U.S. CITIES IN CRISIS

by JANNA THOMPSON

1. A TALE OF THREE CITIES

In the summer and autumn of 1975, the government of New York City struggled with a serious fiscal crisis which led it to the verge of declaring bankruptcy. Like many third world countries, New York City in the '60s and '70s had been spiralling deeper and deeper into a hopeless morass of debt: borrowing money to pay off interest on money previously borrowed, using money earmarked for capital investment on day to day running expenses, issuing bonds on assets which turned out not to exist, juggling funds and deficits from one department to another. Finally, the banks which underwrite New York's debt asked for an accounting, and gradually the awful truth emerged. New York owed over 10 billion dollars.

At the eleventh hour, Ford reluctantly approved a $2.3 billion loan; he was pressured into this decision by Vice-President Nelson Rockefeller and President of the Reserve Bank, Paul Volcker - both closely connected with the Chase Manhattan Bank, New York's principal creditor. New York carries on, ruled, in effect, by the bankers and corporation heads on the Emergency Finance Control Board, who have final say over the city's spending. The cuts have already begun: the City University will no longer be tuition free (so far there have been no protests from staff and students); welfare agencies have all been given a reduced budget; most of the city-run maternity clinics have been closed; one and a half thousand city employees have been laid off and thousands more may follow. A cost of living increase in wages granted by the city council was recently vetoed by the Control Board, and the city employees, who gained a reputation for militancy in the '60s, acquiesced. Says the city's deputy mayor: "The city's credit problems and the wage freeze make public employee protests academic". (1)

Mayor Mascone of San Francisco has been warning residents recently that San Francisco is likely to go the way of New York if the city doesn't trim its expenses drastically.

San Francisco has been described as "the Wall Street of the West", a title which indicates
its role in the US’s westward marching economy. On the other hand, its port is not as prosperous as it used to be and some of its more important industries have moved away. San Francisco is also known as a “union town”, which means simply that the leaders of a few city employees and industrial unions have had some pull at city hall. These labor bosses and big business have co-operated to push extensive development schemes - freeways, high rises, convention halls, recreation centres. The pay-off for labor has been higher wages, at least for the white male workers, in the construction industry, and in skilled city jobs, but the bill for projects and wages has been picked up primarily by the payers of property taxes (i.e. rates). The residents of San Francisco also pay for welfare and education - expenses which have been mounting in recent years.

Increasing expenses, decrease in the ability, or inclination, of city residents to meet these expenses - this is the problem that plagues San Francisco, and a large number of other cities in the US. San Francisco’s fiscal difficulties are not on the same scale as New York’s, but they are real enough. Despite cuts in hospital services, mental health programs, recreation services, the city’s budget deficit will be as high as $70 million this year - bad enough for city supervisors (councillors) to use the lesson of New York as a justification for freezing welfare funds, eliminating one thousand city jobs and taking a tougher line with city unions.

San Francisco may be a city on the decline. Oakland across the bay is assuredly not. Its port is modern and is quickly superseding San Francisco’s in importance. Industry is attracted to the area, though many plants have located in nearby Hayward, beyond the reach of Oakland’s taxing powers. Labor bureaucrats have never had much to do with running the city; the government has always been the preserve of a clique of top businessmen who have a “What’s-good-for-business-is-good-for-Oakland” philosophy. City workers, many of whom are black, have comparatively small wages. But for the first time in years, Oakland’s administration is spending more than it is taking in. The supervisors are talking about a fiscal crisis, and threatening to freeze wages and reduce pensions of city workers and cut down on parks, and library and other city services. (2)

“Crisis” is too strong a term to describe the state Oakland is in, but the city does have problems. As in many cities its police and firefighters pensions are under-financed. (3) And like San Francisco and New York, its expenses are climbing while its tax base declines. By and large, industries escape city tax; the prosperous port of Oakland pays almost nothing to the city; the wealthier people have moved to the suburbs. So the tax burden falls predominantly on lower middle class and working class home owners who are already hard-pressed by inflation and recession.

II. EXPLANATIONS AND THEORIES

As the news about New York City spread around the country, banks began to demand an accounting from local governments who had been heavy borrowers; local politicians inspected their government’s financial situation and often found it wanting. Severe fiscal problems surfaced in other cities: most seriously in San Francisco, Cleveland, Detroit and Boston. And the problem is not confined to city governments. The entire state of Massachusetts has been on the brink of default, the state of New York is faltering, and county governments all over the country are taking steps to pull themselves out of growing debt.

