimated Burden of Major Taxes\* for a Family of Four**

By adjusted gross income, 1974; in dollars and by rank

City	\$5,000		\$10,000		\$15,000		\$20,000		\$30,000		\$40,000	
	Burden	Rank	Burden	Rank	Burden	Rank	Burden	Rank	Burden	Rank	Burden	Rank
Atlanta .....	386	26	745	20	1,214	17	1,687	16	2,606	13	3,483	12
Baltimore .....	480	10	1,051	8	1,573	7	2,099	6	3,083	7	4,033	8
Boston .....	1,040	1	1,965	1	2,901	1	3,761	1	5,300	1	6,822	1
Chicago .....	654	4	1,114	5	1,616	6	2,018	7	2,769	12	3,456	13
Detroit .....	425	19	829	15	1,490	9	2,015	8	3,009	8	3,965	9
Houston .....	389	25	610	29	858	29	1,053	28	1,395	27	1,693	27
Los Angeles .....	553	5	1,061	7	1,743	5	2,386	5	3,690	5	5,205	5
New York City .....	654	3	1,267	3	1,977	3	2,707	3	4,385	2	6,354	2
Philadelphia .....	504	7	1,062	6	1,555	8	1,988	9	2,791	11	3,569	11
San Francisco .....	413	23	833	14	1,407	10	1,954	10	3,105	6	4,464	6
Washington, D.C. ....	427	18	853	13	1,341	11	1,827	11	2,873	9	3,965	10
Average for thirty cities .....	473	—	879	—	1,333	—	1,753	—	2,567	—	3,397	—

\* Includes income, sales, auto, and real estate taxes

Source: Department of Finance and Revenue, *Tax Burdens in Washington, D.C., Compared With Those in the Nation's Thirty Largest Cities* (Washington, D.C.: Government of the District of Columbia, 1974)

Further, the city has attempted to provide more services, in absolute terms, than are found in most other urban areas. This provision of extra services is particularly evident in education, medical care, and welfare. While tuition-free university education for city residents has been dropped, vexing problems remain in these areas.

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