There’s a surprising amount of agreement among people with different politics on the causes of the fiscal problems of local government. The differences show up in what people put at the top of their list. Business leaders and conservative politicians put most of the blame on mismanagement or “irresponsible” demands of city employees and welfare clients. The left usually stress the role of corporations, particularly the banks. Liberal academics tend to say that the problem is mostly due to structured changes in the US economy - something for which no one can be blamed. Each of these explanations is correct, but inadequate.

Mismanagement by local government officials, unintended or deliberate, has made a significant contribution to fiscal crises. For instance, auditors recently discovered that the San Francisco Department of Social Services has been overpaying some of the private firms it does business with to the tune of $217,000 annually. (4) There is probably a lot of this sort of thing going on, undoubtedly there is plenty of inefficiency and waste, but hardly enough to cause debts of $3 billion plus.
City outlays for wages and welfare benefits, hospitals and schools have gone up dramatically in the past 15 years. In New York between 1960 and 1970, city employment jumped from 246,000 to 371,000. Expenses more than doubled, key increases going to health services, education and welfare. (5) This rise was, in part, a response to political agitation by blacks and other minorities in city ghettos for jobs and services. Once the poor began benefiting from city spending, city workers - teachers, police, social workers, firemen, sanitation workers - made demands of their own, and since these workers were unionised and militant, they usually got what they wanted.

In San Francisco, where some unions have benefited from their contacts in city hall, $17,000 a year street sweepers have become a city joke. But here, as in New York, to put the blame for the city’s problems on the workers and the poor shows a distorted perspective. For money spent by local government has always been spent with the needs of business in mind. Far from insignificant are the sums spent by most major cities on “manhattanisation” projects meant to improve business climate: convention centres, shopping plazas, baseball parks. Most have lost a considerable sum for the cities which funded them. And even payments for welfare and education are not primarily for the good of the poor. These outlays are designed to ensure that enough people are trained for the needs of industry, and that the rest remain dependent and just well enough off so that they don’t cause trouble.

Are the banks the chief villains? Of all the institutions involved in local government crises, the big banks stand out as the ones who benefit the most. One of the problems New York and now other cities face is the necessity of paying off short term loans at high interest rates. The reason the loans are short term and expensive is because it is more profitable for the banks to have it this way in a time of inflation: they benefit from a faster turnover of money and an ability to charge more with each renewal. And once a government has reached the point of crisis, the banks can lay down severe conditions: higher interest rates on new loans and cutbacks to ensure payment of past debts.

The banks are doing their best to look after their interests, but they are not the manipulators of events. We are not seeing finance capital in ascendance, but something more like a response that contains a measure of panic. Default of New York during a time of general economic recession would have been a threat to the banking system. In fact, Chase Manhattan Bank’s stock reached a low point in November 1975, just before Ford was induced to come to the rescue. (6) And New York is only a small part of the problem. For the banks have been going deeper and deeper into the business of lending money to governments - not only the local governments of the US but governments of third world countries. This is a profitable enterprise, but a dangerous one. If their big customers begin defaulting on them - which is becoming a strong possibility both at home and abroad - then the banks will be dragged down into economic disaster. (7) Obviously, their only recourse is to deal with each crisis as strenuously as possible, hoping to prevent an epidemic of bankruptcy. This is easier to do at home than abroad.

Behind the immediate fiscal problems of local governments are the long-term changes in the structure of the US capitalist economy - changes which have been speeded up by recession and civic unrest.

First of all, the move of industry and wealthy people out of the metropolis into the suburbs or satellite towns - beyond the city’s jurisdiction. In New York from ‘56 to ‘74, departures of businesses outnumbered arrivals three to one. Of these departures, 70 per cent have stayed in the area. (8)

The second movement is country-wide - a shift of corporations from the cities of the northeast to the south and west, sometimes out of the country completely to Singapore, Taiwan and Sth. Korea. The textile industry has drifted from New York to the south where labor costs are less, and workers less militant (Texas, for example, has laws prohibiting union shops), where environmental standards are less stringent. This economic movement is reflected in a shift of political influence to the developing regions and an inflow of federal funds. Payments by the federal government to defence industries, agribusiness, for federal employees, substantially favor states like California, Texas and Florida over New York, Pennsylvania and New Jersey. (9) The change has boosted the economy of some cities of the south and west, e.g. Houston, Dallas, Atlanta, Miami, Denver. However, a boom doesn’t
necessarily bring balanced budgets to all local governments in a favored region. San Francisco is losing ground to other cities in California, and Oakland hasn’t been able to benefit from its growth.

The third change affecting the cities is a technological one. When the textile companies began leaving New York City, experts predicted that communications and service industries (like banks and insurance companies) would take up the slack in the job market. But this didn’t happen. Instead, the electronics and computer revolutions swept these corporations, doing away with many jobs. What’s more, advances in communication techniques mean that service industries have no compelling reason to remain in the big centres. They, too, can move to the suburbs or further out to provincial towns.

“A nation with no important cities?” asks Business Week. It predicts that all big cities will decline as companies do their best to escape urban problems - while hanging on to the benefits which cities still provide. (10) To an increasing extent, middle income earners and the poor will remain behind in the cities and declining regions to cope with the maintenance and welfare problems which capitalists and their upper level employees leave in their wake. But these changes are not things which simply happen. To understand them we have to look at the political struggles and economic interests which have set them in motion.

III. THE CRISIS IN PERSPECTIVE

Lindsay, mayor of New York City from 1966 to 1973, was a liberal in the tradition of the New Deal. He drew his support on one hand from corporation leaders and real estate companies, and on the other from the ghettos. Helped initially by War on Poverty money, Lindsay increased welfare services, initiated retraining schemes, opened up city jobs for people from minority groups. Lindsay years were good years for the growth of militant city workers’ unions and, to a lesser extent, for the minorities who at least got their feet in the door of the bureaucracies.

Lindsay was one of the last of a long line of city administrators, basically oriented towards big business, but holding liberal assumptions about the functions of a city government: that helping business and helping the poor are perfectly compatible aims, one being necessary to achieve the other (for people need jobs, corporations need customers, and anyway, riots aren’t good for business); that government spending and provision of jobs is the remedy for economic decline; that welfare and development programs are best planned and administered by a centralised bureaucracy insulated from political squabbles and special interest groups.

This outlook, shared by a large number of local government administrators particularly in the northeast, was the product, not only of the New Deal and Johnson’s Great Society, but of a long struggle, begun in the early years of this century by business leaders and their representatives, to wrest control of local governments from neighborhood bosses and political machines. The so-called Progressive Era in US history, was largely a creation of capitalists who saw that the corruption and inefficiency of the neighborhood political bosses were preventing the developments they wanted to see. Inspired by the new “scientific management” techniques, they began to centralise the city government functions in their hands - to build the corporate city. In cities like New York and San Francisco, the reforms couldn’t have been made without an alliance with organised labor, and in many cities it took the Depression and the bankruptcy of city governments to deal the final blow to the old order. But eventually, city bureaucracies replaced systems of patronage; appointed “city managers” took over most of the day to day affairs of the city. The dangers posed by democracy were lessened by doing away with district representation on city councils and letting each supervisor be elected by the whole voting, ensuring that the neighborhoods and the interest groups usually cancelled each other out. The purpose of these changes was to make city government into an efficient centralised mechanism for encouraging capitalism and socialising its costs.

The upsurge of community action organisations in the ‘60s and early ‘70s has produced a movement to go back to a more decentralised city government, one that would give neighborhoods more say over important decisions. Groups like San Franciscans for District Elections are campaigning for a return to election by district, as a first step. But these
groups are coming up against powerful forces which are moving in the opposite direction; business leaders and their representatives want more control over the city, not less. The assertion of control by banks and corporations over elected officials in New York City and Massachusetts is the most overt sign of a new capitalist offensive. The fact is that capitalists no longer find the welfare programs, the bureaucracies and the unions useful tools for ensuring business prosperity. The programs have fed minority and worker militancy; the bureaucracies have themselves become powerful interest groups. Moreover, corporations are no longer prepared to pay the expenses of the corporate city which, in their eyes, is now generating more costs than benefits. The fiscal crises are the opportunities capitalists need to get what they want without much resistance.

This offensive would have been impossible in the '60s. However, policies of the Nixon and Ford Administrations have encouraged a corporation reaction to popular movements and union militancy. The fiscal crises themselves can be seen as one of the more dramatic results of the federal government's program of retrenchment and austerity.

Lindsay's method for dealing with New York's problems wasn't radical, but what it required was back-up from the federal government. Under Nixon and Ford, the government has been less and less inclined to spend money on things like housing, welfare, education or health - a reluctance that culminated in Ford's early refusal to bail out New York. National revenue sharing programs which remain are designed to reduce the authority of city bureaucracies and particularly existing rights of neighborhoods to have a say on urban renewal projects. But, increasingly, cities are left to their own devices - that is, the money they can raise by property taxes on residents and businesses. In a recession, when businesses prefer to move rather than pay more taxes, and residents are hard pressed by job shortages and rising costs, these sources become increasingly hard to tap.

What cutbacks in federal spending has meant to cities is illustrated by the fate of the child care program in San Francisco. Voters in 1973 passed an initiative ordering the city to provide low cost quality child care to anyone needing it. But as it became increasingly unlikely that the federal government bill to aid child care programs would be passed over Ford's veto, the city government refused to comply. Instead, the supervisors put the initiative back on the ballot in the June 8 election, and this time it was defeated.

Tax payers in cities, counties and states have come to see a direct relation between more local government expense and increases in their tax bills, and the resistance against further increases is strong. This more than any other factor is aiding capitalists in their push for control of local governments.

IV. RESISTANCE

In April '76, San Francisco city supervisors wrote an agreement for city craftworkers, which in effect cut their pay by as much as $7000. Outraged by this betrayal, the union leaders called a strike which lasted over 30 days. In the settlement there were a few face saving provisions, but the unions clearly lost.

To some extent, the circumstances in San Francisco were unusual: the craft unions were accustomed to getting their way by using their influence at city hall; they had never supported less favored unions and when the crunch came, other city workers didn't feel inclined to support them. "They're men, they're white, they're old, and they make twice what I do", said a nurse's aide. "Why should I go out for them?" (11) However, local governments have not been slow to take advantage of what they see to be an anti-union sentiment among their tax payers. In San Francisco it was not only lack of solidarity among workers which broke the strike; it was the hostility of large sections of the public. The strike ended soon after the supervisors threatened to put an anti-union measure on the election ballot. It was clear to everyone that this measure would pass. The same public attitude has enabled city officials to resist most demands made by the unemployed, neighborhood groups and people on welfare.

If city workers got together to make their demands, if welfare clients united with unionists, then resistance against cuts would be much more effective. The strike of a few unions whose picket lines are ignored is one thing, a solidly observed general strike, or a massive demonstration is another. But in most cities and counties, this type of resistance is a long way from happening. The squeeze on
local government finance tends to pit one group against the others: privileged city workers against the less privileged, city workers against welfare recipients, workers as tax payers against workers on strike. Most victims of the squeeze accept the need for cuts, and are caught up in a fight of each against all to retain as much as they can for themselves.

Some radical and community groups have tried to change the direction of the resistance by stressing inequalities in the tax burdens of residents and businesses. Corporations contribute comparatively little to local government coffers. In California up to now, head offices of insurance companies have not been taxed by any city. In downtown San Francisco and New York, properties of corporations like Getty Oil, General Electric and Con Edison are severely under-assessed compared to charges levied on private residences.

While property taxes for homes in New York and San Francisco have gone up as much as 300 per cent in the last five years, taxes on corporation property have actually decreased. (12)

A movement to make corporations pay their share of local expenses may catch on in some areas. The businessmen who run the port of Oakland are worried enough about the possibility of a campaign to make the port pay more to the city to hire a public relations official. But the problem is that corporations can usually counter such movements by threatening to leave the locality. This threat has had its effect in New York. As far as the Finance Committee is concerned, further taxes on business are not on the agenda, and people’s fears of unemployment and further economic decline make it difficult for radicals to put it there.

Up to now, few unions or radical organisations have been prepared to take action against corporations which threaten to run away rather than pay - for instance, national strikes, consumer boycotts, occupations, boycotts on handling products and moving equipment, nationwide demonstrations, unionisation drives in the south, demands for compensation, demands that cities take over industries and run them for the public benefit. But this may change. Recent figures show that profits for business are up as much as 40 per cent from the same time the year before. Recently, the state of California announced a “startling” budget surplus. If this recovery continues, it’s going to get harder for corporations and state and federal governments to argue convincingly that they can’t afford to pay more to their workers and to local governments. The real victims of the recession are going to be less patient.

But what is the future of the big cities? One view is that now that corporations need big cities less and less, these centres will become increasingly less pleasant to live in and city governments will spend their shrinking budgets on measures of repression rather than welfare. (13) Spending for police equipment is one thing that has not been cut in most cities. However, this shift will only happen on a large scale if massive repression is less costly than welfare. So far the mayors, financial committees, the White House, have not been able to make as many cuts as they would like. Interest groups, bureaucrats and unions are still strong despite erosion of their power. These groups are not going to give up the gains they have made without a fight, and no one wants to provoke massive civic disturbances.

The erosion of the quality of life in the cities is probably not going to be dramatic. If capitalists have their way - and so far they have succeeded - more will be spent on services directly related to their own prosperity and comparatively less will be spent on welfare, wages and pensions, and the bill will be paid largely by the middle and low income earners who have to remain in the city. To what extent capitalists get away with this will depend on the nature and unity of the resistance they meet - on a local and a national level.